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**Foreign
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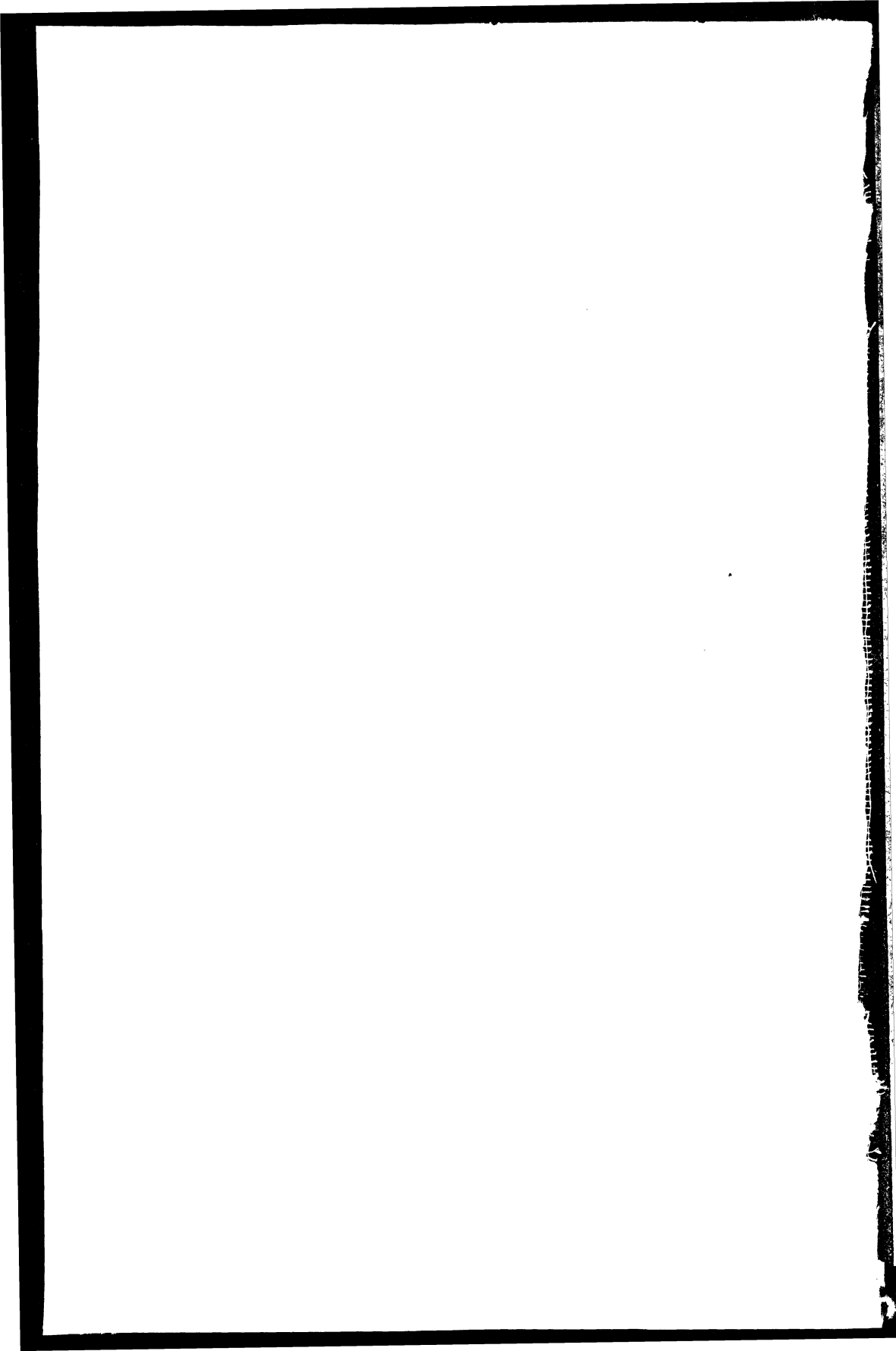


1947

Volume VII

**THE FAR EAST:
CHINA**

**Department of State
Washington**



Foreign Relations
of the
United States
1947

Volume VII
The Far East:
China



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PREFACE

This volume was prepared under the general supervision of E. Ralph Perkins, formerly Chief of the Foreign Relations Division, currently headed by S. Everett Gleason.

The compilers of the volume were Ralph R. Goodwin, Herbert A. Fine, and former staff members John G. Reid and Francis C. Prescott. Preliminary planning and review of the volume was provided by Mr. Perkins, Mr. Reid, and Mr. Prescott. Final review was the responsibility of Messrs. Gleason, Reid, and Rogers P. Churchill.

The editors acknowledge with appreciation the assistance provided them by the historians of the Department of Defense, including those of the Joint Chiefs of Staff.

The Publishing and Reproduction Services Division (Jerome H. Perlmutter, Chief) was responsible for the technical editing of this volume.

WILLIAM M. FRANKLIN
*Director, Historical Office
Bureau of Public Affairs*

PRINCIPLES FOR THE COMPILATION AND EDITING OF "FOREIGN RELATIONS"

The principles which guide the compilation and editing of *Foreign Relations* are stated in Department of State Regulation 2 FAM 1350 of June 15, 1961, a revision of the order approved on March 26, 1925, by Mr. Frank B. Kellogg, then Secretary of State. The text of the regulation, as further amended, is printed below:

1350 DOCUMENTARY RECORD OF AMERICAN DIPLOMACY

1351 *Scope of Documentation*

The publication *Foreign Relations of the United States* constitutes the official record of the foreign policy of the United States. These volumes include, subject to necessary security considerations, all documents needed to give a comprehensive record of the major foreign

policy decisions within the range of the Department of State's responsibilities, together with appropriate materials concerning the facts which contributed to the formulation of policies. When further material is needed to supplement the documentation in the Department's files for a proper understanding of the relevant policies of the United States, such papers should be obtained from other Government agencies.

1352 *Editorial Preparation*

The basic documentary diplomatic record to be printed in *Foreign Relations of the United States* is edited by the Historical Office, Bureau of Public Affairs of the Department of State. The editing of the record is guided by the principles of historical objectivity. There may be no alteration of the text, no deletions without indicating where in the text the deletion is made, and no omission of facts which were of major importance in reaching a decision. Nothing may be omitted for the purpose of concealing or glossing over what might be regarded by some as a defect of policy. However, certain omissions of documents are permissible for the following reasons:

- a. To avoid publication of matters which would tend to impede current diplomatic negotiations or other business.
- b. To condense the record and avoid repetition of needless details.
- c. To preserve the confidence reposed in the Department by individuals and by foreign governments.
- d. To avoid giving needless offense to other nationalities or individuals.
- e. To eliminate personal opinions presented in despatches and not acted upon by the Department. To this consideration there is one qualification—in connection with major decisions it is desirable, where possible, to show the alternatives presented to the Department before the decision was made.

1353 *Clearance*

To obtain appropriate clearances of material to be published in *Foreign Relations of the United States*, the Historical Office:

- a. Refers to the appropriate policy offices of the Department and of other agencies of the Government such papers as appear to require policy clearance.
- b. Refers to the appropriate foreign governments requests for permission to print as part of the diplomatic correspondence of the United States those previously unpublished documents which were originated by the foreign governments.

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POLITICAL AND MILITARY SITUATION IN CHINA¹

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811.22/12-2946 : Telegram

The Consul General at Peiping (Myers) to the Secretary of State

PEIPING, December 29, 1946.

[Received December 29—11:15 a. m.]

330. On December 26 five local vernacular papers gave prominence to alleged rape on Christmas eve of Chinese girl student by two American marines on open parade ground adjacent to diplomatic quarter. Story as carried stated two marines grabbed girl as she was walking home unaccompanied from late movie showing, dragged her to parade ground and violated her several times before her screams were overheard by passers-by who summoned police. Sino-American police liaison office reportedly sent staff to investigate and joint medical examination of girl was conducted. One marine reportedly escaped.

Following day additional stories of incident carried by 8 Chinese newspapers, one paper devoting editorial space to castigating activities of American armed forces in China. *Pei Fang Jih Pao* stated students of Peita University² enraged over outrageous conduct of marines and had filed following 4 demands with American authorities: (1) American authorities should be responsible for "near-animal" conduct of marines; (2) guilty parties should be punished and guarantee given against recurrence similar incidents; (3) formal apology and cash compensation should be made to victim; and (4) American forces should be immediately withdrawn to prevent similar happenings in future.

Peiping Chronicle December 29 stated municipal government had sent memorandum of protest to US Marine Headquarters containing demands (1) through (3) above and requesting permission to send observers to court martial of two accused marines. Bureau of Police statement paralleled stories carried in Chinese papers but urged

¹ For previous correspondence, see the Marshall Mission, *Foreign Relations*, 1946, vols. IX and X.

² Peking National University.

public to be patient until full facts, now under investigation, made public.

Official marine statement, also published today, stated marine authorities continuing investigation in close cooperation with Peiping police and that all efforts being exerted to bring together sufficient information necessary for immediate action. Statement added that two marines allegedly involved being held, but pointed out time required to complete collection of sufficient evidence to insure justice.

Additional details follow. Repeated Nanking as 267.

MYERS

811.22/12-3046 : Telegram

The Consul General at Peiping (Myers) to the Secretary of State

PEIPING, December 30, 1946—4 p. m.
[Received December 30—12: 55 p. m.]

331. Although joint investigation of alleged rape of Chinese girl student (reference Consulate's telegram No. 330, December 29) not yet concluded and no statement has been released by marines other than that reported in reference telegram, Chinese papers have already tried case ([with] verdict of guilty) and public feeling, particularly among students, is running high. Results of medical examination conducted by Chinese and American doctors, however, inconclusive with no positive evidence of rape.

In a letter of protest to Commanding Officer of Marine Headquarters, Mayor stated that incident constituted joint plotting by two marines "to commit criminal act of rape on adolescent virgin girl". Article 240 of Chinese criminal code, however, defines statutory rape as carnal knowledge of female under 17 years, while girl involved in present case is 19. Moreover, it should be pointed out that it is not common for Chinese girl of good breeding to go to late evening moving pictures unaccompanied by friends or family.

Mayor Ho called on me yesterday afternoon to express regret over growing public reaction to press account of incident and I accompanied him to call on General Gillem³ and Colonel Frisbie, Commanding Officer [U. S.] Marines. Executive Headquarters has issued instructions ordering civilian personnel to bring lunches and remain in office until 5:30 p. m. and has restricted dependents of Executive Headquarters personnel to compounds or quarters for day. All marine liberties have been cancelled. Two marines who were sent to

³Lt. Gen. Alvan C. Gillem, Jr., was American Commissioner of Executive Headquarters at Peiping. The latter was set up during General of the Army George C. Marshall's efforts in 1946 to mediate the Chinese civil war; see *Foreign Relations*, 1946, vols. ix and x.

Peita University this morning for further investigation into case were met by students at gate who stated they would not be responsible for consequences if marines entered compound. Marines showed good discrimination by returning.

Last night [student meeting at] Peita to decide whether to hold protest demonstration reportedly attended by about 700 students. Meeting broke up in fist fight brawl and no definite plans made to hold demonstration. According to reliable Chinese observer (professor at Peita), students violently divided over issue. Approximately 40% adopted passive disinterested attitude, while 60% split almost evenly between those desiring active demonstrations and those opposed to such action. Latter conservative group apparently as rabid in viewpoint as those advocating action, and disagreement between these two factions reportedly responsible for converting meeting into brawl.

This morning reports received that approximately 2,000 students from Tsing Hua and Yenching gathering at latter university in preparation for march to Peiping; also smaller group at Peita waiting to join Tsing Hua-Yenching students but planning no individual action. Mayor Ho sent representative to Yenching in attempt to dissuade students from carrying out demonstration, with apparently no results. Reports now received that total group numbers about 6500, all but 800 to 865 of whom are students, and has been marching through city in orderly demonstration. English slogans carried on banners and being shouted are: "Drive all American armed forces out of China" and "Let's establish a real democratic China". Slogans in Chinese merely request people to protest actions American troops. Some students believed to be carrying firearms, but no disturbances yet reported. Demonstrators apparently exhausted from long march and believe chief concern at present is long return trip to universities.

Repeated to Nanking as No. 268.

MYERS

811.22/12-3046: Telegram

The Consul General at Peiping (Myers) to the Secretary of State

PEIPING, December 30, 1946—6 p. m.

[Received December 30—1:20 p. m.]

332. It is obvious that present demonstration and heightened public feeling not caused solely by recent alleged rape incident which merely touched off latent smouldering anti-American feeling prevalent particularly among students. (This is continuation of my 331, December 30.) Mayor Ho expressed opinion demonstration largely inspired by Communists who were seizing opportunity to inflame public

opinion. Other sources stated participants mostly Democratic League members or sympathizers.

While student parade was on whole orderly, language and attitude became violent while passing Executive Headquarters. Fists were shaken, Americans referred to as dogs, beasts, et cetera, and filthy unprintable slogans shouted and written with chalk on buildings, sidewalks—all urging Americans evacuate China. It was strange that vituperation aimed at Army and Executive Headquarters and that parade did not pass through diplomatic quarter where Marine Headquarters and barracks located.

Consulate strongly believes affairs should not be minimized as purely student expression but should be regarded seriously as manifestation of discontent on part of a local and informed portion of public opinion both with American policy and with National Government.

Sent Department 332, repeat Nanking 269.

MYERS

893.00/1-247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 2, 1947—8 p. m.

[Received January 2—7 p. m.]

14. Nanking University students staged demonstration parade this afternoon including a march to Embassy where letter in Chinese to me was presented to Minister-Counselor⁴ in my absence at 5:30 p. m.

Students began assembling about 2 o'clock in accordance with announced plans for demonstration and protest over alleged rape of Chinese student by two marines in Peiping. Parade numbered only 200 when it started out but included close to 1,500 when marchers called at National Govt. building to demand withdrawal of all United States forces from China.

Students then numbering 1,000 to 1,500 paraded to Embassy. Parade was orderly with students marching, singing and shouting slogans demanding all American forces withdraw from China and protesting rape of student. Marchers shook fists and shouted "get out" at few American servicemen they met on streets but no violence of any kind reported.

Arriving at Embassy marchers stood in street outside Embassy singing and shouting their slogans while student committee of five called on Ambassador. Butterworth explained Ambassador had

⁴ W. Walton Butterworth.

awaited their coming all afternoon but had finally departed to attend most important conference. He accepted letter and then leader made oral statement demanding immediate withdrawal all American forces from China, complete investigation by Chinese civil authorities of all charges and incidents such as Peiping rape case and cessation of American aid to Govt such as munitions and other war matériel.

Butterworth then read following statement previously prepared with General Marshall: ⁵

“A full investigation of the incident at Peiping is being made by the Marine authorities there. If the investigation indicates guilt, a court martial trial will be held as quickly as possible in accordance with normal American military practice. We are proceeding with this case just as fast as the demands of justice and a fair democratic trial will permit. We have had no further reports from Peiping and we are awaiting the full report of the investigation.”

The student leader then read the answer to the assembled students from the Embassy wall and they decided to postpone their call on General Marshall and the Chinese Foreign Office until the 3rd. Further parade is expected then but no disorders need be anticipated.

Letter to Ambassador contained following three demands:

- “1. Punish marine culprits.
2. Indemnity for damage to girl’s reputation and for her spiritual loss.
3. Withdrawal of all American military forces from China.”

Student leader demanded public reply by Ambassador.

STUART

893.00/1-447 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 4, 1947—2 p. m.

20. Dept concerned over widespread student demonstrations⁶ resulting from recent incident Peiping, particularly over their general anti-American character and indications they may be in some measure inspired by Chinese leftist groups. We appreciate your reporting and are gratified by manner in which you are handling. We suggest for your consideration an informal approach to Chinese Govt pointing out seriousness of situation and requesting Chinese Govt take all practical steps bring matters under control. Such steps might include specific statement by the Govt and also effective measures for protec-

⁵ Gen. George C. Marshall was Special Representative of President Truman in China.

⁶ In addition to reports here printed, reports of student demonstrations were received not only from Peiping and Nanking but from a number of other cities.

tion Americans. You might also wish to consider utilizing USIS⁷ personnel and possibly American correspondents to bring about better dissemination of factual reports both here and in China.

BYRNES

711.00/1-647

The Ambassador in China (Stuart) to the Secretary of State

No. 381

NANKING, January 6, 1947.

[Received January 29.]

SIR: I have the honor to refer to the Secretary's secret letter of June 6, 1946 to the Chargé d'Affaires, a.i., which transmitted the policy and information statement of May 15, 1946 on the Soviet Union.⁸ I believe that it might be useful to set forth a few suggestions on the role and policy of the Soviet Union in China at this particular time when the development of events in China is making it necessary to re-assess the American position.

One of the remarkable features of Soviet policy in China, in distinction to its activities elsewhere in the world, has been its relatively quiescent character. It should not be deduced, however, that this stems from a lack of interest. On the contrary, the population and resources of Asia and the situation of Russia are such that it goes without saying that the Far East is an area of primary importance to the Soviet Union. That Russia has been as inactive as it has must be charged to three factors: 1—preoccupation with more urgent matters elsewhere; 2—the appraisal of the situation in terms which lead to the conclusion that time and events will for a while work for the Soviet Union without its active intervention; and 3—presence of a very large indigenous Communist group which can be counted on to follow a course which at worst will not be inimical to Soviet interests and at best would be completely subservient.

One of the most debated questions has been the extent of Soviet influence and control over the Chinese Communists. The indications suggest that actual control exerted may have been slight; but that the influence at work has most assuredly been great. Apologists for the Chinese Communists periodically attempt to prove that they are not Communists, but, rather, native agrarian reformists. The Communists themselves are the first to disavow any such notion and to assert that they are Marxists. There is no reason to doubt that they are. As such it is inevitable that they should think in the same terms as Marxists elsewhere, that they should draw their main inspiration from

⁷ United States Information Service.

⁸ Neither printed.

Russian sources and that on most questions they should react in accordance with a Marxist line. When General Chou En-lai,⁹ in pleading his case in Nanking, states that since American policy must be interpreted as favoring the Central Government, thereby damaging Communist interests, the United States is forcing the Communists into Russian arms and alienating their very considerable sympathy for the United States, he may be stating the truth or he may be engaging in a fancy usage of words, or both. But in any case the Chinese Communists would be inclined to friendliness toward the United States only so long as it would prove useful to them, and not conflict with their sense of ideological kinship with Communist groups elsewhere in the world. The extent of physical assistance given them by Russia is problematic. There has never been any reliable evidence of direct Soviet assistance to the Communists, nor for that matter has the Communist position since the termination of the war against Japan been such that the party has been faced with that threat of immediate extinction which would presumably force the Russians to reconsider their position. It should not, however, be overlooked that the Chinese Communists in Manchuria did come into possession of very considerable Japanese military stores when the Soviets evacuated the area—a fact which can hardly be considered as pure coincidence and which fits customary Soviet predilection for indirect activity wherever possible. Furthermore, the manner and timing of the Soviet withdrawal resulted in remarkable territorial gains for the Chinese Communists.

In line with its usual policy, Soviet policy in China is no doubt directed to the eventual establishment of a government friendly to it, reliable from a Soviet standpoint, and preferring Soviet advice to that of any other country. It would seem that the immediate means for accomplishing this is the encouragement of confusion and chaos—to precipitate a collapse which can be fully exploited. The most logical instrument for the accomplishment of this objective is the Chinese Communist party. The Soviets might, at one time, have been expected to give a larger amount of material support to the Communists than has been the case, or to have supported a coalition government which would give the Communists a legal *locus standi* to operate freely throughout the country. The attempt at coalition has failed—if, indeed, it was ever really intended by the Communists to succeed. Military support sufficient to ensure victory has been withheld presumably for the same reasons which at this time counsel inactivity and make it undesirable to risk conflict with the United States.

There is no evidence to suggest that the Chinese Communists, and

⁹ Head of the Chinese Communist Party delegation during the negotiations of 1946 with General Marshall and the Chinese Government.

by implication, the Soviet Union, now favor any internal Chinese agreement except on their own terms which are now such that no reasonable person could expect a sovereign state to consider them. The Communists have indicated that they conceive of the Kuomintang as a dying body—that its collapse is only a matter of time and that in the resulting confusion an opportunity will come for them to seize power. To become a collaborator with such a government could at best, they estimate, only prolong its existence for a short period and would inevitably tarnish all associated with it. The long-range Communist interest is, therefore, best served by delay, obstruction and the encouragement of political and economic chaos. Since hunger and confusion are the breeders of Communism, time works for them. The above is a Marxist analysis in the grand tradition. Communist words and actions now suggest their belief that this time may not be far off. What they have most to fear is a genuine reform of the Kuomintang Government which would give the Chinese people enough to eat, relief from exorbitant taxation, and bearable administration—these being the objectives of a peasantry which is basically apolitical, whose experience suggests that no government is good, and which takes on uncritically the ideology of any group that will feed them and limit its oppression to what is endurable. Believing in the rightness of their own rigid dogma, the Chinese Communists, therefore, can hardly be expected to deviate from their policy of waiting for events which would enable them to step in and exploit a given situation, meanwhile developing and disciplining an effective and ruthless leadership. Supporting this thesis is the knowledge that whatever efforts the Government may put into a campaign of military extermination of the Communists, it cannot succeed without effective political persuasion. The National Government may seize the main centers and the lines of communication, but it will always be under harassment from guerilla units in the countryside which by their incessant needling and raids can paralyze large areas.

This struggle will undoubtedly subject the Chinese Communist party to very severe strains but it seems unlikely, despite wishful thinking within the National Government, that it will produce any serious split in the party. Government sources have attempted to read such a split into the return of Li Li-san.¹⁰ The Communists, of course, violently deny this, alleging that Li has repented the error of his ways and returned to the fold—whatever that may mean. It would actually seem to indicate a strengthening of Soviet control, since it

¹⁰ Also known as Li Ming; he returned to Manchuria with Soviet troops in August 1945, after a stay in the Soviet Union of over 14 years. He had previously headed the Chinese Communist Party. He became political adviser to General Lin Piao, Chinese Communist commander in Manchuria.

is fatuous to believe that Li was permitted to return by the Russians for sentimental reasons or unless he enjoys the confidence of the Kremlin. Li's reappearance on the China scene may also reflect Soviet concern over developments in Manchuria and the resulting effect on Soviet prestige.

Unless one assumes that the industrial looting of Manchuria and the outrageous behavior of the Soviet army in the Northeast (Malinovsky's Hungarian odyssey¹¹ was good training) was done because the Soviets were prepared to abandon their interests in Manchuria and simply wished to make it uninhabitable for anyone else, then these actions must be regarded as a colossal blunder. For fifteen years Manchuria had lived under the Japanese rule which, though ruthless and designed to service Japan, at least brought order and economic progress. The previous record of the Chinese National Government gave much indication that China's recovery of the area would only produce the same kind of mismanagement and abuse through exploitation that has subsequently proven to be the case in other areas. Furthermore, there was no reason to believe that China was qualified in any sense to take over and operate efficiently the Manchurian industrial plant by itself. Proper administration of the areas by the Soviets could have increased their influence in China and the Far East enormously. Instead of that they tore it down and left, not even permitting the Chinese Communists to come in until they had themselves evacuated. The result has been that the Manchurian people have a hatred for the Russians which is so great it almost has to be experienced personally to be believed. If Russian troops should ever come back they would have to do so as conquerors in the usual Central Asiatic tradition rather than as allies and liberators. It is impossible to estimate accurately how great has been the damage to Soviet prestige in Asia because of Manchuria, but the facts are widely known and must be a factor of major importance in any of their calculations. Officers of the Soviet Embassy in Nanking have been known to suggest that this complication in their situation makes all Soviet officials concerned with the Far East uncomfortable today. It was the sort of bludgeon action which only a politically primitive people would have taken.

This situation must have had some influence in producing the unusually negative character of Soviet activities in Manchuria since their evacuation—a position taken despite their legal rights. It is unquestionably true that the Chinese have not lived up to their part of

¹¹ Marshal Rodion Yakovlevich Malinovsky, Soviet commander in Manchuria, had been Soviet commander in Hungary in 1945.

the Sino-Soviet agreements of August 1945¹² which referred to Manchuria. In areas under Central Government control, the Russians have been kept from exercising their treaty rights on the railroads. The lives and properties of Soviet nationals have been under constant threat and a number have died under none too pleasant circumstances. Through these developments, the Soviets have taken no action until they finally withdrew their Mukden railway employees—a kind of restraint, despite the earlier provocation, which the Russians exercise only under the most compelling necessity. It must be assumed, of course, that sooner or later a day of reckoning will come but the fact that it is still in the future must be attributed in part, at least, to Soviet realization that they blundered seriously. The reckoning will have to be based on the fact that their *de jure* position in Manchuria is unimpeachable by virtue of the Yalta agreement¹³ and the Sino-Soviet Treaty of August 15 [14], 1945, which, with proper manipulation and case-building, can be interpreted as legal justification for fulsome action. They must realize now that conciliation might have won them support and sympathy for their Manchurian objectives which they can now obtain only through the hard route of patience, questionable manipulation of legal rights and, if necessary, violence. Probably they are hoping that patience and the encouragement of confusion will bear the kind of fruit which will cause forgetfulness of the past in Manchuria or create a situation where they can get away with force if necessary. It is impossible that they have written off the Northeast. The railway action, at least, is for the record. The obvious Soviet intention that northern Korea will not slip from its grasp is further indication of intentions in the Far East. At the same time its occupation by Soviet forces greatly extends the Manchurian borders contiguous with the Soviet Union, thereby facilitating the execution of any positive action which may be decided upon in the future.

Outer Mongolia, as an extension of Communist aims, must be considered as differing in degree only from the Soviet Union itself. Outer Mongolian utility can be greatest with other Mongol groups since, through catering to the desire for a Greater Mongolia, it can, and doubtless will, persuade. Chinese ineptitude in dealing with minorities will also be a useful complement. The recent National Assembly has given a demonstration of Mongol disaffection which the Chi-

¹² Signed at Moscow, August 14, 1945; Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), pp. 585-596; United Nations Treaty Series, vol. 10, p. 300.

¹³ Signed at Yalta, February 11, 1945; for text, see *Foreign Relations, 1945, The Conferences at Malta and Yalta*, p. 984.

nese have handled so brusquely that reports of Mongol preparations for revolt may yet materialize, doubtless prepared by the Soviet trained lamas who are apparently filtering in.

The final special area is Sinkiang. Here, too, Chinese minority treatment will certainly lose the province for the Chinese unless they have a drastic change of heart and attitude. The racial kinship of tribes across the border, Chinese exploitation and indifference and the training of bright young Turki leaders in Soviet Central Asia seem calculated in the end to create a combination which will prove irresistible. Observers from Sinkiang frequently claim that the rebel Turki groups are not Communists and, in fact, prefer the Soviet Union only as the lesser of probable evils. From an American standpoint the distinction seems academic, since the result will be the same, namely, the extension of Soviet control over an additional area.

The problem in China, so far as the Soviet Union is concerned, differs from our relations with the Soviet Union in other parts of the world. It is only in the Far East that we face the Soviet Union directly and without the presence of a third power: whereas in Europe and the Middle East the problem is made more flexible by the presence of other effective interests which have primary commitments, thus permitting the United States to be less directly involved and to assume the role of a balancing factor. The simplicity of the position in China reduces the limits of manoeuvrability and heightens the gravity of the consequences arising from any given action.

The Chinese Communists appear to be irreconcilable and in that position may now receive such Soviet support as may be necessary to bind them in their attitude until the arrival of the expected debacle. (It is assumed that the primary desideratum of any Soviet action will be self-interest, despite any verbal rationalizations). Chinese Communist unwillingness to compromise in the national interest and willingness to provoke economic and political collapse for their own partisan interests, in disregard of attendant popular suffering, suggests an impersonal cynicism, a recklessness, and a social irresponsibility which cannot be condoned in a group that claims it has sufficient political maturity to warrant its assumption of or participation in nationwide political power. Communist ascendancy, it would seem, can best be prevented if the National Government can take such steps as to convince the masses of China and specifically demonstrate that it can give them a life at least as good, if not better, than the Communists hold out. The record reveals no evidence which suggest that the right wing groups which now control the Kuomintang have either the vision to see this or the will to take that action which would abdi-

cate their ancient and feudal controls and provide the opportunity for reform. These groups, if left in unmolested control, will assuredly dig their own graves and prepare confirmation of the Communist thesis. There are liberal and modern groups both in and out of the Kuomintang who are quite aware of what is happening and realize that unless there is reform Communism will win ground. These groups, though numerous, are presently weak, badly organized and without armed support. Unless somehow they come to power, they will in the end go down to destruction just as surely as will the right-wing groups, and they know it. The adoption by the National Assembly of a constitution which is reasonable now provides the Generalissimo¹⁴ and the moderate elements in the country with an opportunity to demonstrate whether they are capable of leading China out of extremism and toward democracy. Since neither the Communists nor the right-wing of the Kuomintang is in consonance with American ideals, attitudes, interests or purposes, the pressing problem for the United States is how to help the middle groups to power without provoking a self-defeating chaos. The answer, of course, will have to be found in deeds, not in words.

Respectfully yours,

For the Ambassador:
 W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

893.00/1-747

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) of a Telephone Conversation With the Counselor of the Chinese Embassy (Tsui)

[WASHINGTON,] January 7, 1947.

Mr. Tsui telephoned to state that he had received instructions from his Government to inform the Department that the Chinese authorities deeply regretted the occurrences of the student demonstrations calling for the withdrawal of American Marines from China. He stated that the press had entirely misrepresented these incidents, that many students were violently opposed to the demonstrations and that those who participated were obviously instigated by irresponsible persons who were deliberately acting against the best interests of the two governments.

According to Mr. Tsui, the Ministry of Education has issued a directive to Chinese schools that the students be reminded of the generous

¹⁴ President Chiang Kai-shek.

support given Chinese by the United States, and that they not be confused by isolated incidents participated in by individuals not typical of members of American armed forces in China. He said that the Chinese Government was much concerned lest the American public should interpret these incidents as representative of Chinese public opinion.

A[RTHUR] R. R[INGWALT]

893.00/1-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 8, 1947—1 p. m.
[Received January 8—10:50 a. m.]

43. Embassy appreciated Department's concern relative to situation here. It has been following developments closely and has been in constant touch with various Chinese officials, who are thoroughly aware of potentialities of situation. (Deptel 20, January 4).

Upon hearing from Marine authorities North China that they were experiencing difficulty in obtaining information from Chinese authorities in connection with investigation of alleged Peiping rape case, I brought this personally to attention of Generalissimo, who immediately ordered local authorities Peiping to expedite investigation and make all information available to Marines immediately. Following student demonstrations at Embassy residence, Chiang Mon-lin, Secretary [General of] Executive Yuan, called to express his deep concern that these demonstrations should be assuming a broadly anti-American coloration, and stated that instructions had been issued to prevent intrusion into American official or private establishments. On night of January 3, Wei Hsueh-chih, principal secretary of the Foreign Minister,¹⁵ called at home of Minister-Counselor to express same sentiments. Also, afternoon of January 6 when Butterworth called at FonOff in connection with another matter the Foreign Minister himself raised question of student demonstrations and expressed his regret and displeasure at their occurrence, and pointed out that to his personal knowledge there were large numbers of students who had refused to participate in demonstrations which were so markedly anti-American.

On January 4 Executive Yuan instructed Ministry of Education and provincial and municipal authorities to prevent all activities

¹⁵ Wang Shih-chieh.

likely to affect Sino-American relations or activities that were insulting to Americans in China. Throughout [period] agitation in connection with this unfortunate incident, Government-controlled press has adopted attitude that this isolated incident should not be the cause for demonstrations of a broad political nature, pointing out that the affair was being investigated and that final settlement would be made in accordance with evidence obtained.

From foregoing Dept will realize that Chinese Government is aware of potential seriousness of this matter, and Embassy considers that throughout it has been handled very well by authorities. On the whole, demonstrations have been orderly and while not wishing to minimize danger latent in such demonstrations, Embassy does not believe that our approach to Chinese Government such as suggested in reference telegram should be made at this stage. Furthermore, there is a very weak danger that on another occasion the Chinese Government may employ too harsh methods since those who incline to such tactics now argue that the authority of the Government is under challenge.

Some of the demonstrators at Embassy on January 2 were affiliated with Democratic League, but there is no doubt as [*that*] there was Communist influence at work, as has also been indicated by reports reaching Embassy from Consuls General at Shanghai, Tientsin, Peiping and Chungking. Embassy considers that, on the whole, demonstrations may best be interpreted as a manifestation of general discontent and unrest caused by overall political-economic situation existing in China. Widespread resentment against Government which cannot be openly expressed is being turned almost entirely against the US. However, it is significant that student bodies involved have nearly all had previous contacts with American troops.

Department, of course, will not fail to realize that there exists in China potentially explosive political situation, and without being alarmist, it is possible to foresee serious disturbances within the next few months. Such disturbances may well occur in Shanghai during the current winter, assuming more serious and significant proportions than was case in street hawker riots of November 30 and December 1. In such a situation the position of US is particularly vulnerable so long as presence American troops in China offers as immediately available target for propagandists of any coloration and for normally latent Chinese xenophobia.

With regard to last sentence of telegram under reference, Embassy has endeavored to make factual release as occasion offered. At Em-

bassy's request, General Howard¹⁶ at press conference at Shanghai on January 5 outlined Marine procedure of investigation and court martial and explained possible penalties in event guilt established. Howard further promised that details of investigation and findings would be released as soon as investigation is completed and these findings will be given as wide dissemination as possible by USIS.

STUART

893.00/1-1047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 10, 1947.

[Received January 10—3:55 p. m.]

55. Minister [of] Information Peng Hsueh-pei issued following written statement shortly before midnight of 9th.

"Now that constitution making has been successfully concluded, national reconstruction may start in earnest according to the program decided upon at the National Assembly, and the Government may fulfill its long cherished desire of returning sovereign rights to the people.

Therefore, the Government is willing to discuss with the Communists a complete plan for cessation of hostilities and government reorganization so that peace and unity can be achieved at an early date."

STUART

893.00/1-1347 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 15, 1947—4 p. m.

59. Summary FBIS¹⁷ account broadcast cited (Moscow's 68, Jan 13¹⁸) follows: According Sian report Communist leaders Yen-an reported disagreeing. Mao Tse-tung,¹⁹ Chu Teh, Ho Lung, Lin Piao, Chen Yi, Liu Po-chen favor using military means settle political matters, while leaders Chen Chao-yi, Fang Wen-ping, Wang Chia-chuan, Lu Ting-yi, Liu Chao-chi, Li Fu-tsun favor political means seek administrative power. Mao Tse-tung said to be campaigning for second time to liquidate "undesirable and deteriorating elements" within party and asking followers watch action others.

BYRNES

¹⁶ Maj. Gen. Samuel L. Howard, Commanding General, U. S. Marines in China.

¹⁷ Foreign Broadcast Intelligence Service.

¹⁸ Not printed.

¹⁹ Chairman of the Central Committee of the Chinese Communist Party.

893.00/1-1647: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 16, 1947—3 p. m.

[Received January 17—4 a. m.]

78. There is quoted below the pertinent part of a telegram sent today to General Marshall:²⁰

“Dr. Stuart saw the Generalissimo last night, 15 January. The Generalissimo stated that he had been meeting for several days with Government leaders to determine means of reopening negotiations. He gave Dr. Stuart a paper listing four agreements reached as a result of these consultations. The points listed were as follows:

1. Government desires to send a delegation to Yen-an or invite the Communist Party to send one to Nanking to continue discussions, or it proposes a round-table conference of all parties.

2. Government and Communist Party should both issue at once a cease-fire order and confer together as to its effective implementation.

3. Government desires to resume discussion of practical plans for the reorganization of the army and the restoration of communications based on the principles of the former three-man committee.

4. In regard to the political control of disputed areas Government desires to come at once to an agreement with the Communist Party for a just and reasonable solution.

Generalissimo asked Dr. Stuart to contact Mr. Wang Ping-nan²¹ to determine (on behalf of the Generalissimo) if the Communists would invite a Government peace delegation to Yen-an to discuss matters leading to peace and unity. He specifically asked Dr. Stuart not to disclose the four points listed above. He instructed Dr. Stuart that if Mr. Wang asked who would represent the Government he should reply that General Chang Chih-chung, governor of Sinkiang, was the tentative selection. Also, if Mr. Wang asked what terms the Government attached to peace discussions, the Generalissimo wished Dr. Stuart to state that the Government demanded no conditions. Government delegate would be completely free to discuss all aspects of outstanding issues. Generalissimo hoped that through a general discussion, unfettered by terms or conditions, settlement of issues could be reached in the spirit of the PCC agreement.²²

Dr. Stuart saw Mr. Wang Ping-nan today, January 16, and transmitted the Generalissimo's query. Mr. Wang asked all the questions anticipated by the Generalissimo and Dr. Stuart made replies in ac-

²⁰ Telegram No. 1947. General Marshall was en route from China to assume office as Secretary of State.

²¹ Spokesman for the Chinese Communist delegation at Nanking.

²² Agreements of the Political Consultative Conference on January 31, 1946; for texts, see *United States Relations With China*, pp. 610-621.

cordance with Generalissimo's wishes. Dr. Stuart took pains to point out that he was merely acting as a transmitting medium and not as a direct participant."

STUART

711.93/2-747

*Memorandum of Conversation, by the Consul General at Harbin
(Clubb)* ²³

[CHANGCHUN,] January 16, 1947.

Present: General Li Ch'u-li (Senior Communist representative, Advance Section Executive Headquarters), Colonel Jacobs-Larkcom (British Consul designate for Harbin), Mr. Clubb.

General Li, after remarking that the Communists were desirous of maintaining good relations with foreigners, said with particular reference to Sino-American relations that, although the Communists had found reason to criticise American supply of arms to the National Government, the return of General Marshall to the United States was a development which very probably was significant in this regard, and it was to be hoped that a change in American policy would follow.

I observed that, generally speaking, the matter of maintenance of good relations was of importance for any people or group of people, that good relations were of course important for the Communists also, that matters such as the Communist refusal to permit me to proceed to Harbin to take up my post for instance were given publicity in the United States and had their reaction and caused people to think why such a thing should be. I said that, as far as General Marshall's mission went, there was universal praise of his efforts on behalf of peace in China, and that if there was failure of his efforts it was a Chinese failure to reach a solution and perhaps the mission was beyond the capacity of any man to perform: if the Chinese could select a better man to put forward as mediator, they were of course quite entitled to do so, and we would gladly give way. The Great Powers, including the United States, Great Britain, the Soviet Union, France and China, were at the present time engaged in endeavoring to eliminate war and bring about the establishment and the construction of political machinery which would eliminate warfare from the world and substitute peaceful cooperation in its stead. History would show, I said, that the United States had been consistently friendly toward

²³ Copy transmitted to the Department by the Ambassador in China in his despatch No. 480, February 7; received February 17.

China, and what we hoped for China was peace—which was what we and other nations were working for elsewhere. General Li said that there were particular things which had occurred of late which tended to injure good Sino-American relations, and he mentioned as example the Peiping rape case. I said that it was truly regrettable, but that it should not be viewed too seriously: in general American military discipline was good, but in every army—as for instance with the Soviet troops in Manchuria—there were occasionally indisciplined acts, but that with us such acts would be duly punished. General Li did not pursue the subject.

O. EDMUND CLUBB

893.00/1-1747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 17, 1947—6 a. m.

[Received January 17—6 a. m.]

84. Possibility of split in CCP²⁴ cannot be ignored but available information tends to show that at present time such a split is most improbable. Within recent months reports of cleavages within CCP ranks have been handed a number of American correspondents for their “confidential” information by officials of Central Government. (ReDeptel unnumbered, January 13, 9 p. m. [*a. m.*] relaying message from Moscow.²⁵) Similar reports have been published in one form or another in pro-Kmt²⁶ vernacular newspapers in north China. It is suggested that Department forward Moscow copy of Embassy despatch 231, October 31,²⁷ on subject of reported schism in CCP.

In China perhaps no other group is more keenly aware of need for unity of action than Communists, particularly at present time when failure to maintain a solid front would inevitably insure their destruction. It may be anticipated that Central Government will foster for foreign consumption the belief that CCP is disintegrating into numerous factions without unity as a political party since the systematic elimination by force of disassociated and heterogeneous factions would be expected to be more palatable abroad than an all-out offensive to eliminate an organized party in opposition to government.

STUART

²⁴ Chinese Communist Party.

²⁵ Not printed; see telegram No. 59, January 15, 4 p. m., to the Ambassador in China, p. 15.

²⁶ Kuomintang.

²⁷ *Foreign Relations*, 1946, vol. x, p. 453.

893.00/1-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 17, 1947.

[Received January 17—11 p. m.]

99. Summary remarks by Information Minister Peng Hsueh-pei at weekly press conference 16th:

Government is going to resume negotiations with Chinese Communists. Chang Chih-chung, governor of Sinkiang Province and former member of Committee of Three, has been picked to visit Yen-an to present proposals for resumption of peace talks. Communists have not yet reacted to our suggestions, but Government is determined to resume negotiations. Ambassador Stuart will inform Communist Headquarters in Nanking of selection of Chang Chih-chung.

Government has some ideas regarding peace negotiations, but it deems it not advisable to disclose details of its proposals now for fear of deterrent effect that might have on progress of negotiations. Premature publicity also might limit latitude of discussions and arouse harmful open argument. All political parties will be welcomed to take part. Some representatives of minority parties already returning to Nanking because of developments.

STUART

893.00/1-1847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 18, 1947.

[Received January 18—1:10 a. m.]

104. Communist delegation leader Wang Ping-nan called on me this morning to state that reply had been received from Yen-an that if Government accepts Communists' two demands (abolition of National Assembly and Constitution and return to military position of January 13, 1946) Communist Party would immediately send delegation to Nanking to resume negotiations and that there was no need to send Government emissaries to Yen-an.

STUART

893.00/1-2147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 21, 1947.

[Received January 21—5:20 a. m.]

119. Following is full text of statement issued 20th by Ministry of Information "on behalf of National Government":

“With a view to establishing constitutional rule and completing national reconstruction, Government has been consistently seeking for peace and unification.

[Here follows account of peace negotiations. For text of complete statement, see *United States Relations With China*, pages 697–699.]

After the adjournment of the National Assembly, the Government, with the date set for the enforcement of the constitution, made further efforts for the resumption of the peace talks. Through Doctor J. Leighton Stuart, US Ambassador, the Government informed the Communist Party of its willingness to send a representative to Yen-an to resume the peace negotiations. But the Communists still insisted on the restoration of the troops' dispositions extant on January 13 last year, and on the annulment of the constitution adopted by the National Assembly as the *sine qua non* conditions. But the fact is that great changes have occurred in the troops' dispositions during the past year since January 13. It is practically impossible to revert to the original positions. Moreover withdrawal of Government troops from recovered areas would surely endanger the people's lives and property in those areas—a thing most incompatible with the Government's obligation to restore order and protect the people and to prevent the recurrence of Communist terrorism.

If the Communists are really sincere to achieve peace, they should implement the army reorganization plan²⁸ and other programs reached in the Committee of Three. If so, there should be no need for any dispute over the temporary dispositions of the troops.

As regards the annulment of the Constitution, the National Assembly consisted of district, occupational and racial representatives and delegates from various political parties, in accordance with the PCC resolution. The Assembly, therefore, was by no means a Kmt-dominated Assembly. Moreover the Constitution adopted by the Assembly embodies the very principles laid down by the Communist Party and the other parties represented in the Political Consultative Conference, and in the draft constitution reviewing committee. Therefore, there should not be any reason for the Communists to object to the Constitution.

The above stated fact clearly indicated that in order to achieve peace and unity, the Government has made the greatest possible concessions to appeal to the reasonable consideration of the Communists. Since political democratization and nationalization of troops were common objectives of PCC there seems to be no reason why the Communists should cling to their prejudices and suspicions.

²⁸ February 25, 1946, *Foreign Relations*, 1946, vol. ix, p. 295.

Now the war has been over for more than a year, peace and unity must be achieved without delay. It is fervently hoped that the Communists will appreciate the Government's earnest efforts to seek a political settlement and agree to resume negotiations. The Government is still ready to meet the Communists with tolerance and sincerity.

The Government thereby proposes the following four points for the resumption of the peace talks and government reorganization. The four points are:

(1) The Government is willing to send a representative to Yenai, or to invite Communist delegates to come to Nanking to resume the peace talks, or to call a round-table conference to be attended by representatives of the various parties and independents.

(2) The Government and the Communists will immediately order their troops to cease hostilities and remain at their present positions and negotiate effective measures to ensure cessation of hostilities.

(3) The Government is prepared to resume negotiations with the Communists for the enforcement of the army reorganization plan and then restoration of communication agreement²⁹ in accordance with the principles laid down by the Committee of Three.

(4) Before the full operation of the constitution, the Government is willing to work out a just and equitable plan for solving the much controverted problem of regional administration."

STUART

893.00/1-2147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 21, 1947—7 p. m.

[Received January 22—7: 40 a. m.]

121. Yenai English news broadcast for 2 weeks ending January 12. (Due to moving of receiving station several days' broadcasts were not received.)

Emancipation Daily editorial on New Year's indicated complete abandonment of any last vestiges of caution in anti-American attacks. Editorial violently censured American imperialism and its "running dogs" and charged "American imperialist groups have replaced Fascists of Germany, Italy and Japan, becoming world aggressors. American imperialists have become public enemy of all humanity." On other hand it lauded "peaceful" foreign policy of USSR. Editorial set forth seven demands, including withdrawal of American troops from China and abrogation of Sino-American commercial treaty.³⁰

²⁹ For latter, see directive passed on June 24, 1946, *Foreign Relations*, 1946, vol. ix, p. 1186.

³⁰ Signed November 4, 1946; for text, see Department of State Treaties and Other International Acts Series No. 1871, or 63 Stat. (pt. 2) 1299.

Big item was point by point analysis of new constitution by Li Wei-han, Communist delegate and member of PCC draft constitution examining committee.

[Here follow comments on new Chinese constitution.]

Analysis entitled "explanation of several basic questions concerning post-war international situation" (summary by separate telegram³¹) written by Lu Ting-yi, Department of Information, CCP, was given lead attention, but after first day's broadcast, which spelled out development of post-war international situation in accordance with Mao Tse-tung's prediction to Seventh National Convention, CCP, the broadcast was jammed by local stations.

Fair amount of attention given to Peiping rape case but with no new twist. There was considerable material on Yellow River Dam controversy which will be treated separately.

Sent Dept 121. Dept please repeat Moscow.

STUART

811.22/1-2247 : Telegram

The Consul General at Peiping (Myers) to the Secretary of State

PEIPING, January 22, 1947.

[Received January 22—5:50 a. m.]

23. General court-martial in the case of United States vs William G. Pierson found the accused guilty of rape (reference my 331, December 30). Sentence was not announced as it must await approval of convening authority.

Sent Department as 23; repeated Nanking as 15.

MYERS

893.00/1-2347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 23, 1947—9 a. m.

[Received January 23—5:12 a. m.]

126. Some salient manifestations with third party groups.

Lo Lung-chi, spokesman for Democratic League, at press conference 21st in Shanghai remarked that Democratic League strongly opposes the proposed reorganization of Government without participation of Chinese Communist Party. This is attempt to prolong civil war and to perpetuate the national split on part of Kuomintang Party. Democratic League favors resumption of peace negotiations between major

³¹ Apparently a reference to the subject discussed in telegram No. 162, January 30, 8 a. m., from the Ambassador in China, p. 29.

parties but these negotiations must not be utilized as means to launch "peace offensive" against the other side. Democratic League has no objection to which form of negotiations is followed, either the round-table conference proposed by Sun Fo³² or the all-party conference proposed by Communists. Chief thing is that both parties abide by the spirit and tradition of the successful Political Consultative Conference held a year ago. PCC resolutions must be respected and upheld by all political parties. Democratic League does not oppose amendments of some parts of the PCC resolutions in view of changed situation. That would be the exact function of the proposed renewal of negotiations, but already signed PCC resolutions cannot be scrapped. Democratic League urges establishment of an all-party coalition government but this can not be interpreted as an invitation to some parties or groups to come into the Government with exclusion of other parties and groups.

Chang Tung-sun, who has been named to succeed Chang Lan as secretary general of the Democratic League, gave me his impressions of Communist attitudes as follows:

Communists are counting on military losses to Government being so serious that within the next few months Government will be forced to seek a renewal of peace talks when Communist Party can make its own conditions. The information the Communist Party is receiving is that the surplus property being delivered from Pacific islands is proving of very little value to Government, that Government is reopening its arsenals and thus revealing its lack of military supplies. This is further evidenced by fact that some Government troops are now using Japanese arms. Communists are further counting on economic distress as weakening Government's moral support by the people. They are also hoping that Moscow Foreign Ministers conference will be to their advantage.

Carson Chang and Wu Hsien-tze, leaders of the Social Democrats, and Tseng Chi and Tsao Hsun-sheng, leaders of Youth Party, conferred with Generalissimo concerning participation by their parties in the reorganization of the Government. Both parties publicly have indicated their reluctance to take part in coalition government but privately they seem to be going along with the Government and waiting for more opportune time to announce their decisions publicly.

Carson Chang during a talk with me indicated that he did not wish to enter the Government in any specific position since he would then have to follow Government policies but preferred to become member of Legislative Yuan where he could serve country by helping to formulate measures for enforcement of the constitution. He also

³² President of the Chinese Legislative Yuan.

said he wished to make a lecture tour of country, explaining the benefits of the new constitution to people.

If the Communists reject the latest offer contained in the Government's public statement of January 20th (Embassy's telegram 119, January 21), it is expected reorganization of Government will be pushed though there is also expressed indications that next move awaits Washington meeting between President and Secretary of State which it is assumed will result in further developments in implementation of American policy toward China.

STUART

893.00/1-2347

The Ambassador in China (Stuart) to the Secretary of State

No. 442

NANKING, January 23, 1947.

[Received February 4.]

SIR: I have the honor to comment for your information upon the present outlook for any possible resumption of negotiations between the Chinese Government and the Communist Party. The former has at last made its formal proposal that a delegation be sent to Yen-an. There seems to have been nothing in the way in which this was done nor any recent utterances or actions by Government leaders to prejudice the Communist Party reaction to this proposal. But the reply was prompt and categorical to the effect that if the Government would agree to the two previously made conditions the negotiations could be resumed in Nanking; if not, nothing would be gained by sending a delegation to Yen-an. The local Communist Party representatives insist, however, that they do not intend by this to break off such negotiations, but rather to clear the ground for them in the future. Strange as it may seem, I believe that they really mean this.

They are becoming increasingly confident that in the next few months the Government will be forced to reopen the discussions and that they can then dictate their own terms. It is therefore to their advantage to wait. This is not only because of the more obvious aggravation of fiscal and economic problems and the consequent popular discontent. They are counting on a more negative American policy and on developments at Moscow in March that will serve their purpose. I also have the impression that they have more reason to be encouraged over the military situation than during those months when they were obviously eager to end the fighting. This is probably not so much because of any improvement on their side as the defection of Government troops due to corrupt or incompetent officers and the waning morale of the men. One need not accept the Communist

Party figures to suspect that the Government is not announcing its real losses. Another explanation for the uncompromising Communist Party attitude is—if my surmise is correct—that they came to feel that they had yielded too much in the original PCC agreements in the matter of military reorganization and determined not to be caught unawares again. If this is true, the Government leaders blundered all the more seriously in not having scrupulously observed those agreements and thus held the Communist Party faithful to them also.

The controversy over the Yellow River project and the agreement which has now apparently been concluded are an epitome at once of the complex and baffling factors in all these negotiations and of their elusive potentialities. The Communist Party has been insisting on a period of five months during which they might evacuate the settlers from the old river bed before its restoration, and has been making bitter charges against the Government—more or less true. They have undoubtedly been influenced by their ineradicable suspicions and by partisan military considerations. The Government in turn has been remiss in making the promised payments and has had its full share of military rather than humanitarian motives. Its engineers, primarily concerned with their own professional reputation and livelihood, have insisted on a prompt closure of the dam which from a purely technical viewpoint would be wise. General Edgerton³³ and his American associates have argued for a two months' delay as justifiable in view of the political issues despite the engineering risks. President Chiang finally drew the deadline at February 15. General Edgerton felt that his patience had been exhausted and was about ready to carry out his threat of withdrawing all UNRRA aid when on January 20, after hours of earnest discussion, Mr. Tung Pi-wu³⁴ agreed to a postponement of three months. True, he points out that this must be approved by the local farmers, and the Government must be persuaded to go against the advice of its engineers, but at this writing the outlook is fairly hopeful.

As I have urged in a previous despatch, as long as President Chiang remains in office with his present mental and physical vigor he will continue to be the determinative force in Government policy. He is doubtless correct in his assertion that he can deal with his reactionary associates. There is in this sense a modicum of truth in General Chou En-lai's recent declaration that Chiang Kai-shek is himself the chief reactionary. With all of his stubborn will and the habits formed by training and temperament, he is by no means inflexible in policy—

³³ Maj. Gen. Glen E. Edgerton, American director of the China office, United Nations Relief and Rehabilitation Administration (UNRRA).

³⁴ Senior member of the Chinese Communist delegation remaining at Nanking.

rather the opposite. It is perhaps more true of him than of most men that he is very largely controlled by fears and hopes. In his desire to fulfill his duty to the nation he has been recently tending toward the aim of establishing democracy in China and of becoming the leader of the liberal and public-spirited element. His intransigence stems chiefly from fear. His hopes are centered in the response he might receive from the element among his countrymen just referred to and from American aid. This latter is, of course, mainly—but by no means wholly—material, and is in his thought a means to an end beneficial to both countries. To furnish him with sound advice and assist him to accept and act upon it, to encourage his aspirations without endangering the true interests of this nation or even more important international issues, to temper sympathetic friendliness with wise refusals while maintaining a generally affirmative attitude, is the delicate but splendidly creative opportunity for American statesmanship.

Respectfully yours,

J. LEIGHTON STUART

893.00/1-2947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 29, 1947—8 a. m.

[Received January 28—11:45 p. m.]

151. Central Government has reinforced Changchun area from Mukden and fighting north and east of Changchun apparently continues with considerable Communist forces involved. Available information would indicate that Central Government forces are handicapped by inadequate winterization of automotive equipment and the ammunition supply, particularly of American equipped divisions, is critically low.

Clubb reports from Changchun that present military movement in Chiutai sector northeast of Changchun appears to be a Communist withdrawal with forces intact. Sun Li-jen, commander New First Army, admitted to Clubb on January 21 that Communists avoided pitched battles and few prisoners were taken. Sun stated that Communists now back in original positions on opposite shore Sungari River. Sun also stated that approximately 100,000 Communist troops were engaged. This statement conflicts with estimate of Assistant Military Attaché, Changchun,³⁵ that about 20,000 troops were engaged in front line fighting on each side.

Although, according to General Sun, Communists are now back in original positions, they reputedly looted large quantities of goods in

³⁵ Maj. Robert B. Rigg.

course of operations and distracted Government forces from launching any offensive. Clubb reports that news accounts indicate no substantial victory achieved by Government forces and that Communist forces took initiative in the first instance and apparently maintained it throughout fighting.

It is not unlikely that movement of troops from Mukden to reinforce Changchun will result in increased Communist activity South Manchuria. General pattern which is developing indicates that hit-and-run tactics of Communists will continue and there has been recent increase in these movements in Shantung and Hopei. Informed observers do not believe Central Government forces capable yet mounting full-scale effective offensive against Communists in any area although Central Government military officials Nanking continue confident that if so ordered they could successfully liquidate Communist problem.

STUART

893.00/1-2947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 29, 1947—noon.

[Received January 29—3:50 a. m.]

158. The Generalissimo asked me to call last night, no doubt with a view to ascertaining in advance the purpose of my requested appointment with him this afternoon.³⁶ I had a general conversation with him, however, from which the following may be of interest:

I questioned him about the military situation and the plans for Government reorganization.

On the former he said that North Kiangsu, south of the Lunghai River [*Railway?*], was already completely recovered and that they hoped to have all of North Kiangsu within a week. I asked if there were further plans for clearing the railway zone as it runs through Shantung Province, and he replied that that would take time. He gave the impression that there were no important military developments elsewhere.

As to the governmental reorganization, he blamed the Communists for ganging up on the majority [*minority?*] parties to keep them from coming into the Government and the latter for showing indifference to participate. I told him that I knew you would be keenly interested

³⁶ Concerning American withdrawal from Executive Headquarters at Peiping; see telegram No. 160, January 29, from the Ambassador in China, *Foreign Relations*, 1946, vol. x, p. 711.

in any developments in this situation and expressed the hope that he would inform me as soon as there was any further progress.

STUART

893.00/1-2947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

[Extracts]

NANKING, January 29, 1947.

[Received January 29—9:40 a. m.]

161. RefEmbtel 119, January 21. Following statement⁴⁴ by Lu Ting-yi, Chief Department of Information, Central Executive Committee, Chinese Communist Party, in reply to statement by Kmt Ministry of Information:

“Entire content of statement Kmt Ministry of Information is rejection of two conditions raised by Chinese Communist Party for restoring peace negotiations—it is rejection of nullification of Chiang Kai-shek’s false constitution and of restoration of military positions of January 13, 1946. Moreover, it raises four points of so-called peace proposal.

These four points have already been transmitted by Chiang Kai-shek to Chinese Communist Party. It is clear that so-called peace negotiations are complete fraud and so-called four points are employed to reject prerequisites for real peace negotiations. Inasmuch as these prerequisites are rejected, what kind of sincerity or peace negotiations remain to be spoken of?

. . . If we speak according to law, all bellicose elements of Kmt should be punished as war criminals, all Kmt reactionaries and secret police agents who broke PCC decisions should be punished as Fascists, Kmt Government officials who signed Sino-American commercial treaty should be punished as traitors. Furthermore, they should have to compensate to people of liberated areas and of all China for colossal damages suffered from Chiang Kai-shek’s launching of civil war. We have not raised all these just and equitable demands, however, but have only demanded nullification of false constitution and restoration of military positions of January 13 last year. What is this if not the most extreme clemency toward Chiang Kai-shek?

To what degree of lawlessness has Chiang Kai-shek reached within past year? If we do not ask him to carry out our two minimum points, if we ‘cease fire at present positions’, forget all his past crimes

⁴⁴ For full statement, see *United States Relations With China*, p. 699.

and give him time to rest and regroup his troops, consolidate invaded areas, replenish his armies, 'reorganize government' to get \$500,000,000 or more loans and military aid from the United States Government, then when he has strength to launch large-scale offensive again, Chiang Kai-shek will certainly be more lawless. What happened last year is good example.

Therefore, if we still want independence, peace and democracy, we must ask Chiang Kai-shek to nullify his fake constitution and restore positions of January 13 last year. We will never rest till this goal is attained. All deceptions will be in vain. Now that Chiang Kai-shek has rejected these two points and has brought forward his deceptive 'peace proposals' in conflict, he will have to bear responsibility for all consequences.[""]⁴⁵

STUART

893.00/1-3047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 30, 1947—8 a. m.

[Received January 30—5:45 a. m.]

162. Embassy is forwarding by despatch full text⁴⁶ of lengthy statement by Lu Ting-yi, head of Department of Information, Chinese Communist Party and member Party's Central Executive Committee, published *Emancipation Daily*, Yen-an, January 4 and 5.

Lu sees world situation today as struggle between democratic and anti-democratic, or Fascist, forces; the defeat of Germany and Japan did not finally destroy Fascism and the struggle against it must now continue until the inevitable victory of democratic forces throughout the world. Democracy, in Lu's definition, is synonymous with the Soviet Union and with those masses of people to be found in every country who find themselves in sympathy with the selfless desire of a Socialist Soviet Union to free all men from oppression and imperialism. It is simply because these democratic forces include the overwhelming majority of men that their victory is inevitable and what appears to be the impressive present strength of reactionary forces is merely a superficial delusion.

Lu then proceeds to state that American imperialists have taken the place of Germany and Japan in the world. Their objective is to enslave the American people and by "peaceful means" to ensure American domination of the other capitalist countries and all colonial

⁴⁵ For the reply of the Chinese Ministry of Information on January 29 to this Communist statement, see *United States Relations With China*, p. 703.

⁴⁶ *Ibid.*, p. 710; despatch No. 824, June 20, not printed.

areas. American imperialism, therefore, has become the great enemy of mankind.

Embassy considers statement to be the strongest and most orthodox yet issued by the Chinese Communists and the most important manifesto since Mao Tse-tung's report "on coalition govt" to the Seventh Party Congress in April 1945.⁴⁷ The statement follows so closely traditional Marxist analysis of social development and the inevitable course and fate of monopoly capitalism that it might well have been written in the Kremlin and it is of particular interest in view of current Communist policy of avoiding any semblance of compromise or of taking any position vis-à-vis the internal Chinese situation other than one of intransigence and willingness to fight for their own terms.

It is difficult, if not impossible, to estimate whether this revised line was reached from independent theoretical studies or was suggested by outside sources; or whether it is part of a long preconceived strategy which is now merely announced at what seems a propitious moment. Certainly it changes the emphasis of "on coalition govt" that socialism and communism for China are merely an eventual ideal. Lu's statement, in terms stronger than any ever used before, closely identifies the Chinese Communist Party with the Kremlin's self-appointed propaganda line of championship of oppressed peoples throughout the world.

There is another thing. The Chinese Communist Party is the only Communist group in the world which can compare in size and influence with the CPSU (B).⁴⁸ The Kremlin must be well aware that it is the only important Communist Party in the world of which no one has yet been able to prove that it has direct ties with the Soviet Party and that it is not primarily an indigenous movement arising from Chinese conditions whose principal and perhaps only direct link with the Soviets is ideological affinity. This factor makes it, therefore, a useful vehicle for spreading the Communist line.

Sent Dept 162. Repeat to Moscow.

STUART

893.00/2-1447

Memorandum of Conversation, by the First Secretary of Embassy in China (Perkins) ⁴⁹

[NANKING,] February 6, 1947.

Today I called upon Dr. Chiang Mon-lin, Secretary-General of the Executive Yuan, to pay a courtesy call as we were old friends from

⁴⁷ May 1, 1945, *Foreign Relations, 1945*, vol. VII, p. 362.

⁴⁸ Communist Party of the Soviet Union (Bolshevik).

⁴⁹ Copy transmitted to the Department by the Ambassador in China in his covering despatch No. 498, February 14; received February 21.

Kunming days.⁵⁰ I had naturally hoped to obtain a few splinters of fact and opinion during a brief call, but Dr. Chiang proceeded during an hour to develop what appears to be a good portion of the present Kuomintang thesis. There are detailed below a few of his observations:

1. *Military.* The Generallissimo returned from his recent visit to Hsuehchow front with a very hopeful view of the military situation, and the military people now expect the "defeat" of the Communists will be accomplished in a shorter time than had been estimated. The battle is one for annihilation of four Communist armies and the clearance of Reds from Shantung to enable resumption of rail traffic on the Tientsin-Pukow line. The National Government means business. In remarking on the superiority of performance of Stilwell⁵¹-trained troops in Manchuria, Dr. Chiang mentioned that two or three Chinese regiments had through incompetent direction been badly cut up in the Shantung fighting. However, he raised no cry of woe about Nationalist lack of matériel.

2. *Political.* Dr. Chiang was reticent about the reorganization of the Government, but he indicated a fairly low regard for third parties and their potentialities. He thought the Democratic League was opportunistic and was waiting for the breaks; the effect of their stand was of aid to the Communists and he felt that some League members were little different from Communists. One League member told him that his group, however, desired peace above all, since full-scale war would result in a clamp-down on League activities as being subversively critical during a war. He thought the whole crowd of third party people were doctrinaire and incapable of the responsibilities of power. The Youth Party and the Democratic Socialists received their chief financial support from the Szechwanese.⁵² The purport of Dr. Chiang's comments on the political question was that the Kuomintang is the only ponderable force in governmental matters or vis-à-vis the Communists.

He went on to explain that land reform was on the way; concentration camps had been done away with; censorship lightened; airfield inspection by secret police abolished (for the reason apparently that plugging up only one avenue of travel for subversive agents did little or no good); etc., etc.

3. *Economic.* The situation was bad and the next six months was the critical period. He recognized the menace of Communist eco-

⁵⁰ Mr. Perkins was Consul at Kunming in 1940-1942.

⁵¹ Lt. Gen. Joseph W. Stilwell, Commanding General, China-Burma-India Theater, 1942-1944.

⁵² A reference to lingering war-lord interests in the province of Szechwan, centering on Chengtu, the provincial capital.

conomic attrition. He then spoke mournfully of the possibilities of the Chinese being driven back to the age of barter. This led to his mention of the loan question: \$500,000,000 was a useful sum, yes, but it would actually be only a sprinkling of the ground. What was needed was a sum running into the billions, with construction of railways, highways, industries, a Yangtze TVA, all over a period of years perhaps, but grandiose and sweeping. American advisers and technical people should be brought in by the thousands.

4. *Student Demonstrations.* I wanted particularly to get Dr. Chiang's view on the political effect of student movements today, as compared with former days (when students at one time thrashed a Foreign Minister and brought about the Minister's as well as Chiang Kai-shek's resignation). He was not explicit; the impression gained, however, was that students in most instances might well be allowed to blow off steam and that if this were done without violent repression, the total effect of their activity would be considerably reduced. . . . In connection with the Wen-Li assassinations in Kunming,⁵⁵ he said, he took special pains to track down responsibility for the shooting and eventually it was pinned on the military people, some of whom received at least a nominal punishment.

Comment: Dr. Chiang, by reason of his high political position, has apparently been influential in the comparatively sage handling of student movements recently (he has agitated in his own day and at one time carried the torch against missionaries, consequently he knows his students). However, such a staying influence has limited power and reach. On the whole, I have tentatively formed two conclusions: student movements under a regime as strong as the present one, and with such apathy and immobility of public opinion as exists today, have much less immediate striking power than formerly; and, as the students possibly do not realize this, there may be some violent scenes in the future if the counsels of people like Dr. Chiang should not prevail.

TROY L. PERKINS

893.00/2-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 7, 1947.

[Received February 7—4:16 a. m.]

220. Following is February 1st statement of Central Committee of Communist Party:

⁵⁵ Professors Li Kung-po and Wen I-to were assassinated in July, 1946; see telegram No. 1155, July 17, 1946, 5 p. m., from the appointed Ambassador in China, *Foreign Relations*, 1946, vol. ix, p. 1380.

“The Political Consultative Conference comprising all major political parties, groups and prominent social figures, convened on January 10, 1946 in accordance with stipulations of the summary of Kuomintang-Communist talks in Chungking on October 10, 1945,⁵⁶ is universally recognized by the people of the entire country and world powers as the highest political body in China. Until China has a really democratic national parliament, all important internal and diplomatic affairs which would be passed by a parliament in democratic countries should pass through this Conference or obtain agreement of major political parties and groups before they can be regarded as effective.

Since January 10, 1946, however, Chinese Kuomintang Government has not only enacted many arbitrary domestic measures but has also many times singly conducted diplomatic negotiations of a serious nature with certain foreign governments, in the course of understandings both oral and written, secret and open, without these agreements and understandings having been passed by the Political Consultative Conference or consulting opinion of this party and other parties and groups participating in Political Consultative Conference. These diplomatic negotiations included loans from foreign governments, continuation of Lend-Lease, buying and accepting of munitions and surplus war materials, forming of treaties regarding special rights in commerce, navigation, aviation and other economic and legal special rights.

These negotiations and agreements request or permit foreign land, sea and naval forces to be stationed in or operate on the seas, waterways, territories, and in the air of the country, and to enter or occupy and jointly construct or make use of military bases and points strategic to the national defense. They furthermore request or permit foreign military and other personnel to participate in organization, training, transportation and military operations of land, air and naval forces of the country, and to become conversant with military and other state secrets of the country. They also permit such serious matters as foreign intervention in internal affairs.

Those measures of the Chinese Kuomintang Government are completely contrary to the will of the Chinese people and they have plunged and will continue to plunge China into civil war, reaction, national disgrace, loss of national rights, colonization and crises of chaos and collapse. In order to rescue the motherland from this calamity, to protect national rights and interests and the dignity of the Political Consultative Conference, the Chinese Communist Party solemnly states: This party will not now nor in the future

⁵⁶ See *United States Relations With China*, p. 577.

recognize any foreign loans, any treaties which disgrace the country and strip away its rights, and any of the above-mentioned agreements and understandings established by the Kuomintang Government after January 10, 1946, nor will it recognize any future diplomatic negotiation of the same character which have not been passed by Political Consultative Conference or which have not obtained agreement of this party and other parties and groups participating in the Political Consultative Conference. This party furthermore will absolutely not bear any obligations for the above-mentioned."

STUART

893.00/2-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 8, 1947—6 p. m.

[Received February 9—5:10 a. m.]

229. Conference with President Chiang Kai-shek on February 7. President Chiang described himself as actively exploring details of government reorganization. He explained at some length the problem of including minority parties as arising partly from their lack of really competent personnel, partly from their hesitation to join Government because they object to merely minor participation as leaving Kmt still dominant or because of fear that economic situation may lead to Government collapse. Three possible procedures are being considered:

1. General addition of non-Kmt people in existing structure not including Executive Yuan;
2. Emphasis on changes in Executive Yuan;
3. Concentration on State Council with real authority for interim period. Gimo⁵⁷ tended to favor last with changes elsewhere except Executive Yuan where considerations of practical administration are more acute. Carson Chang for head of Judicial Yuan favorably considered.

Gimo thought military situation in removing threat from south Shantung well in hand. Other danger point Taiyuan also probably safe by cooperation of Yen Hsi-shan who could be relied on to protect his capital. North Kiangsu now entirely recovered. Gimo indicated that the plans for improving local administration north Kiangsu were in process with active assistance James Yen.⁵⁸ Similar plans for Hopei with special reference coastal stretch were being made.

Previously Gimo had shown no concern over economic or financial situation while T. V. Soong has been so exigent as to telephone me

⁵⁷ Generalissimo Chiang Kai-shek.

⁵⁸ James Y. C. Yen, Chairman of the Chinese National Association for Rural Reconstruction.

three times during previous day. Following discussion between Butterworth, Blandford,⁵⁹ Adler⁶⁰ and myself during which the first named indicated the inappropriateness of such pressure while the head of the state remained unconcerned and apparently unaffected by the situation, Gimo brought up financial position and described it as acute and expressed strongly the hope that a loan could be promptly approved.

STUART

893.00/2-1147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 11, 1947—7 p. m.

[Received—9:20 p. m.]

250. The Government this afternoon notified Communist delegation in Nanking that its presence is no longer desired here.⁶¹

STUART

893.00/2-1147

The First Secretary of Embassy in the United Kingdom (Drumright) to the Secretary of State

No. 3718

LONDON, February 11, 1947.

[Received February 19.]

Subject: Desire of British Foreign Secretary Bevin to Discuss China with Secretary Marshall

SIR: 1. I have the honor to enclose a self-explanatory memorandum of a conversation which I had with Mr. G. V. Kitson, Head of the China Department of the Foreign Office, on the above-cited subject on February 7, 1947.

2. In raising the foregoing subject, Mr. Kitson in no way indicated that the Foreign Secretary was proposing to request that Secretary Marshall stop in London en route to Moscow.⁶² Mr. Kitson seemed rather to indicate that if Secretary Marshall happened to come through London then the Foreign Secretary would wish to discuss the situation in China with him.

Respectfully yours,

For the Chargé d'Affaires ad interim:

EVERETT F. DRUMRIGHT

⁵⁹ John B. Blandford, American Financial Adviser to the Chinese Government.

⁶⁰ Solomon Adler, U.S. Treasury representative in China.

⁶¹ For documentation on withdrawal of Chinese Communist representatives, see *Foreign Relations*, 1946, vol. x, p. 705 ff.

⁶² For correspondence concerning the Moscow Conference, see pp. 609 ff.

[Enclosure]

Memorandum of Conversation, by the First Secretary of Embassy in the United Kingdom (Drumright)

[LONDON,] February 7, 1947.

In the course of an informal and general conversation with Mr. Kitson at the Foreign Office this afternoon, he said he understood that Mr. Bevin is anxious to have a talk with Secretary Marshall on the situation in China prior to the Moscow Conference if possible. Mr. Kitson then inquired whether the Embassy was informed whether Secretary Marshall had set up his itinerary and, if so, whether he contemplated passing through London en route to Moscow. I replied that, so far as I was informed, the Embassy had no information on the subject from the State Department, adding, however, that I had seen press reports to the effect that Secretary Marshall planned to visit Germany and Austria before going to Moscow.

I went on to express the personal view that while Secretary Marshall would doubtless be glad to exchange views with Mr. Bevin on the question of China, I doubted whether Secretary Marshall would come to London for that purpose, pointing out that a trip to London by the Secretary at this juncture would afford the Soviets a further opportunity to level the accusation that the United States and Great Britain were "ganging up" on the Soviet Union. I then suggested that if Mr. Bevin wished to discuss China with Secretary Marshall—assuming that London is not included in the Secretary's itinerary—he might find it most convenient to seek an opportunity to do so at Moscow.

E. F. DRUMRIGHT

893.00/2-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 12, 1947—noon.

[Received February 12—3:25 a. m.]

255. Clubb reports from Changchun that recent visits General Sun Li-jen and other senior National Govt commanders to point on Sungari front, coupled with press reports suggesting new Communist military movements, reflect apprehension regarding impending new Communist drive. Clubb believes that such new Communist move is indicated as possibility in near future and also believes that such a drive would probably be stronger than that of Jan. It is still not clear, however, whether or not either first or main thrust would be across Sungari or come unannounced from westerly direction.

Clubb states that aide of General Sun reliably quoted as stating Communists gave Nationalists beating during Jan. (ReEmbtel 70, Jan. 14, 3 p. m.⁶³) and that National Govt morale has declined accordingly. Clubb suggests that aim new Communist drive would be to pinch Changchun-Mukden flanks but it would incidentally lend strategic support Communist campaigning China proper.

Military Attaché⁶⁴ is of opinion that national morale Manchuria has improved rather than declined as result of active operations against Communists in Jan. despite considerable losses suffered by Communist ambushes.

STUART

893.00/2-1347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 13, 1947.

[Received February 13—5:17 a. m.]

271. Summary political remarks of Minister of Information Peng Hsueh-pei at weekly press conference 12th:

"The minority parties will be invited to take part in the State Council, Legislative Yuan, Executive Yuan, Control Yuan and Interim People's Political Council and the standing committee of the association for the Promotion of Enforcement of the Constitution. We cannot tell yet how soon the reorganization can be completed. Number of seats for third parties in State Council not yet decided.

It is hardly possible to talk peace while the Communists are launching attacks on Government troops everywhere, although some of the attacks are merely for international propaganda or for enhancing the morale of their rank and file after successive defeats. In addition to this they are doing everything in their power to incite the workers to strike and the students to flout discipline. They are organizing a so-called 'boycott American goods' movement and a 'destroy the constitution' movement. Their aim is to create international complications and to shake public confidence. But as the saying goes, 'fire destroys wood but strengthens iron'. The Chinese nation will emerge stronger than ever from this ordeal as it did from the Japanese aggression.

Verbal agreement reached for closure of Yellow River gap and UNRRA-CNRRRA⁶⁵ work on dykes will proceed aimed at completing closure by mid-March.

⁶³ Not printed.

⁶⁴ Brig. Gen. Robert H. Soule.

⁶⁵ United Nations and China National Relief and Rehabilitation Administrations, respectively.

No book bans in China. Both versions of Generalissimo's *China's Destiny* will be permitted in China."

STUART

[For statement by Generalissimo Chiang Kai-shek, issued at Chungking on February 16, 1947, see *United States Relations With China*, page 704.]

693.0031/2-1847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 18, 1947.

[Received February 17—11:46 p. m.]

305. Nanking Communist delegation spokesman, Wang Ping-nan, February 15 declared trade agreements with foreign countries would be welcome to Chinese Communists although he [added?] no treaties could be signed by the Communists as they have not set up any Central Government for their various border regions. He denied Communist authorities ever intended to request financial loans from foreign powers "as Communist areas are trying to be self-sufficient".

Wang said no country has any consular officials or liaison mission in Communist held areas but he "did not know" if the Soviet Consul was in Harbin. He added the Soviets, however, have no liaison office in that city. Foreign consulates are still closed "on account of the state of war", Wang said, but will be reopened as soon as peace is restored.

STUART

Marshall Mission Files, Lot 54-D270: Telegram

*Colonel George V. Underwood*⁶⁶ to *Colonel Marshall S. Carter*⁶⁷

NANKING, 18 February 1947.

2089. Information herein, which is based on discussions with General Gillem, may be of interest to General Marshall.

General Yeh,⁶⁸ in a spirit of unusual frankness inspired by the dismantling of Executive Headquarters, recently stated to General Gillem that inactivation of Executive Headquarters was logical, since there no longer was any hope of success through mediation. He held that the problem in China was not simply one of composing internal

⁶⁶ In charge of the Embassy Liaison Office at Nanking.

⁶⁷ Special Assistant to the Secretary of State.

⁶⁸ General Yeh Chien-ying, Chinese Communist Commissioner of Executive Headquarters at Peiping.

differences, but that settlement of China's internal difficulties was keyed to the larger problem of improvement in relations between the United States and Russia. Yeh regarded the situation in China as hopelessly stalemated until there were clear indications of *rapprochement* between the US and Russia. He speculated that the Moscow Conference might possibly provide new opportunities for resolving the China situation. In this connection, Wang Ping-nan, in an apparently unguarded moment at lunch at the Ambassador's, stated that Stalin⁶⁹ could be expected to discuss China at the Moscow Conference. He appeared to have made a slip and hastened to weasel on his statement.

At any rate there are strong indications that the Communists, buoyed by withdrawal of American Forces, withholding of American loans, and accelerated economic decay are in no mood to negotiate and intend to pursue a campaign of harassment.

It is interesting to note that Yeh's views above are strikingly similar to those advanced on earlier occasions by National Government people here and in Washington.

711.93/2-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 20, 1947.

[Received February 19—11:55 p. m.]

319. Following statement issued by Minister of Information Peng Hsueh-pei on 18th :

"I am informed by cable from the United States of an Associated Press dispatch from Nanking dated February 15, which apparently was not printed in China. This dispatch contains several misstatements and distortions. Part of the dispatch appears to be based on an off-the-record interview granted by President Chiang Kai-shek to a group of American editors and publishers, without identification as such, but reports it in garbled form.

"The AP story quoted 'sources close to' President Chiang as stating that 'US decisions to withhold further armament credit from the Chinese Government were blamed by the Generalissimo for prolonging the civil war'. I was present at President Chiang's interview, and I feel compelled to make the necessary correction. He did not question America's right to refuse arms and credits, but gave as his off-the-record opinion that public announcement of insistence on a coalition government including the Communists as a condition for granting

⁶⁹ Iosif Vissarionovich Stalin, Chairman of the Council of Ministers of the Soviet Union.

of loans and selling of arms only emboldened the Communists to adopt an adamant attitude and to refuse to negotiate with the Government. To present this statement as indication that the Gmo was blaming the US for prolonging the civil war is clearly a distortion.

"The same off-the-record statement of the President apparently is the basis of the assertion in the AP story that 'confidantes of Chiang said the Gmo reasoned the Communist problem could have been settled quicker if the US had continued supplying guns, ammunition and credit so his armies could destroy the Communists. The distorted nature of this inference also is obvious.

"The AP story quoted a 'high source' as stating that the Gmo was 'bitter that his argument failed to move Truman and Marshall' but the Gmo said nothing of the kind.

"The story mentioned that the government had 'sternly declined to accept delivery' of a communication from the Communists. This referred to the return by the government of a message seeking to repudiate treaties entered into by the government. The National Government's message section considered it grotesque that a political party could presume to take such action, and sent the message back." End full text.

STUART

893.00/2-2147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 21, 1947—6 p. m.
[Received February 21—12:47 p. m.]

336. Chinese contact of the Embassy states that a proposal has been made to the Generalissimo by the C-C clique⁷⁰ to send a delegation to Moscow to consist of Chen Li-fu [apparent garble], Chiang Ching-kuo,⁷¹ and Sun Fo. It is proposed that the delegation arrive prior to the impending meeting of Foreign Ministers and endeavor to reach some arrangement which would forestall the possibility of multi-lateral discussions or agreement involving Chinese interest without the participation and consent of China.

The Embassy is unable to place any estimate on the reliability of this report. The possibility that it is substantially correct should not be completely eliminated but the Embassy inclines to the belief that story is planted on it and designed to increase American apprehension prior to the conference concerning the position the Soviet Union may

⁷⁰ A right-wing group in the Kuomintang, deriving its name from the leadership of the two Chen brothers, Li-fu and Kuo-fu.

⁷¹ Eldest son of President Chiang Kai-shek.

take and to strengthen the Chinese argument in favor of immediate and extensive American assistance to the National Government. If this is the case it is believed quite likely that some similar suggestion may be made in Washington.

Should the opportunity present itself, the Embassy will endeavor to make further discreet investigation.

STUART

893.00/2-2247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 22, 1947—10 a. m.

[Received February 22—5:40 a. m.]

339. Generalissimo informed me yesterday that reorganization of Govt would be undertaken in closing days of this month.

STUART

893.00/2-2347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 23, 1947—2 p. m.

[Received February 23—4:55 a. m.]

348. Rumor has it, as is reported in the press, that Foreign Minister's trip to North China will include Manchuria where he will allegedly undertake discussions with Russian authorities. For obvious reasons (Embtel 336, February 21) Embassy has not attempted to check on this rumor. Embassy has, however, reliable info that while in Peiping Wang Shih-chieh will discuss on Gimo's behalf participation in a reorganized government of Hu Shih⁷² and certain other individuals resident in that area.

STUART

893.00/2-2447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 24, 1947—8 p. m.

[Received February 25—3:50 a. m.]

359. General Chou En-lai, in an exclusive interview in Yen-an with United Press, on Feb. 22, stated the Chinese Communists will henceforth work out their own problems without mediation by the Soviet Union, Great Britain, the U. S. or any other foreign country. Chou

⁷² Former Chinese Ambassador in the United States and at this time president of Peita University at Peiping.

blamed General Marshall for the failure of peace negotiations since his mediation failed because he "was partial to Chiang Kai-shek and the Kuomintang except in the first 2 months of his stay in China". He also accused American Army, Navy and Air Forces of assisting Central Govt.

He added, "However, we still will welcome an American liaison officer or Military Attaché, whom we understand the American Embassy in Nanking has an idea of sending here shortly". (This refers to the recent proposal by General Yeh Chien-ying in Peiping that Major Young, Chinese American Army officer, be sent to Yunan as Assistant Military Attaché.) Chou added American businessmen and foreign missionaries could be welcome provided they conform to local laws. Regarding missionaries, he said, "We don't place restrictions on religion. The problem of Christian churches and missionaries is one of land reform, not beliefs. The trouble is some of these missions have taken illegally land from the peasants and today the peasants want to take back that land.

"If the land was taken back by the missionaries for feudalistic exploitation then the local Communist Govts will take it back and return it to the rightful tenants—the peasants. Also it must be remembered that some Polish and German missionaries worked hand in glove with the Japanese and puppets, actually resulting in harm and death befalling our people who were opposing the Japanese.

"Generally speaking, we don't place any restrictions on missionary work, and more detailed regulations in this matter will be issued shortly by the local govt."

STUART

893.00/2-2447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 24, 1947.

[Received February 24—7:15 a. m.]

363. Associated Press Peiping February 21 dispatch reports that General Yeh Chien-ying, Communist Commissioner at Executive Headquarters, on his departure from Peiping stated:

"I sincerely believe that the efforts of General Marshall and America during the past year in helping China to win the peace have not been in vain. Peace will prevail. It is only a matter of time. Long live Chinese-American cooperation."

Press dispatch Nanking February 21 reports Communist Nanking spokesman, Wang Ping-nan, as stating that Government is using "all conceivable means" to force Communist liaison offices in Nanking,

Shanghai and Chungking to close down but that they would remain open unless they receive formal notification. Wang added:

“If President Chiang Kai-shek resorts to underhand methods—detention or arrest—he will have to bear the responsibility. The use of secret intrigue and the arrest of Communist officials are being taken into consideration should these methods not succeed and that proves clearly that the Kuomintang has decided to close the door to further negotiations.”

STUART

893.00/2-2547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 25, 1947—5 p. m.
[Received February 25—10:08 a. m.]

372. Following is substance of information transmitted by Ludden⁷⁴ as result Ambassador's and his talks with third party leaders, principally Chang Lan, Lo Lung-chi and Carson Chang, February 21 and 22 at Shanghai:

Democratic League representatives stated China's situation is deteriorating with great rapidity, pointed out that this is disadvantageous to US because the people to whom General Marshall's statement⁷⁵ was directed will inevitably be driven as end result of situation into the Communist camp. All persons interviewed pointed out that there can be no real solution present problems until there is cessation of civil war.

Chang Lan desired that three points be brought to attention of US Government: (1) desirability American-Soviet-British mediation to replace American mediatory efforts; (2) that a reorganization of the Government without taking into consideration basic PCC agreements was doomed to failure; (3) that Communist Party at present time is considering calling a “national assembly” in its own “liberated areas”.

Impression was received that Democratic Leaguers and Carson Chang would be resentful foreign pressure put on them to join Government and that they believed no solution of present problem possible except by Chinese among Chinese. Chang Lan in particular took the line that American assistance to Government was responsible more than any single matter for continuation of civil war and Carson Chang left same impression.

⁷⁴ Raymond P. Ludden, First Secretary of Embassy in China.

⁷⁵ January 7 at Nanking; for text, see telegram No. 1910, January 5, *Foreign Relations*, 1946, vol. x, p. 682.

Carson Chang indicated he would not join Government under present conditions, that any third party participation in circumstances would make no difference in overall picture, and he maintained that he could be more effective in influencing change in China by remaining outside of Government than being a member thereof. At same time Chang said flatly that basic problem was the attitude of the Generalissimo and that stumbling block to genuine reorganization of Government was Chiang himself, whose entire background is such that he cannot conceive any success resulting from democratic processes. Chang maintained that solution to immediate problems was stabilization of monetary situation and reduction in military expenditures. He appeared to feel that any reorganization of Government at this time would be for sole purpose of influencing American opinion.

Lo Lung-chi's views: Some sort of all-party conference should be convened, committed in first place to national unity. Question of local administrations would be discussed and agreed upon; plans for a "revision" of present constitution would be laid down (this to be face-saving device for both Nationalist and Communist and to allow a later national assembly to confirm such changes); an implementation of the February military reorganization plan would be agreed upon (which would dispose of second Communist demand for return to January 13 troop dispositions, since all troops would then be under a single Government). Lo's basic point is that there can be no solution of situation unless agreement reached with Communists. He sees no possibility of Nanking defeating Communists, without US support, and his greatest fear is that American policy will drift toward material support of Government if a façade of reorganization is achieved. As to reorganization, Lo believes Youth Party unwilling to joint Government unless there is immediate revamping of State Council of [or?] Executive Yuan. On the other hand, some Social Democrats favor entering Legislative Yuan, Control Yuan, People's Political Council, and Association of Promotion of Constitutional Government, thus cooperating in state affairs without being compromised by participation in policy decisions or actual administration. However, both groups apparently [apparent omission] off to await developments in economic crisis, with which they do not want to be identified. Youth Party is probably trying to drive a hard bargain with the Government in its extremity, while Government meanwhile unwilling to meet YP demand until agreement both parties assured since reorganization along party lines involving single third party would have no significance.

893.00/2-2847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 28, 1947—2 p. m.

[Received March 1—8 : 40 a. m.]

390. For General Marshall from Butterworth. Ambassador McNutt⁷⁶ arrived here from Shanghai this morning, had pleasant but inconsequential talk with T. V. Soong,^{76a} a rather long talk with the Generalissimo, lunched with the Foreign Minister, and then took off for Peiping.

In the course of conversation, Generalissimo asked me to inform you that there will be announced in a day or two the reorganization of the Legislative and Control Yuans, that he regards this as a significant step inasmuch as by the inclusion of non-Kuomintang groups and independents the single party system will be abrogated. Since I have had a sense recently of the Govt's preoccupation with military matters—which do not seem to be going any too well—I took the liberty and precaution of calling on yesterday both Blanchard [*Blandford*] and General Pei [*Pee*]⁷⁷ and reading to them pertinent excerpts from the report of your conversation with Ambassador Wellington Koo.⁷⁸ I was not at all sure that Koo would report his conversation with you as accurately as might be desirable and an opportunity was thus also afforded to keep up the pressure for Govt reorganization. Accordingly, I asked Generalissimo what plans he had for the reorganization of the State Council and Executive Council [*Yuan*], after some discussion of a friendly nature, he asked me to inform you, in confidence, that the reorganization of these bodies would take place not before 2 weeks and not later than 4 weeks. Incidentally, I delivered the President's letter of acknowledgment to him.⁷⁹ This afternoon's pouch has brought 2 letters for Madame Chiang which I shall send to her when she returns from Shanghai in a day or two.

Ambassador McNutt took the occasion both with T. V. Soong and the Generalissimo to urge patience on their part with the Philippine Govt in its present adolescent and difficult period of adjustment. He told the Generalissimo that President Roxas had the instincts of a statesman, that though he had to play a very political game at times, in the end he would adhere to a cooperative and enlightened course of action vis-à-vis Sino-Philippine problems. Generalissimo who before had been talking vaguely and generally perked up at this description of Roxas and asked McNutt about the extent of Communism in the Philippines, the amount of arms and guerrilla bands, et cetera, et cetera.

⁷⁶ Paul V. McNutt, Ambassador to the Republic of the Philippines.

^{76a} President of the Chinese Executive Yuan; brother-in-law of Chiang Kai-shek.

⁷⁷ Gen. Peter T. K. Pee, aide-de-camp to Generalissimo Chiang Kai-shek.

⁷⁸ See memorandum of February 17, p. 1066.

⁷⁹ January 28, 1947, *Foreign Relations*, 1946, vol. x, p. 704.

Mr. and Mrs. McNutt made a most favorable impression on the Chinese officials with whom they came in contact and were very cordially received by them. [Butterworth.]

STUART

893.00/2-2847 : Telegram

The Consul General at Tsingtao (Spiker) to the Secretary of State

TSINGTAO, February 28, 1947—3 p. m.

[Received February 28—9:40 a. m.]

13. Reliably reported Govt suffered complete loss one American trained division and almost complete loss of another in recent fighting near Poshan coal center. Military Headquarters admits such forces encircled. Military situation at Tsinan believed grave. Press reports, under apparent censorship, now more optimistic in tone. According to reliable local information, press reports are correct that Govt will attempt to defend only Tsingtao, Weihsien and Tsinan in event Communists continue offensive. Tsingtao defense line being prepared at Chengyang, 21 miles north. Exclusive of US Navy dependents in Tsingtao, list of citizens in consular district remains substantially the same as shown in February list submitted. Developments will be reported.

Sent Nanking as 14.

SPIKER

893.00/2-2847 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 28, 1947—5 p. m.

245. Prof. Peffer⁸⁰ Feb. 13 in speech before IPR⁸¹ at Washington made statements summarized below.

China's internal situation is hopeless and future appears to hold only dissolution present Government and probable reversion to warlord or other regional regimes. Gmo probably well-intentioned but limited by his feudal background. Evil men surround Gmo leaving Govt's modern-minded administrators powerless frustrated.

CCP unlike Kmt for time wanted peace but now also believes it has more to gain from continued hostilities. Its military power and numbers trained administrators insufficient however to control country in foreseeable future.

Chief hope for future is for US exert all possible pressure on Govt to force it reform. (End of Summary)

Former member Dem League now in US⁸² similarly asserts CCP incapable govern all China and its leaders too intelligent attempt do-

⁸⁰ Nathaniel Peffer, of Columbia University, New York, N.Y.

⁸¹ Institute of Pacific Relations.

⁸² Chen Han-seng, an economist, who on February 19 gave his views to the Deputy Director of the Office of Far Eastern Affairs (Penfield).

ing so even should present Govt collapse. He inclines to think such collapse would result in establishment coalition Govt including CCP but dominated by Political Science group.

Dept would appreciate your comments particularly on predictions of reversion to regionalism together with résumé of any available info from Canton Chengtu Kunming and other provincial centers indicating whether disintegrative tendencies ordinarily present there are now gaining strength from current difficulties of Central Government.

MARSHALL

893.00/2-2847 : Telegram

The Minister-Counselor of Embassy in China (Butterworth) to the Secretary of State

NANKING, February 28, 1947—10 p. m.

[Received March 1—5:48 a. m.]

401. Following from Changchun.

"71, February 26, 3 p. m. Nationalists have lost important points of Nungan, Wanpaoshan, Taolaichao, Chengtsukai and Chiu-tai, presumably with commensurate loss military strength. Nationalist front northwest of Changchun now weak. Tehui, with about two Government regiments, is cut off by interposition strong Communist forces at Puhai. On east Communists believe to have arrived in vicinity Yinmaho.

Nationalist reinforcements in unknown number have arrived Changchun from south in past 2 days. Clubb."

BUTTERWORTH

II. RESIGNATION OF T. V. SOONG; EXPULSION OF COMMUNIST LIAISON DELEGATIONS FROM GOVERNMENT-HELD AREAS; MEETINGS OF THE CENTRAL EXECUTIVE COMMITTEE OF THE KUOMINTANG (MARCH 1-APRIL 17)

893.00/3-147 : Telegram

The Minister-Counselor of Embassy in China (Butterworth) to the Secretary of State

NANKING, March 1, 1947—9 a. m.

[Received February 28—9:45 p. m.]

403. I am confidentially and reliably informed that T. V. Soong⁸³ offered his resignation to the Generalissimo⁸⁴ last evening and the latter accepted.

BUTTERWORTH

⁸³ President of the Chinese Executive Yuan.

⁸⁴ Chiang Kai-shek, President of the National Government of the Republic of China.

893.00/3-147 : Telegram

The Minister-Counselor of Embassy in China (Butterworth) to the Secretary of State

NANKING, March 1, 1947—11 p. m.

[Received March 1—12: 50 p. m.]

415. I paid a courtesy call on Dr. Soong this afternoon. He was in good spirits and received me most cordially. He said that he felt that his position had been growing untenable as his unpopularity increased in the face of mounting inflation and his attempts to hold it back through budgetary control,⁸⁷ and that he had determined last night to submit again his resignation and get out. He gave me the impression that his meeting with the Generalissimo was not unamicable. He went on to say that whereas he did not feel he could usefully serve as President of the Ex[ecutive] Yuan or Chairman of the Supreme Ec[onomic] Council, which office in the present situation is concurrent with the Presidency of the Ex-Yuan, "I am Chinese and a patriot", and in the crisis facing China his services were available to the Generalissimo whenever he called. He vouchsafed the fact that the Generalissimo would temporarily take over the presidency of the Ex-Yuan, and he indicated that he would stay on for awhile to assist him in the change-over.

Although Soong has no doubt found it desirable to suggest resigning from time to time during past months and has been concerned by the growing open hostility toward him during the past critical month, it seems clear that T. V. Soong decided to force the issue last evening. In this connection reference is made to the Generalissimo's statements contained in Embtel 390 Feb. 28, 8 [2] p. m., that Ex-Yuan would be reorganized "not before 2 weeks and not later than 4 weeks."

The reason why Soong decided to force his resignation was the growing intensity of the attacks on him at the PPC,⁸⁸ Legislative Yuan and in the press which were gathering momentum and which he must have known meant that the Generalissimo sooner or later would have to let him go.

The Supreme National Defense Council met late this afternoon and appointed the Generalissimo as temporary President of the Ex-Yuan with T. V. Soong acting largely for him, pending the organization of the State Council that will appoint the new Ex-Yuan of which Chang Chun⁸⁹ will probably be the president. Chang Kia-ngau, Carson Chang's⁹⁰ brother and at present Chairman of the Ec Commission

⁸⁷ For correspondence on the financial crisis, see pp. 1030 ff.

⁸⁸ People's Political Council.

⁸⁹ General Chang Chun was recently governor of Szechwan and Chinese Government representative on General Marshall's Committee of Three early in 1946.

⁹⁰ Chairman of the Democratic Socialist Party.

for the northeast, was appointed Governor of Central Bank, but his appointment should not be evaluated in terms of his relationship with Carson Chang but in the light of his banking background and of his affiliation with Political Science [faction].

BUTTERWORTH

893.00/3-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 4 [2^d], 1947—noon.

[Received March 4—1:56 a. m.]

419. Government on March 1, midnight, announced the appointment of 50 new members to the Legislative Yuan of whom 17 are Kuomintang, 13 Youth Party, 12 Social Democrats and 8 non-partisan; 25 new members to Control Yuan of whom 9 are Kuomintang, 6 Youth Party, 7 Social Democrats, and 3 non-partisan; and 44 new members to the People's Political Council of whom 11 are Kuomintang, 11 Youth Party, 11 Social Democrats and 11 non-partisan. (ReEmbtel 390, February 28, 2 p. m.)

Analysis will be made and submitted in due course.

STUART

893.00/3-347 : Telegram

The Minister-Counselor of Embassy in China (Butterworth) to the Secretary of State

NANKING, March 3, 1947—3 p. m.

[Received March 3—6:30 a. m.]

425. Following Changchun's 76, March 1, 9 a. m.

"First phase of present Communist drive is apparently over. Changchun evidently safe from attack immediately. This was early indicated probably by failure Reds to try to cut Mukden rail line over which reinforcements are arriving here from south. With threat of danger to Changchun thus at present seemingly receded, Nationalists, with customary precipitation, have become confident of victory still unattained.

Communist logistical problems are considerable and how sustained offensive they can support is problematical. I believe in present drive, pattern of which has thus far followed fairly closely that of January, there may be introduction new strategic elements into second phase. An important factor indicated in Consulate's telegram 74, 28th,⁹¹ is

⁹¹ Not printed; it reported a press review of the military situation in Manchuria (893.00/3-147).

that Nationalists seem to have lost sight of bulk of Communists' attacking force. Nationalists plan drive along railways north to Tehui and east to Kirin. There is northwest of Changchung admitted Communist concentration and east of Kirin another. I suggest possibility Communists instead of withdrawing again across Sungari may move on flank or in rear after Nationalist drive gets under way. Clubb."⁹²

BUTTERWORTH

893.00/3-347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 3, 1947—7 p. m.

[Received March 5—1: 14 p. m.]

432. Following message supplements my 390, February 28, 2 p. m., No. 403, March 1, 9 a. m., and No. 415, March 1, 11 p. m.

T. V. Soong had long talk with Generalissimo on afternoon of evening that he handed in his resignation. At any rate the latter interview was not unamicable and the Generalissimo, although urging him to maintain his position as chairman of the Supreme Economic Council, readily accepted his resignation as President of Ex-Yuan and then without much ado the chairman of the Supreme Economic Council as well. My surmise from available information is that Generalissimo propounded to T. V. Soong in the first conversation his military plans for intensification of the civil war which, *inter alia*, will require in view of recent price increases a rise in pay and supply allotments for the Army in the near future. Hemmed in on the one side by relentless demands of civil war and on the other by increasingly painful limitations which his growing unpopularity was imposing on his freedom of action, he decided to save his reputation—if not his face—by checking in his hand before it was called and he was well smeared.

Until very recently T. V. Soong, although he dealt cautiously with the Generalissimo, was confident of his position because he conceived that the Generalissimo needed him more than he needed the Generalissimo—and he said so. Perhaps, sensing or knowing of his assumption, the Generalissimo refrained from bearing any part of Soong's public responsibility for the growing economic and financial difficulty, and he let him go without even a published letter of thanks. I therefore found it ironic of Madame Chiang to say, "They made my brother the scapegoat". Incidentally, she added that she regarded this crisis as the most serious one that China in her experience had faced.

My belief is that the Generalissimo has determined to embark on an all-out military campaign to free as much of China Proper from Com-

⁹² O. Edmund Clubb, Consul General at Changchun.

munist control as possible to the end that after about 3 months, the Communists would be chastened (where they are now blatantly bump-tious) and concentrated in a much smaller area (reEmbtel 357, February 24, 7 p. m.⁹³). My guess is that feeling as he does about Communists, Generalissimo, although nervous about Moscow Conference,⁹⁴ does not envisage any improvement promising permanency in Soviet-American relations and therefore is not without hope that the US will in due course come in some fashion and to some degree to Government's assistance. There is no doubt that he is now increasingly concerned about the rate of financial deterioration and the ability of Communists to prolong struggle and create havoc. However, he has made a point of telling Chinese who call upon him that China must stand on its own feet and face the future without American assistance. I have the sense that the CC-clique⁹⁵ work on him in this wise and, concomitantly, to the effect that he will be getting the worst of both worlds if he weakens himself domestically and fails to achieve compensatory aid from the US. That his mood is exigent and bitter is evident as indicated in today's speech. As I see it, these next few days are important for the reorganization plans—important in that this fight-it-all-alone-mood should not find reflection in the appointments and powers of the State Council and the Ex-Yuan.

STUART

893.00/3-347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 3, 1947—7 p. m.
[Received March 6—6:50 a. m.]

433. During the latter part of February there were brief scattered items in the vernacular press stating that police officials in Shanghai, Chungking and Peiping had been rounding up and arresting large numbers of individuals considered as undesirable.

Investigation reveals that the widest scale activity took place in Peiping. Beginning the night of February 17 and continuing for several nights, the police did in fact round up between 2,000 and 3,000 persons, most of whom are still detained. The authorities later announced that the purpose was to pick up vagrants, opium smokers, those in possession of arms and those lacking residence permits. The arrests, however, also included the publisher of the Sino-American

⁹³ Not printed.

⁹⁴ For correspondence on this subject, see pp. 609 ff.

⁹⁵ Powerful right-wing group in the Kuomintang, headed by the two brothers, Chen Li-fu and Chen Kuo-fu.

press, head of CNRRA ⁹⁶ welfare section and a well-known PUMC ⁹⁷ physician, all of whom have disappeared. They also included some students and professors of known liberal or left wing sympathies and other individuals hostile to the Central Government for one reason or another, as well as numerous known Communists. The result has been [apparent omission] liberal groups in Peiping, particularly among university students who fear that these current incidents presage, upon the withdrawal of American forces from north China (*sic*), a concerted drive to suppress elements of whom the Government disapproves. Some 600 students are reported to have resigned from Peita ⁹⁸ to seek cover elsewhere.

A petition has recently been issued by 13 prominent Peiping professors strongly protesting the arrests and demanding adequate Government guarantees of civil liberties. Hu Shih, President of Peita, is reliably reported to the Embassy to have seemed to acquiesce in Government action in the sense that he has taken no known action, and students no longer give much credence to his assurances that student rights will be vigorously protected. Academic circles are increasingly critical of him, as on the other hand Wang Shih-chieh ⁹⁹ seems to have been unable to persuade him to join in reorganized government.

The reports of arrests in Shanghai appear to be completely false.

There have apparently been a few arrests in Chungking, though on a relatively limited scale and so far not involving intellectual groups, except for leaders of the recent mass student demonstrations which have been keeping the city in a perennial uproar, but liberal groups anticipate trouble.

It was to be expected that action would be taken against Communists in north China and Chungking. Since the organization of Executive Headquarters the Communists have been relatively free to operate under what in effect was a safe conduct from the Government. They used this time and opportunity to filter into various strategic positions which can now be very helpful in the prosecution of the Communist cause in China. With the termination of Executive Headquarters and the American mediation, it is only to be expected that the Government which now finds itself waging an all-out civil war will vigorously pursue a campaign of eliminating or demobilizing those whom it believes will fight against it from within. The unfortunate part is that any roundup of this sort lends itself to gross abuses and will in the end include not only Communists but also any opposition elements, as well as many individuals who have had personal differ-

⁹⁶ China National Relief and Rehabilitation Administration.

⁹⁷ Peiping Union Medical College.

⁹⁸ Peking National University.

⁹⁹ Chinese Minister for Foreign Affairs.

ences or difficulties with the local authorities. It is not unlikely that liberal elements will suffer even more than the Communists since the latter are an organized group in a better position to protect themselves and as a last resort can always make their way to Communist controlled areas. The liberals, who are opposed to authoritarianism and as well as incapacity of the present Government but who also cannot see their way clear to joining the Communists, are in a far less fortunate position for obvious reasons.

In these circumstances I made occasion to have a frank talk with Shen Chang-huan, Gimo's private secretary, and was able informally but forcefully to suggest how unfortunate as well as unjust would be the casting of a political dragnet for Communists which would intimidate or catch those liberal elements to whom the reorganized State Council and Executive Yuan should look for support.

STUART

893.00/3-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 4, 1947—2 p. m.
[Received March 4—3 : 30 a. m.]

440. Following from Shanghai :

"361, March 1, 11 a. m. Following comments on local reaction to national political developments are submitted as of possible interest. There has recently been a further deterioration of public confidence in the National Government. Local independent Chinese businessmen, bankers and other private individuals have become much more frank and bold in their criticism of the National Government. The same is true of the labor and salaried worker groups who have been further alienated by recent wage freeze without simultaneous price control. Chairman of general labor union (Kmt¹ sponsored) has publicly expressed fear that labor may voice its dissatisfaction "in a drastic manner". Present temper of public opinion is such that any active opposition to governmental measures to control economic or political activities of the people would receive considerable popular support.

"It is reported that the local authorities plan to suppress by force, if necessary, any demonstration or illegal strike, but reliability of police in putting down disturbances is questioned. Although possibility exists that disturbance may occur at any time, it is Consulate General's view that some weeks will elapse before situation develops fully. Modification of present measures and realistic reorganization

¹ Kuomintang.

of National Government if it comes in time may substantially alter situation.

“There is a noticeable lessening of anti-American element in situation.”

STUART

123 Stuart, J. Leighton

The Ambassador in China (Stuart) to the Secretary of State

No. 538

NANKING, March 4, 1947.

[Received March 17.]

SIR: I have the honor to report that I returned yesterday from a trip to Canton and Hong Kong occupying about a week. This had been preceded by a stay of two or three days in Shanghai primarily to deliver an address on Washington's Birthday. As the large majority of those present were Chinese I took the opportunity to emphasize not only the traditional friendship between our two countries but also those elements in Washington's character and career which had a special relevance for Chinese patriots at this critical period in their national life.

Messrs. Ludden and Connors² accompanied me to the South and were very helpful throughout. In Canton I had two lengthy and largely attended press interviews, met with the American community, had several discussions with Marshal Chang Fa-kuei³ and other Chinese officials, made a number of speeches and attended a series of social functions. I addressed over 8,000 students in the Sun Yat-sen Memorial Hall. It was encouraging to note that one can now use Mandarin on such occasions and be quite well understood. In Hong Kong we were the guests of the Governor, Sir Mark Young. The days spent there were not quite as strenuous but followed much the same pattern. We had intended to make a brief trip to Hainan, primarily to visit the fifteen Americans resident there, but bad weather yesterday and the important political developments here combined to cause us to abandon that plan.

The control of South China under Marshal Chang Fa-kuei is apparently efficient and with the intention of severely suppressing all subversive activity. Intellectuals complain of the lack of any real freedom of speech or publication. The higher officials seem reasonably honest but there is wide-spread graft. Smuggling has been rampant but is becoming somewhat checked. Economic conditions are bad in the cities but are improving in the country. There are almost

² Raymond P. Ludden, First Secretary of Embassy in China, and W. Bradley Connors, Public Affairs Officer in the Shanghai Consulate General, on detail to the Embassy.

³ Director of Generalissimo Chang Kai-shek's military headquarters at Canton.

300,000 people (and their dependents) unemployed out of a population of roughly one and a quarter million. Industrial recovery is hampered chiefly by exchange rates and import restrictions. There is urgent need of machinery and raw materials. We visited a textile plant seriously damaged by bombing but were impressed with the efforts to utilize what equipment there was. In this and other factories visited there was no lack of technically qualified executives and much patient determination despite the handicaps. Agriculture in Kwangtung is capable of great improvement under scientific direction. There were persistent rumors of an independence movement in South China, but I should give them no credence unless indeed there should be a collapse of the Central Government.

The rendition of Hong Kong and the Leased Territory is evidently an acute issue. Two important British officials in the Colony questioned me on the matter. I ventured the suggestion that Great Britain might, when conditions in China become more stable, take the initiative by graciously and generously announcing her intention to return the whole region to China by a given date and proposing a procedure meanwhile for gradual rendition. The Governor would like to develop two model municipal governments as a contribution to Chinese progress in which England has been peculiarly successful. He thought this would require at least thirty years.

On my arrival here yesterday afternoon I was asked to call on Dr. T. V. Soong, to stay on for dinner, and to see President Chiang Kai-shek later that evening. Dr. Soong talked freely of the reasons for his resignation. The "C-C" and the "Political Science" cliques had united in the effort to get rid of him and he felt that he could accomplish little under these conditions. He has steadily opposed the former of these and attributes the motives of the latter to the desire for power. He seemed singularly cheerful, feels no resentment and will continue to help President Chiang unofficially as wanted. There is no basis whatever for the rumors of estrangement between these two men. In fact, I have never known them to be on better terms than these past few months. President Chiang is acting temporarily as Premier but it is expected that the State Council will elect Governor Chang Ch'un to this position.

President Chiang is carrying a terrific burden of responsibility. Although he was as calm and confident as usual yet he seemed more tired than I remember to have seen him before. He questioned me anxiously about news from yourself and about the outcome of the UNRRA^{3a} cotton and wheat proposition. I explained that at most this would represent a value of about fifty million dollars and that no final decision had been reported. He thinks that within a week it

^{3a} United Nations Relief and Rehabilitation Administration.

will be possible to announce the complete plans for government reorganization. He feels that the military situation alike around Chang Chun and in Shantung is well in hand and that the Tientsin-Pukow Railway zone will be cleared of Communist troops before the end of next month. He allows four to six months for the reconditioning of the line.

Both President Chiang and Dr. Soong made it abundantly clear how hopefully they are awaiting American financial aid. The former wanted me to telegraph the essence of the preceding paragraph so as to reach you before your departure for Moscow. I question, however, the advantage of this in view of the inability as yet to report the details of reorganization or other features not previously transmitted to you.

Today I had four of the local Communist Party delegation for lunch with Messrs. Butterworth and Connors present. They were quite explicit in expressing their desire for a reopening of the peace talks and for American mediation. I assured them once more of my readiness to do anything in my power and within my instructions whenever the suitable opportunity presented itself, as well as of the hope which I had never abandoned that these talks would some day be resumed fruitfully. I sent greetings to Messrs. Mao Tse-tung,⁴ Chou En-lai⁵ and others known to me at Yen-an. The Nanking and Shanghai Communists are acquiescing—but with obvious reluctance—in the plans for their removal to Yen-an.

Respectfully yours,

J. LEIGHTON STUART

893.00/3-647: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 6, 1947—2 p. m.

[Received March 6—4:15 a. m.]

461. In the course of Minister-Counselor's^{5a} conversation with the Foreign Minister,^{5b} the Minister-Counselor took occasion to review with him the question of the recent arrests in Peiping, which formed subject matter of Embtel 433, March 3, 7 p. m., and expressed hope that he would use his benevolent influence to prevent the intimidation or repression of liberal elements and to uphold the orderly and legal processes. He agreed to interest himself actively in the matter.

STUART

⁴ Chairman of the Central Committee of the Chinese Communist Party.

⁵ Head of the Chinese Communist delegation during the negotiations of 1946 with General Marshall and the Chinese Government.

^{5a} W. Walton Butterworth.

^{5b} Wang Shih-chieh.

893.00/3-647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 6, 1947—2 p. m.
 [Received March 6—4:02 a. m.]

462. In the course of Minister-Counselor's conversation with Foreign Minister, the latter expressed himself as reasonably hopeful about the prospects of appropriate reorganization of an Executive Yuan and of the organization of St[ate] Council. He said that Carson Chang and his group of Social Democrats had now received the Govt's proposals and were returning to Shanghai to meet and consider their party's position. In this connection reference is made to Embtel 372, Feb. 25. The Youth Party would participate, but the Democratic League had, he said, moved further leftward in its attitude of cooperation with the Communists.

STUART

893.00/3-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 7, 1947—4 p. m.
 [Received March 8—12:35 a. m.]

481. Fairly reliable information available to Embassy is to effect that within near future wholesale arrests of Communists and their sympathizers will be conducted at Shanghai probably following much same pattern as recent roundup at Peiping (reEmbtel 433, March 3, 7 p. m.). It is stated that Shanghai authorities have list of 3000 Communists to be rounded up and sent to concentration camps in Shantung.

I have been informed by T. V. Soong that Generalissimo granted him special powers to assure that excesses are not perpetrated.

Repeated Shanghai as 238.

STUART

893.00/3-1047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 10, 1947.
 [Received March 10—8:25 a. m.]

510. Following Central News release Nanking March 4.

"Nonrecognition by the Communists of any Govt international agreements concluded since June of last year was the chief factor precipitating the imminent withdrawal of the Communist representatives as ordered by the Govt, said Dr. Carson Chang, Chairman of the

Democratic Socialist Party, when asked to comment on the forthcoming Communist withdrawal from Nanking, Chungking, and Shanghai.

This step taken by the Communists is tantamount to nonrecognition by the party of the legality of the National Govt, indicating that the Communists signified no sincerity to resume the peace talks, Dr. Chang said. Under these circumstances, the withdrawal is undoubtedly the most spontaneous outcome, he added.

As the National Govt is China's only legal gov't recognized internationally, it certainly has the power to conclude any treaties or agreements with any other nation, Dr. Chang said.

As regards his party's attitude towards the forthcoming blanket reorganization of the Govt, Dr. Chang said that his party still stands firm on its policies, while it has signified willingness to participate first in the four Govt organs. Decisions to participate in the blanket Govt reorganization will not be made until after his trip to Nanking because he wanted to know more about the Govt's opinions in this respect, he added.

Dr. Chang, accompanied by Lei Chen,⁶ left here for Nanking last night. Following their arrival in the capital, important talks between the Govt authorities and minority parties are expected to be held to discuss Govt reorganization."

STUART

893.00/3-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 12, 1947—10 a. m.

[Received March 12—5:55 a. m.]

531. Events have moved so rapidly in China during the past 10 days and have included so many complicating factors that it might be useful at this time to present a brief overall summary, drawing together and correlating previous telegrams. The two main aspects are, of course, the military and the political-economic, with the former giving a kind of desperate urgency to the need for political adjustment because the continuance of civil war is an increasing drain on the national economy making a mockery of attempts to move in the direction of normal economic development.

The current military campaigns have surpassed in scope anything seen in many months. The Government obviously wanted, and badly needed, a major military victory in Shantung. This it has failed to obtain. Communists took the initiative in Manchuria, managing to force their way to the very gates of Changchun. They have now

⁶ Secretary General of the People's Political Council.

been turned back by Nationalist reinforcements and in this sense have suffered a defeat if, as has been suggested, their objective was a territorial victory to strengthen the hand that they hope the Soviets will play for them at the Moscow meeting. If, on the other hand, the principal objective was further to sap Nationalist strength, then they have achieved a victory. The Military Attaché's⁷ intelligent guess on casualties is 10,000 for the Government and 20,000 for the Communists in Manchuria and 40,000 for the Government and 20,000 for the Communists in other areas, mainly Shantung.

The establishment of general headquarters at Suchow seems to be a desirable and long-needed development from Government standpoint in that it puts it in a better position to direct and control operations. The Military Attaché also states he sees signs on both sides of a decreasing desire to fight and more particularly by Government force. Even high-ranking officers have said to him that whereas there seemed to be some point in endless fighting when the enemy was Japan, there is not much stomach for fighting when it is against Chinese. This lack of morale appears to be reflected among the troops who do not understand what the civil war is all about and who, in some instances, have been susceptible to Communist appeals to lay down their arms. The Gmo's insistence on increased pay to improve troop morale played a part in Soong's resignation.

Against this grim background have been the political changes of the last 10 days, which, so far, are inconclusive. The reorganization of the State Council and the Executive Yuan is still in the negotiation stage. The stumbling block is whether and on what terms the Social Democrats will participate. The reaction to the appointment of Chang Chia-ngao as governor of the Central Bank has not been received with disfavor though the attitude generally is that no radical improvement can be expected from it and the Political Science group, of which Chang is a member, hoped to consolidate its hold on the Finance Ministry and the Central Trust as well as the Central Bank. This appears to have failed with the reported appointment of a CC clique man as head of the Central Trust. This came simultaneously with the announcement that S. Y. Liu (a Political Science man) was transferred from the Central Trust to the post of deputy governor of the Central Bank. This evidence of CC clique expansion into the financial field will not increase banking and business confidence in the Government—it is also additional evidence of the Gmo's tactics of not allowing any one group to gain exclusive control over the finances of the country.

On instructions from the Gmo, Control Yuan investigated causes

⁷ Brig. Gen. Robert H. Soule.

of the gold manipulation in Shanghai. Its published report⁸ directly implicates several of T. V. Soong's subordinates in highly questionable if not unsavory activities and at best suggests a sloppiness of operation and control for which Soong must, of course, bear the ultimate responsibility as well as for a general monetary policy which permits these activities. It is elsewhere reported that Tang En-po,⁹ Ku Chu-tung¹⁰ and Yen Hsi-shan¹¹ made substantial gold purchases in Shanghai.

In the excitement of other events, the announcement by the Government of additional government, third party and non-partisan members to the Legislative and Control Yuan, the PPC, and the standing committee for the enforcement of the constitution caused only a minor ripple. Government stand that this development constitutes a significant step in the direction of relinquishing one-party control has received little attention and is not likely to do so pending reorganization of the State Council and the Executive Yuan.

The heightened tempo of repressive police activities all over the country, and particularly in areas where the Communists have been most active, has been widely reported and variously interpreted, depending on the political views of the commentator. This development has been strongly condemned in independent and left-wing circles. At the same time the attitude has been general that however reprehensible these activities may be, the Government can hardly be expected to loosen its controls as long as it is engaged in a life and death struggle. Concomitantly, there is a general belief that with the return of all Communist delegations to their own territory the possibility of peace negotiations and political settlement has been indefinitely postponed, making all the more improbable any prospect of halting economic deterioration.

STUART

893.00/3-1247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 12, 1947—4 p. m.

[Received March 12—7: 14 a. m.]

535. During evacuation of Communist mediation personnel, 11 American correspondents took the opportunity to fly into Yen-an for observations and interviews. Some remained 5 to 6 days while others

⁸ Summarized in telegram No. 516, March 11, from the Ambassador in China, not printed.

⁹ Garrison commander of Nanking area from 1946.

¹⁰ Commander in chief of the Chinese Army from 1946.

¹¹ General army officer and governor of Shansi.

only stopped overnight. Consensus of opinion of most reliable observers indicates following: Communists definitely not planning to hold their own national assembly, quite understandably since they are bidding for power on national scale and not on sectional basis. Chou En-lai and other leaders took the line that Communists had no time to bother with a Communist assembly since they were engaged in widespread military activities that required their full attention.

Communists firmly confident of their military power and their ability to wage guerrilla warfare that will disrupt Government lines of communications and continue to undermine Government economy with devastating effect. Communists regard this as means by which Government will be forced to its knees and to seek settlement with Communists on Communistic terms.

Full scale evacuation of Yen-an well advanced. Women and children almost nonexistent in Yen-an and Communists state that all non-essential personnel evacuated. Correspondents estimated approximately 5,000 persons left in Yen-an but Communists claim 15,000 still there of city's former 50,000 population.

Communists insist their two conditions—return to January 13, 1946 military positions and abolition of National Assembly and constitution—are minimum conditions for reopening peace negotiations with Government. However, some correspondents came away feeling that Communists would probably interpret first condition to mean that they retained control of approximately same area of territory, not necessarily exact territory, held at the time of the truce agreement. Others, though, held opinion Communists were determined to hold to their two conditions and would not budge—except upward—from that stand under any circumstances.

Correspondents reported marked increase in bitterness of Communists apparent during week of visits. Leaders castigated Government US and General Marshall. Chou En-lai declared he had private reliable information from United States that \$175,000,000 cotton loan, \$50,000,000 railroad loan and others all approved and only technicalities holding up actual delivery of cash. Also United States, he stated, was making available arms and ammunition from surplus stocks to Philippine Islands for resale to National Government here. He also declared US Embassy had planned send Military Attaché to Yen-an with Communist approval but National Government rejected plan.

Chou En-lai also stated that US airlifted Communists from Government areas back to CCP ^{11a} areas to assist Government to get rid of Communists and complete total national split.

Sent Department 535, please repeat to Moscow March 12, 4 p. m.

STUART

^{11a} Chinese Communist Party.

893.00/3-1247: Telegram

The Consul General at Tsingtao (Spiker) to the Secretary of State

TSINGTAO, March 12, 1947—4 p. m.

[Received March 12—8: 55 a. m.]

18. Communists have occupied Kiaohsien on railway 40 miles northwest of Tsingtao. Tsimo, 30 miles north of here, reportedly has suffered several heavy night attacks but situation there not yet deemed critical.

Government troops available for defense this area estimated 70 to 100 thousand. Population relatively calm. Authorities placing movable barricades at various places throughout city.

Missionary reports indicate Communist forces strongly indoctrinated against Americans. Several days ago native pastor of American Presbyterian Mission at Kaomi was shot as an American spy. Contrary to former practice, Catholic priests and nuns evacuating from interior points threatened by Communists.

I attended two 3-hour conferences called by Admiral Cooke¹² and Rear Admiral Denebrink¹³ on Sunday and Tuesday respectively to revise plans for possible concentration of American citizens and probably other foreign residents. It is assumed Department being kept advised by Navy Department concerning Navy plans here as they relate to policy.

Sent to Embassy as 18.

SPIKER

893.00/3-1347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 13, 1947—1 p. m.

[Received March 13—6: 40 a. m.]

545. Colonel Sells¹⁴ who has just returned to Nanking after spending almost 5 months in Yen-an as Chief of Executive Headquarters liaison group there, confirms in general the observations of American correspondents reported in Embtel 535, March 12, 4 p. m. He particularly emphasizes the extent of the confidence of the Communist leaders in all three spheres of action against the Govt: (1) on the military front, (2) in their ability ultimately to bring about economic chaos, (3) in the irresistible attraction of their economic and social program particularly to the peasantry. Sells' considered opinion is that Communists in their present mood are "completely

¹² Adm. Charles M. Cooke, Jr., Commander, United States Naval Forces, Western Pacific.

¹³ Rear Adm. Francis C. Denebrink, Commander, Cruiser Division 5, Western Pacific.

¹⁴ Col. John K. Sells, U. S. Army.

irreconcilable" and, though they are still talking the PCC line,¹⁵ he has the impression that they will eventually increase their demands if, as they anticipate, the Govt progressively weakens. Sells does not believe that a threat of fulsome American assistance to Govt would deter Communists under present circumstances, and that their present state of confidence can only be shaken by substantial military defeats.

Sells has the impression that Communists' tactics will be to encourage Govt to extend its forces to the utmost, to harass them and to concentrate their own forces to hit at selected vulnerable points. Communists are well aware of Govt's concern over ammunition situation and will attempt to force Govt troops to expend material as much as possible. As with other observers, Sells confirmed no possible sign of Russian personnel or equipment. He did obtain apparently reliable info from Swiss missionaries to the effect that considerable rail traffic was evident in Manchuria between Tsitsihar and Soviet territory, westward in agricultural products and eastward in "sizable wooden boxes".

Sent to Department 545, repeat to Moscow.

STUART

894A.00/3-1447 : Telegram

The Consul General at Tsingtao (Spiker) to the Secretary of State

TSINGTAO, March 14, 1947—11 a. m.

[Received March 14—11 a. m.]

19. Destruction of railway including bridge demolition, removal of rails and burning of ties shown by US Marine aerial reconnaissance to be virtually complete between Chengyang (20 miles from Tsingtao) and Fangtze (10 miles east of Weihsien) with heavy damage to line between Weihsien and Tsinan including destruction of most bridges.

Govt forces now occupy line east bank Takuho to Lantsun to Tsimo eastwards to sea which is outermost of 4 defense lines to be utilized in protection Tsingtao.

Sent to Embassy No. 19; repeated Dept 19; Shanghai 12.

SPIKER

893.032/3-1647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 16, 1947.

[Received March 16—6: 55 a. m.]

576. Official Government Central News Agency issued following release 15th on Gimo's address to opening session of Kuomintang

¹⁵ For resolutions of the Political Consultative Conference in January 1946, see Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), pp. 610-619.

Central Executive Committee (full text of 20-minute address has not been released to press) :

“Our most urgent duty toward the country today is to consolidate our national unity and remove all the obstacles standing in the way of national reconstruction. At the same time we are firmly determined not to alter our fixed policy of instituting democratic government and carrying out national reconstruction. Nor will we slacken in our efforts to realize constitutional rule and economic rehabilitation. Our nation-wide demands today are national unification and political democratization.

“Since victory, our most important mission has been the implementation of the principle of people’s rights and the principle of people’s livelihood. If we only strive hard and with sincerity and are unremitting in our efforts, I can positively say that there will be no force, however strong, that can thwart the successful consummation of our task of national reconstruction.”

This is the gist of President Chiang Kai-shek’s speech delivered this morning at the opening ceremony of the third plenary session of the sixth Kmt Central Executive Committee. The speech was made at Dr. Sun Yat-sen’s mausoleum.

Meeting on the eve of the inauguration of constitutional government, President Chiang pointed out, the present session of the CEC is the most momentous one of the party in the past 20 years. In fact, the session is one which terminates the political tutelage of the country under the Kuomintang. Therefore, President Chiang said, it is important that the session should discuss and examine fully the status and duties of our party in the interim period pending the inauguration of constitutional government, and adopt explicit resolutions regarding them.

During the present session, President Chiang further said, we must re-define the relations between our party and the Government and revise the ideas and attitudes of our party members formed during the period of political tutelage. In the past, he said, the policies of our party were transmitted through the party to the Government for execution. Hereafter whatever resolutions our party may pass on military, political and economic affairs of the country can only be presented to the Government in the form of recommendations and we should assist the Government in their execution. While we cannot entirely relieve ourselves of our responsibility to the country before the convocation of the next National Assembly, we must, however, start preparations to relegate our party to the status of an ordinary party just as any other party and we should do our duties and enjoy the rights in the same manner as do the other parties. We should cooperate with other parties and pool our efforts together in order

to hasten the successful completion of our task of national reconstruction.

President Chiang deeply deplored the outbreak of armed rebellion of the Chinese Communists which, he said, is blocking national unification and causing widespread suffering to the people. Because the Communists have stubbornly placed their implicit faith in armed force and have been deliberately breaking faith, the hopes for a political settlement of the national situation are shattered by them. In order to safeguard national unity and the security of the people, President Chiang said, the Government cannot but take measures to quell the rebellion.

Prefacing his speech with a brief review of the work of the second plenary session of the CEC in Chungking in March last year, President Chiang said :

“It is indeed heartrending to speak of the progress of peaceful national reconstruction. The manifesto of the second plenary session¹⁶ pointed out that nationalization of the armed forces is the basis of peace and unity. Unless and until we have national unity in name and in fact, we cannot realize democracy and proceed with the work of economic reconstruction. Therefore it is emphasized that there should not be a recurrence of armed rebellion in the country nor should there be chaos and disorders in various localities.

“The manifesto further pointed out that peace and order and alleviation of the suffering of the people are urgently needed, but the restoration of communications is all the more pressing for the revival of national economy. Therefore, the manifesto of the second plenary session insists on demanding the Communist forces to cease attacks and all other activities blocking national unification.

“In dealing with the internal political complications the National Government has consistently been observing the principles laid down in the manifesto quoted above. The Government, deeply concerned over the suffering of the people caused by the war, has exercised great tolerance and patience toward the armed activities of the Chinese Communists in blocking national unification and harming the people, in order to seek a settlement by political means and through mediation.

“During the past year the Government has issued three cease-fire orders and has through the mediation of our friendly nation, the United States, carried on numerous negotiations. But the Communists have always placed their reliance in armed force and have been deliberately breaking faith. While the Government in observance of the agreement for military reorganization was carrying out reduction of the army, the Communists have been incessantly expanding their forces. Every time when the Government issued a cease-fire order the Communists took advantage of it and expanded their occupied area. Finally the Communists refused to participate in the National Assembly and refused to recognize the constitution adopted by the Assembly.

¹⁶ See *United States Relations With China*, pp. 635-639.

They have also resolutely rejected the proposal of the Government to appoint representatives to continue peace negotiations.

“What has happened during the last 3 months clearly proves that the hopes for a settlement by political means have been shattered. Meantime the armed activities of the Communists in their all-out rebellion to frustrate national unification are spreading wider and wider every day. While the people of the entire country are demanding stability, the Chinese Communists deliberately refuse to give them a minute of peace. While the people are appealing for peace, the Chinese Communists are deliberately widening their sphere of disturbance. The Government in order to safeguard the unity of the nation and the security of the people naturally cannot sit tight and watch the spread of the disturbance without taking measures to suppress it. It is indeed a great misfortune of the country that the disturbance will further impair the process of national recovery and thwart the progress of the work of rehabilitation and economic reconstruction.”

After reaffirming the party's determination to overcome all obstacles standing in the way of national unification and to consummate successfully the task of national reconstruction, President Chiang dwelt at length on the mission of the present session of the CEC. He said:

“There are many problems that will come up before the session for discussion. But personally I consider that the session should especially study fully the status and duties of our party in the interim period of preparation for the inauguration of constitutional government and adopt clear-cut resolutions in regard to them. We are now on the eve of the introduction of constitutional rule and it will be only 9 months from now when the constitution will come into force. Actually the present session is the one that will terminate political tutelage.

“Since the completion of our northern punitive expedition,¹⁷ due to recurrent national crises, our party has during the past 20 years shouldered alone the onerous responsibility for the affairs of the country. But we have never for a day neglected our preparations for the introduction and institution of constitutional government. During the period of our war of resistance we had invited the various parties and civic leaders to join in the dual task of war of resistance and national reconstruction. The formation of the People's Political Council has laid the foundation for political democracy. Now that the constitution has been promulgated, we in the course of our national reconstruction shall soon enter into the period of constitutional government. Politically, we shall advance from the period of one party responsible for the government of the country into the period of joint responsibility of various parties and the entire people of the country. From now on the responsibility for the state will devolve on the shoulders of the various parties and the people of the entire country. Therefore this session is the most important one unprecedented in the past 20 years.

¹⁷ 1926-28.

“As from the present session we shall have to re-define our relations between our party and the Government and to revise the ideas and attitudes of our party members formed in the period of political tutelage. In the past the policies of our party had been transmitted through the party to the Government for execution. Hereafter whatever resolutions we may pass on the military, political and economic affairs of the country, we can only present to the Government in the form of recommendations and we should assist the Government in their being carried out. Pending the convocation of the next National Assembly we cannot relieve ourselves entirely of our responsibility to the country; we however must immediately make preparations to relegate our party to the status of an ordinary party and stand in the equality with other parties. We shall do the duties and enjoy the rights in the same manner as will the other parties.

“Further we should cooperate with and help one another to hasten the consummation of the task of national reconstruction. This is the point which was not present in all the previous session. I must especially call your attention to it and hope that you all will carefully study it and crystallize it into a resolution for the observance of all the party members.”

Finally President Chiang urged the session to devote time and attention to examine the party itself, to improve the quality of its membership, to reform its administration, to reorient the relations between the party and the people and to reinvigorate their spirit in serving the people, and to cultivate the spirit of self-criticism in order to effect general improvement.

President Chiang further said that it is undeniable that our party has many shortcomings and we should rectify and overcome them. Especially at a time when our country and our revolution are encountering difficulties, we must study how to strengthen our self-confidence and mutual confidence. On the eve of the inauguration of constitutional government, President Chiang further urged, all of our party members should be broad-minded and sincerely work together with other parties. All these problems the present session of the CEC should carefully and calmly discuss and work out resolutions.¹⁸ We must know that our party has existed for the salvation and reconstruction of the country. Only by reforming our party can we strengthen the party. Only by strengthening our party can we make the party shoulder the heavy responsibility toward the country, President Chiang concluded. End full text official Central News Agency report on Gimo address.

Department please repeat to Moscow.

STUART

¹⁸ For summary of the manifesto issued by the Kuomintang Central Executive Committee, released March 24, see *United States Relations With China*, p. 737.

893.00/3-1647 : Telegram

The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State

Moscow, March 16, 1947—3 p. m.

[Received March 16—10:20 a. m.]

844. Personal for Stuart from Marshall. Please cable following report to Moscow for my personal information: (a) summary of situation, political and military, including estimate of National Army state of supply, (b) recommendation for guidance of State Department as to action, if any, to be taken at this time.

I would like the foregoing to be primarily your personal estimate and views, to be followed by any important difference [of] views, including estimates on state of National Army so far as known from Generals Lucas¹⁹ and McConnell.²⁰ Also, if conveniently and confidentially obtainable, I would like a summary of Durdin's²¹ estimate and recommendation and also Art Steele's,²² if he is in Nanking or China.

Label your reply for my personal attention.²³

Department please pass to Nanking for action as Moscow's 2.²⁴ [Marshall.]

SMITH

893.00/3-1747 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, March 17, 1947—2 p. m.

[Received 9:58 p. m.]

659. Source close to Generalissimo recently informed officer of Consulate General that Government's military situation is critical (reference Tsingtao's 12, March 14 to Embassy and Department as 19). He said Generalissimo extremely worried over military situation in Shantung and recent developments in Formosa²⁵ are presently very irritable.

This source confirmed report that Government lost 7 American-trained and -equipped divisions in recent battle southeast of Tsinan. He also confirmed reports of loss of two divisions in first battle for

¹⁹ Maj. Gen. John P. Lucas, Chief of the U. S. Army Advisory Group.

²⁰ Brig. Gen. John P. McConnell, Director of the Air Division, Army Advisory Group.

²¹ Tillman Durdin, *New York Times* correspondent in China.

²² Arch T. Steele, *New York Herald Tribune* correspondent in China.

²³ In telegram No. 845, March 16, 7 p. m., Secretary of State Marshall reported from Moscow he had received Ambassador Stuart's telegram No. 519, March 11, 4 p. m., p. 499, and considered it a partial answer to this request.

²⁴ Repeated to Nanking on March 16, 11 a. m.

²⁵ See also pp. 423 ff.

Linyi. He said these divisions were not disseminated [*decimated?*] but taken over almost intact by Communists and that these captures have greatly strengthened the Communists in Shantung.

Source stated that he recently met Director of Chiao-Tsi²⁶ Railway in Nanking who informed him that after devoting a year's effort to opening up railway he had now come to Nanking to obtain funds to dismantle that part of the railway not destroyed by the Communists. Railway equipment thus obtained is to be used to rehabilitate other lines under Government control.

Source stated he did not see any possibility of Government forces liquidating Communist-held areas in northeastern and central and southeastern sections of Shantung. He also mentioned one division of Government troops equipped with Japanese materials in the neighborhood of Lungkow against the Communists.

Shanghai's 476, March 17, 2 p. m. to Nanking, repeated to Department, to Tsingtao as 40.

DAVIS

893.00/3-1747 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 18, 1947—7 p. m.

321. Before repeating Shanghai's 659 Mar 17, 2 p. m. to Secretary Marshall Dept would appreciate receiving your comments thereon.

ACHESON

893.00/3-1947

The Ambassador in China (Stuart) to the Secretary of State

No. 571

NANKING, March 19, 1947.

[Received April 1.]

SIR: I have the honor to report that the plans for the reorganization of the Government have been progressing slowly through the maze of Chinese political and social relationships. President Chiang has been working assiduously at the task but is encountering obstacles in all directions. It is essential to the scheme that minority party members and independent leaders be assigned posts. The former insist quite properly that to make their participation real their members should have a substantial share in both the national and provincial administration. But this means the dislocation of those now holding such positions and—if the Chinese tradition is retained—at least a large proportion of their subordinates, with all of the economic hardships and personal animosities involved. Nor is it easy to replace

²⁶ Kiaochow—(Tsingtao—) Tsinan.

them by better qualified individuals who are willing to incur the odium of joining a very unpopular Government and the undesirable consequences of its possible collapse. The same considerations obtain more or less among those of no party. Dr. Carson Chang is a case in point. He has led a group of its members to break away from the Democratic League and to organize the Social Democratic Party on a liberal and progressive basis. He was chiefly responsible for the draft of the Constitution adopted last November. He has been offered the headship of the Judicial Yuan, a post for which he would be admirably suited. But he vacillates because of fear of jealousies or estrangements within his own party, the dangers he would face should the Communist Party come into power, and his preference for writing and lecturing rather than for official responsibility.

The structure of the State Council is to be altered so as to consist of twelve Kuomintang members and twelve others—four each for the Youth Party, Social Democratic Party and Independents. But the heads of the five yuan are to be ex officio members, which would in effect give the Kuomintang seventeen. If Carson Chang were made the head of the Judicial Yuan it would be in order to allot another Yuan to the Youth Party, thus permitting the Kuomintang to have a total of fifteen as against fourteen for the others, to whom this arrangement would seem quite equitable.

The Central Executive Committee of the Kuomintang began its annual meeting on March 15 with the expectation of being able to adjourn after one week. This body is to elect the Kuomintang members on the State Council. This session of the Central Executive Committee is supposed to terminate the period of party tutelage. The Kuomintang will, it is maintained, cease to have special privileges, taking its place on an equality with other recognized political parties.

Dr. W. H. Wong,²⁷ Vice-President of the Executive Yuan, has confided to me that the redistribution of Cabinet posts among the various cliques within the Kuomintang itself will doubtless cause such discord that it will be more difficult than ever to do business smoothly and efficiently—this even apart from the entrance of “outsiders”. The reactionary “C-C” clique has become much more active of late and is growing even more powerful. The much more liberal “Political Science” clique combined with it to accomplish the overthrow of Dr. T. V. Soong, but it can scarcely be expected that these mutually incompatible cliques will continue long in harmony.

President Chiang is in a perplexing dilemma. In view of the refusal of the Communist Party to continue peace negotiations on any practicable terms, the Government has determined—quite understandably—to eradicate their propagandist and subversive activities

²⁷ Wong Wen-hao.

in various centers by sending all of their members who can be discovered back to Yen-an, following those connected with the peace efforts already conveyed there by us. But in carrying out these instructions, the secret service operatives have been causing another outburst of terrorism especially among liberals and students, large numbers of whom have been arrested or threatened. The excessive measures in Peiping, for instance, were due, as Dr. Hu Shih ^{27a} is convinced, to the recent surprise attack on Tunghsien (Tungchow) after local spies had obtained secret information that the military unit stationed there was to be withdrawn. The Peiping authorities were fearful of similar espionage and its consequences in that city. Should the Government, on the other hand, put into effect the principles of freedom of speech and publication, the right of habeas corpus, etc., as promised in the Constitution and previously on more than one occasion by President Chiang with unquestionable sincerity of intent, these privileges would be utilized by the Communist Party as part of their all-out purpose to defeat their hated enemy. The Government regards itself therefore as fighting for its own existence and for national independence against an utterly unscrupulous armed rebellion. In the process the reactionary elements are gaining power and in their use of it are still further alienating and embittering all who do not go the whole way with them, while the liberals are intimidated from making themselves articulate and organizing effectively.

It will be proposed at the present CEC meeting that a final effort be made to persuade the Communist Party to cooperate for economic recovery by permitting the reopening of the Tientsin-Pukow and Peiping-Hankow Railway lines. If they agree this might even lead to a resumption of peace talks. If not, the prevailing sentiment is to attempt to clear these two railway zones by armed force. An overall scheme for economic reform is being drafted for approval at this meeting of the CEC.

Formosa is a tragic illustration of current trends, highlighted by the surpassing opportunity it afforded to take over from the efficient but imperialistic Japanese rule and demonstrate to these islanders the ability of their ancestral fellow-countrymen from the mainland to give them beneficent administration with a large measure of autonomy. Instead of this there has been misgovernment with all its attendant evils. Misunderstandings and a conflict of interests would no doubt have been inevitable in any case, but these have been aggravated by gross ineptitude and more perhaps than the usual amount of private graft, together with unwise exploitation of natural resources for much-needed public revenue. The "C-C" clique has been opposing Governor Chen Yi, who is supported by the Political

^{27a} President of Peita University at Peiping.

Science clique of which he is a member. In this instance my sympathies are with the former of these two groups now struggling for mastery within the Kuomintang and for dominant influence upon President Chiang.

I have been painfully aware of the discrepancy between more objective reports of what is happening in Formosa and those which reach President Chiang and influence his policy. In this as in other issues I continually find myself tempted to exceed diplomatic propriety by assuming the role of a friendly unofficial adviser.

President Chiang has asked me to express to you his very deep appreciation of your stand at Moscow regarding the proposal that China be put on the agenda for the Foreign Ministers' Conference.²⁸ It has been interesting to note the spontaneous and wide-spread reaction in China against this proposal, notably among many of the more "leftist" elements. President Truman's message to Congress²⁹ in which he recommended loans to Greece and Turkey has also had a very reassuring influence upon Government leaders and their sympathizers. It is too early yet to ascertain the final effect of this upon Communist Party policy, but I incline to the opinion that both of these declarations will help toward their ultimate willingness to renew the peace talks. This will probably be even more true if the projected Government reorganization encourages the possibility of further American aid to enable it at once to recover economic strength and to succeed in practical reforms.

Respectfully yours,

J. LEIGHTON STUART

893.00/3-2147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 21, 1947—4 p. m.

[Received March 21—6:17 a. m.]

620. Following is Embassy's comment on Shanghai's 476, March 17, 2 p. m.,³⁰ requested in Department's telegram 321, of March 18.

Although Government forces have suffered serious losses in Shantung campaign, their position there at present time cannot be regarded as "critical". Best available information indicates that two divisions were lost west of Hsuchow in early phases of campaign and that three divisions were lost in later operation south of Poshan following fall of Linyi. It is not believed that at any time during Shantung operation there were more than three Alpha³¹ divisions involved. One of

²⁸ See letter of March 15 to the Soviet Minister for Foreign Affairs, p. 614.

²⁹ March 12; for text, see Department of State *Bulletin*, March 23, 1947, p. 534.

³⁰ Sent to the Department as No. 659, p. 68.

³¹ American-trained.

these divisions was badly mauled south of Poshan but good proportion of its personnel succeeded in escaping to Tsinan. There is little question but that Communists acquired considerable equipment as result of these Central Government defeats but there is no reason to believe that any large units went over to Communists intact.

At present time it seems clear that Central Government forces advancing south from Tsinan have made contact at Taian with other Government units advancing north from Hsuchow and it appears likely that Government has capability of clearing Tsin-Pu railway line in Shantung. It also seems probable that Communists are holding an escape corridor between Tehchow and Tsanghsien for withdrawal of their forces from Shantung to Hopei. Once this escape corridor is closed, Central Government forces should be able to control Tsin-Pu throughout its entire length.

With regard dismantling of Chiao-Tsi railway, Embassy is reliably informed by an American adviser in Ministry of Communications that Central Government controls less than 100 kilometers of the line. Orders have been issued to dismantle a 60-kilometer section extending from Tsingtao in order to deny any possible use to the Communists. It seems probable that the rehabilitation of the Chiao-Tsi railway will be abandoned in favor of the Tsin-Pu railway where the Government's military position is more favorable and it is possible that any equipment salvaged from the former line may be utilized on the latter.

STUART

893.00/3-2147 : Telegram

The Ambassador in China (Stuart) to the Acting Secretary of State ³²

NANKING, March 21, 1947—9 p. m.

[Received March 21—2: 43 p. m.]

626. Please repeat immediately to Moscow following message for personal attention General Marshall as requested in Moscow's 2, March 16, 3 p. m.³³

Section I. Greatly appreciate your telegram. The following statement is based on best information available here and represents my considered views.

General Lucas did not possess any significant information on the state of the Chinese Army; military appraisal represents the best estimates of General Soule and other informed observers. Steele is in Japan; Durdin's statement is contained in Section II of this

³² Repeated by the Department to the Embassy in the Soviet Union.

³³ See telegram No. 844, March 16, 3 p. m., from the Ambassador in the Soviet Union, p. 68.

message and was prepared independently by him without consultative discussion with Embassy or any Embassy staff member. General McConnell's analysis of the state of Chinese Air Force is in Section III.

"At this time the Gimo, who as President of the Executive Yuan is exercising close control of situation, is pointing the Government to organization of the State Council and reorganization of the Executive Yuan. Formal tutelage by the Kmt is expected to be terminated at the end of the present meeting of Kmt Central Executive Committee. Administrative participation in the Government by both the Youth Party and Democratic Socialist [Party] is not yet firmly assured, but the character of the State Council and ministries will be importantly affected by the personalities, as distinguished from parties or cliques, participating in these organs. More important will be the extent of power, stemming from the Gimo, which these personalities will be given to wield though with intensification of civil war. CC clique as well as military groups are increasingly active. A significant feature of events leading to T. V. Soong's resignation was the relatively large amount of independent, outspoken opinion expressed; although much opinion came from the Kmt cliques, yet for once there was wide public discussion. There is possibility that in the reorganized government public opinion can become more vocal and that any new administrative heads will have a measure of power commensurate with their responsibilities.

While liberalization and reform are restricted within certain limits by exigencies of civil war, administrative efficiency and responsibility for the public welfare can be enhanced. In fact, corruption, favoritism and administrative blundering are luxuries which National Government will be unable to afford in face of tightening military situation. An example of what can be done, given sufficient determination, was the vigorous moves of the Central authorities during the recent panicky Shanghai financial situation.

It is now apparent that the Government, while holding present positions in Manchuria, has committed itself to an all-out effort to reduce Communist strength and holdings in north China. If successful in this effort, the Government will have breathing space to attempt restoration lines of communication which continues to be basic prerequisite to any economic rehabilitation.

Government forces have superiority of arms and equipment and it may be anticipated that in initial phases Government offensive will meet with substantial success. Ultimate outcome will be affected by a variety of factors which mitigate [*militate*] against Government successes beyond a period of from 3 to 4 months.

Of these factors the most important are: (1) ammunition supplies are reaching a critical level. Best available information indicates

that for American trained and equipped units at present rates of expenditure ammunition stocks may be exhausted in about 3 months. There is no worthwhile data available with regard to ammunition stocks taken from Japs for use in China. (2) Arms, motors and equipment are beginning to need maintenance and repair beyond the capability of the Government's facilities. (3) Government forces are widely dispersed and dangerously over-extended, particularly in Manchuria. A serious handicap to the Government is the necessity to disperse units to protect railway lines, power plants, coal mines and to maintain peace and order. Disturbed conditions and threats of revolt in Sinkiang, Sikong, and Formosa tend to result in further dispersion of forces. (4) Although morale in the air force is still considered good, the rate of attrition to both personnel and equipment has reached serious proportions and replacements are not available. (5) Poor pay and ration standards coupled with rapidly deteriorating economic conditions affecting the families of troops make for lowering morale. Furthermore, the civil war is generally unpopular and Government troops are susceptible to the Communist propaganda approach of 'Chinese should not fight Chinese'.

It seems probable that within 3 to 4 months, the Government will be successful in compressing Communists into areas they held during Jap occupation of north China but without having pinned down and destroyed any major Communist force. Thus it is unlikely that Government efforts to restore and maintain rail lines of communication in the face of constant Communist harassment will be successful once the initial impetus of the Government offensive has been lost. As the process of attrition weakens Government forces, it is probable that a period of military stalemate will develop. It is also probable that during this period Communist organizers will foment unrest in Government rear areas, especially south China which has been largely denuded of best troops to meet requirement of north China and Manchuria.

Despite certain hopeful signs that an effort is being made by the Gimo to effect reorganization of Government along more representative lines, the overall situation is dark and, without more determination and sacrifice than has been shown, it will become darker. Outlook is not for a crash, but a slow ebbing of vitality in Nationalist areas. In intramural China, Nationalist strength and cohesive power believed sufficient to prevent sectional cleavages within near future, although rebellions in dependent areas would constitute military drain.

There has been no vital change in underlying economic and financial situation as reported in Embtels 264 and 265 of February 12, 284 of February 14, and 300 of February 17.³⁵ Government has been able to

³⁵ *Post*, pp. 1059, 1061, 1063, and 1074, respectively.
386-748-72-6

hold economic position since February 16 through its emergency program and general fear of extensive police action. However, economic situation is inherently unstable and precarious, and there is little to prevent repetition of such financial crises as shown Shanghai early in February. The rising tempo of the civil war will accelerate inflation and increase economic instability, and if, as appears by no means improbable, one outcome of the current CEC meeting and pending reorganization of the Government is a division of control over financial and economic policies between Political Science group and CC-clique,^{35a} Government program in these spheres will lose relatively unified direction which at least it had under T. V. Soong.

Although the Gimo rightly likes to emphasize agrarian character of Chinese economy and its consequent inertia and relative stability, nevertheless there must be reasonable order and essential economic activity in the large cities, if the Government is to perform minimum functions of modern state. In view of inability of Government to enforce price control, rationing, etc., effectively by normal methods in these cities, there is an increasing tendency to rely on repressive measures, which, while both inevitable and useful in short run, has dangerous aspects in long.

Therefore, apart from overriding overall political considerations which are likely to become pressing within next 6 months, there would appear to be no immediate need for large loan on economic and financial grounds, though should a panic recur in Shanghai a moderate-sized loan might well be required for its salutary political and psychological effects as much as for its economic impact.

Within recent months the Government has been steadily losing prestige in the eyes of the people and popular support for it has never been at a lower point. Consequently, any changes in the Governmental structure and policies must be sufficiently drastic, not merely to affect foreign opinion, but to raise the level of domestic confidence in the Government. At the present time, for example, the situation in Formosa typifies trends in China with which our association could well become a matter of serious national embarrassment. There is little question but that in Formosa there was understandable popular reaction against official maladministration and corruption. It is unfortunate that rather than attack the evils which brought about this reaction, the Government shows every indication of attempting to quell it by force. The handling of the problem in Formosa, which is now in an acute stage, may offer us an indication of what we may expect elsewhere.

In view of foregoing circumstances, including the existence of a state of civil war, it would seem premature for the US to commit

^{35a} Kuomintang group led by the two brothers, Chen Li-fu and Chen Kuo-fu.

itself to a course of fulsome support of the Government which has thus far given insufficient indication that it will move in directions satisfactory to American concepts or that it has the capacity to revitalize itself. Politically, therefore, it is recommended that we await Government reorganization and then (1) assess the character of the new personnel and (2) observe for a time practical changes which may result in the operation of the Government.

In advocating such a 'wait-and-see' attitude, it is recognized that the Government is now engaging a powerful and determined enemy whose relative military potential may well increase as a process of attrition weakens Central Government forces and diminishes its authority. For example, the occupation of Yen-an has brought some psychological gain to the Government but has further extended its forces and increased an already serious supply problem.

Our most recent information with regard to the attitude of the Communists was contained in Embtel 535, March 12, and 545, March 13. Regardless of what their real attitude may have been a year ago, it has become increasingly clear since the convocation of the National Assembly that the Communists are not now prepared to join any coalition except on terms dictated by them. We are now inevitably faced with a period of intensive military conflict but I am convinced that we must be prepared to adopt at a certain stage an affirmative policy of such conditional assistance as may be necessary to our national welfare and security in the light of broader world commitments, particularly in connection with American-Russian relations."

Section II. Following from Durdin:

"In recent months the Central Government has effected no fundamental reforms nor brought about any appreciable improvement in conditions within the country.

The Government remains generally unpopular, and severe repressive measures taken recently in connection with the open declaration of all-out war with the Communists have increased resentment against the regime. Widespread arrests have been made throughout the country of individuals suspected of opposition to the war or sympathy with the Communists, and many have not been heard from since they were detained.

The intensification of the campaign against the Communists has served to strengthen the position of the CC clique and the military extremists. The Kmt secret police dominated by Chen Li-fu have been the most active agents in the drive against anti-Kmt elements. The CC clique has further increased its power through cooperation with the Political Science group. These two factions joined forces against T. V. Soong and are now sharing posts vacated by Soong's men. The Chen brothers seem particularly bent on enhancing their

control of financial and economic institutions and policy, and if government reorganization is carried out will probably obtain further key positions for their men if not for themselves.

The Government seems for the time being to have gotten a grip on the runaway economic situation and curbed the panic of 6 weeks ago. However, as long as military expenditures continue at the present rate economic measures so far taken are not likely to prove drastic or fundamental enough, and an intensification of the financial crisis can be expected that will be certain to increase opposition to the Government.

Government reorganization has so far not been achieved. Members of the Social Democratic and the Young China Parties and outstanding independents have been reluctant to join the Kmt in the State Council and the Executive Yuan because of the Government's unpopularity, the uncertainty of its prospects in the war with the Communists and the fear that no way could be found to solve the economic crisis. Lack of strong American support for the Government has doubtless also been a factor in the hesitancy of outsiders to come into the administration.

Carson Chang has now agreed to resume political discussion, and reorganization may soon be carried out. President Truman's speech on Greece and Turkey has convinced many Government and non-Government leaders that the US will soon subsidize the Nanking regime to fight the Communists, and the speech has doubtless encouraged outsiders to come into the administration. Strong anti-Communists generally are beginning to feel that all the Government has to do now to get American aid is to make faces at Russia and continue the campaign against the Communists.

The Central Executive Committee of the Kmt now in session hopes to proclaim the end of sole Kmt responsibility for the Government and the inauguration of a coalition regime, a move designed to create the best possible impression in the US at this time. Chang Chun seems most likely to head the Executive Yuan. It is difficult to see how the prospective new government could effect any real betterment in conditions soon. It is doubtful if outsiders and Kmt liberals would be strong enough to counteract the dominance of the Kmt party machine and military extremists and exercise a decisive influence on national programs and policies. Certainly little change in the prevalence of graft and corruption is likely to be effected in local governments.

On the military side, the Government is undoubtedly experiencing steady and heavy losses in manpower. The supply position is difficult for an outsider to estimate, but Government officers are reported to be complaining to Americans from time to time of shortages, and doubtless lack of spare parts and ammunition is become a serious problem.

It is possible that within 6 months or a year Government forces might be reduced to approximate equality with the Communists in equipment and would be outclassed by an enemy superior in morale and ability to fight with light weapons.

The possibility of the Government completely solving the Communist problem by force alone seems as remote as ever. The Government cannot hope to triumph unless it can improve economic and social conditions in its own territories—so far not a very definite prospect—and thus relieve bitter public dissatisfaction and drain the powerful reservoir of sympathy for the Communists that this dissatisfaction creates.

Global considerations may be an overriding factor, but from the purely China point of vision it seems to me advisable at least for a time to continue a program of withholding further aid to the Government while waiting to see the effectiveness of Government reorganization and the line of action the Government will take following the capture of Yen-an. I think the withdrawal of the Marines should be carried out as soon as possible. I believe this would enhance our position with the majority of the Chinese people and make more effective any future steps we might take to promote a settlement of the China civil war.”

Section III. Following from General McConnell:

“The following is a strength report on the Chinese Air Force and its projected operating potential, assuming that outside aid is not forthcoming:

(a) The present strength of the Chinese Air Force is 342 combat air craft and 152 transport air craft, comprising an air force of 494 operational air craft.

(b) There are 430 combat air crews and 186 transport crews.

(c) Present combat sorties are 19 per day and transport sorties are 46 per day. An increased number of combat sorties can be expected in the future.

(d) The attrition rate on combat air craft is 3.2 percent per month. This includes combat losses and losses due to obsolescence. The attrition rate for transport air craft is 2.7 percent per month.

(e) It is estimated that as of January 1948 the Chinese Air Force will be reduced to one-half of its present operational strength, and that by August 1948 it will be totally ineffective except for a few transport air craft. This deterioration will be due to nonavailability of air craft spares.

(f) Ammunition on hand is 13,000,061 rounds of 50 caliber ammunition and 4,000 tons of US bombs. In addition, the Chinese Air Force has on hand 2,778 tons of Japanese bombs that are adaptable to Chinese Air Force fighters. Present monthly expenditures are 1,312,788 rounds ammunition and 684 tons of bombs. At this rate of expenditure, there

is ammunition for 10 months of operations and bombs available for 10 months' operations.

(g) Chinese Air Force effectiveness in present civil strife lies in its ability to disperse any troop concentration with a minimum of effort, its ability to report from aerial reconnaissance any sizable movements, and its capacity to transport comparatively large bodies of troops and supplies by air so as to strengthen strategic points."

STUART

893.00/3-2247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 22, 1947.

[Received March 22—2:55 a. m.]

630. Following Central News Agency release March 20:

"Military operations in this country would naturally come to an end if the Chinese Communists should choose to abandon their scheme for armed rebellion and terrorism as well as to alter their policies of destroying the people's means of livelihood and thereby creating economic panics, General Chen Cheng, Chief of the General Staff, declared at a press conference this afternoon.

"General Chen predicted that after the fall of Yen-an, Shantung and Shansi will probably be the main theaters of military operations.

"Asked by how many months or years will the recapture of Yen-an shorten the civil war, General Chen replied that it is difficult to make an estimate of the time, but he added, it will certainly shorten the period of military operations with the Communists.

"General Chen asserted that if we really meant business in fighting, 3 months would be enough to crush the main strength of the Communists on all fronts but in the past, the General added, we talked but were forced to fight with the Communists at the same time, thus prolonging the military operations.

"Although we now regard the Communists as our 'enemies', General Chen said, we are giving the same treatment as Government forces to Communist troops who have come over to the Government side. During the past few months, more than 120,000 Communist officers and men have voluntarily surrendered to the Government side and most of them are still retaining their original ranks they enjoyed in the Communist army.

"Asked whether the Govt would treat Mao Tse-tung, Chu Teh, Chou En-lai and other Communist leaders as war prisoners if they were captured, the General said smilingly: 'Now is the time of democracy; this question would be better referred to the people of the country for an answer.'

“The Chief of the General Staff admitted that it was the Government policy to attack and recapture the Communist political and military nerve center of Yen-an since the Government has been forced to use armed forces to quell the Communist rebellion after the Communists boycotted all peace efforts and started widespread offensives against Government forces.

“After the Japanese surrender, General Chen recalled, the Government has been always eager to restore unity to the nation and embark on the peaceful reconstruction of the war-stricken country. Hence the convocation of the Political Consultation Conference and the organization of the Committee of Three on military affairs.

“But to the great disappointment of the Government, the Communists took this opportunity to expand their armed forces, occupy more territory, and strive to win political power by force, the General said. The Communists have boycotted peace negotiations, openly denounced the new constitution and all treaties by the National Government, mobilized all their military strength to attack Government troops on all fronts.

“Government troops started the offensive against Yen-an on March 14 and recaptured the Communist capital at 10 o'clock yesterday morning. The Communists had employed over 3 divisions and 13 brigades of crack troops for the defense of their nerve center, but they could not withstand the onslaughts of only 5 divisions of Government forces for more than 5 days, clearly indicating that the fighting power of the Communist army was very low. Moreover, the main factor which had brought about the quick collapse of the Yen-an defense is the fact that the Communists have lost the support of the people, General Chen pointed out, adding that once the Communists have lost the support of the people, they are not likely to make a stand anywhere in the country.”

STUART

893.00/3-2347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 23, 1947,—6 p. m.

[Received March 24—1 : 32 a. m.]

636. Capture of Yen-an by Government forces is a significant political event and to a substantial extent meets the Government need mentioned in previous Embassy telegrams for a striking victory to bolster its position.

It is noteworthy that Government's decision to take Yen-an was apparently reached during this month. In this connection it should

be recalled that Generalissimo in his statement of February 16,³⁶ indicating Government's intention of consolidating its current positions and concentrating on opening lines of communication, spoke in the following words:

"On its part the Government will confine its military efforts to the protection and restoration of communication systems so necessary for the economic life of the nation and we shall spare no efforts to continue to seek for a political solution of the Communist problem."

At that time T. V. Soong categorically stated to Embassy that both he and Generalissimo were of same mind that Yen-an should not be attacked. Subsequently, MA³⁷ was similarly advised by G-2 Section³⁸ of Ministry of National Defense. It is, therefore, fair assumption that taking of Yen-an was later required by the Government in general and Chen Cheng in particular for prestige purposes. There are also indications that the timing of the Russian *démarche* regarding Chinese occupation of Dairen and Port Arthur area³⁹ and Molotov's proposal at Moscow conference so increased apprehension that Russia might be planning another move that it was even feared that it might accord some form of recognition to Chinese Communists which capture of Yen-an would frustrate.

It is a fact that capture of Yen-an does represent a significant psychological and political victory for the Government which it is now attempting to exploit to the full propagandawise. To the Chinese people no less than to the rest of the world, Yen-an was the capital of the Chinese Communist government and the effect of its capture will be interpreted by many as the beginning of the end. Actually, Yen-an was the headquarters of the CCP and the capital of only one of several regional governments.

Although the Government claims it routed over 100,000 Communist troops, this appears to be a gross exaggeration since American observers during the return of Communist mediation personnel reported the virtual evacuation of Yen-an. It has long been apparent that the Communists had prepared well for this eventuality and that they never had any real intention of defending Yen-an should such action appear to be costly. Rather it is more in keeping with their long developed tactics to evacuate any given point in the face of enemy pressure, draw him into a pocket, and thereafter gradually sap his strength with guerilla tactics. Furthermore, Government lines are seriously extended into territory which can be counted upon to be hostile in all respects. US officer in charge of Executive Headquarters

³⁶ *United States Relations With China*, p. 704.

³⁷ Military Attaché.

³⁸ Military intelligence.

³⁹ For correspondence on this subject, see pp. 481 ff.

Liaison group, on his return from Yen-an, reported that General Chu Teh had told him that holding Yen-an and surrounding areas and maintaining order would immobilize 17 Government brigades.

MA reports that G-2 Section of Ministry of National Defense informed him that air reconnaissance indicated Communists had withdrawn in two groups to the hills around Yen-an. It remains to be seen now whether they will employ their customary guerilla tactics or in due course make an all-out attempt to retake Yen-an.

Department please repeat to Moscow as 3.

STUART

893.00/3-2547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 25, 1947.

[Received March 25—9:05 a. m.]

654. Following is release by Ministry of Information March 25 at regular weekly press conference of highlights of 12-article interim measure for the enforcement of constitutional government adopted by the third plenary session of the Sixth Kmt Central Executive Committee on March 23:

"1. From the day of the promulgation of the constitution of the Republic of China to the day of the convocation of the National Assembly in accordance with the provisions of the constitution, the administrative measures of the Kuomintang will center on the broadening of the Government's basis preparatory to the enforcement of the constitution.

"2. The Kuomintang will cooperate with all the peace-minded and legal political parties within the country in completing the preparatory procedure for the enforcement of the constitution.

"3. All the laws or decrees of the nation that are in contravention of the provisions in the constitution safeguarding the freedoms of the people should be amended or abolished speedily by the Government.

"4. The National Government should speedily formulate and promulgate regulations governing the various forms of elections according to the preparatory procedure for the enforcement of the constitution and put them into execution as scheduled.

"5. In accordance with the provisions of the constitution, preparation for the redemarcation of the powers of the Central Government and local governments should be made and effected step by step. General regulations governing self-government in provinces and hsien should be mapped out. Implementation of local self-government should be accelerated. A number of hsien should be selected to hold popular election of the magistrates. As for current programs for increasing local self-government during the period of political tutelage positive measures should be taken to expedite their completion."

When questioned as to whether or not the Chinese Communist Party could be considered as one of the legal political parties mentioned in paragraph 2, the Minister of Information stated that since the CCP is in open rebellion now they cannot be considered a legal political party but if "they abandon their arms in the future they may again be considered as a legal political party".

STUART

893.00/3-2547 : Telegram

The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State

Moscow, March 25, 1947—3 p. m.
[Received March 25—9: 45 a. m.]

1004. Kosmos 12. Personal for Acheson from Marshall. Please see that the following messages and reports are bound in folders in the sequence listed and given to the President and Vandenberg: ⁴⁰

(a) Nanking's 531 of March 12, repeated here as SecDel 1336; (b) my number 2 from Moscow of March 16, 3 p. m., for Stuart, repeated to Dept as number 844 of March 16, 3 p. m.; (c) Stuart's unnumbered cable to me of March 21, 9 p. m., sent to Department as Secretary State 625 [626]; (d) a glossary ⁴¹ prepared in the Dept explaining abbreviations and identifying individuals or organizations mentioned in the above three cables. [Marshall.] ⁴²

SMITH

711.93/3-2647

The Ambassador in China (Stuart) to the Secretary of State

No. 588

NANKING, March 26, 1947.
[Received April 8.]

SIR: I have the honor to offer a few suggestions as to possible American aid to the present Government of China when or if conditions within this country seem to make this advisable. It is assumed that there must be at least two prerequisites. One is that the Government cease all aggressive military operations against the Communist Party and the other that it be sufficiently reorganized to encourage the hope of drastic reforms and of progress toward the establishment of genuinely democratic institutions.

⁴⁰ Senator Arthur H. Vandenberg, of Michigan, Chairman of the Senate Foreign Relations Committee.

⁴¹ Not printed.

⁴² Memoranda to President Truman and Senator Vandenberg, transmitting the cited documents, were forwarded by the Acting Secretary of State on March 28.

The Civil War took a new turn when the Communist Party toward the end of last year insisted on their two impracticable conditions and began military and other attacks in the expectation that the Government would within a few months be so weakened that they could then resume the peace talks on terms more favorable to themselves. Up to that time they gave real indications of wanting the fighting to cease, but since then they have repeatedly taken the offensive. This, with the rapidly worsening financial and economic situation, compelled the Government either to succumb or to avert the threatened collapse by strong measures. There can be no economic recovery until trunk-line railway operation can be restored. The Government estimates that this will require about three months. Even if this forecast proves correct, following this will the Communist Party then be willing to reopen negotiations, how long the Government can maintain the struggle in view of exhaustion of military equipment, fiscal problems, increasing popular discontent, etc., are questions that cannot now be answered.

At this writing Government reorganization is still undecided. The C. E. C. adjourned on the evening of March 24. Whatever the final outcome, President Chiang will emerge as more than ever the predominant figure. Through all of the incessant bickering and bargaining, the personal and partisan jealousies or ambitions, he has been himself unassailed while maneuvering to achieve a workable solution. It is, in my opinion, not so much that he is or strives to be a dictator in the accepted sense as that he is the only personality whom the others all respect and around whom they can rally. It still remains true that whatever policy he really wants can be put into effect and that therefore by winning his approval for constructive reforms these can most effectively be carried out. There is no other person or group who could be counted on to maintain the solidarity of the Kuomintang or to integrate this with minority parties. With all of his shortcomings he sincerely seeks the welfare of his country according to democratic principles. In accomplishing this he desires the utmost cooperation with the United States. There may be developments before long which will justify substantial aid to the Chinese Government. It may be worthwhile, therefore, to be considering in advance some of the forms which this might take.

Military Reorganization. Every other problem in China touches sooner or later on this one. Without drastic reduction of military expenditure there can be no balanced budget nor any adequate funds released for constructive improvements. All civilian administrative reforms, railway and other public utilities, parliamentary procedure, etc., are in danger of interference from irresponsible and too often not highly intelligent military officers. More positively, a relatively

small force, well-trained and equipped, with sufficient food, clothing, medical care and pay, with facilities for rapid mobility, should be able to suppress banditry of [or?] other local outbreaks and resist border disturbances. Younger, modern trained officers and the enlisted men could alike be indoctrinated with an entirely new conception of their function and inspired with corresponding patriotic and professional ideals. But to carry out such a reorganization American training personnel would be essential. This would also be the surest protection to the Communist Party whose troops should be absorbed into the National Army.⁴³ The American Army Advisory Group program is comprehensive and no doubt admirably planned but unless there can be political stability in the near future the fine start already made will be wasted. With this strengthened, however, by American-directed army reorganization, the training of future officers ought to contribute largely to peace within China and elsewhere. Major General John P. Lucas, Chief of the Army Advisory Group, seems to have in mind the integration of the training of military, naval and aviation officers in a single academy located at Peiping.

If within the next few months there is conclusive evidence of progressive reforms in the Government, and of the futility of further Communist armed resistance, it is conceivable that the Chinese Government might with the concurrence of ours make a proposal to the Communist Party leaders that they cease what can be merely disruptive guerilla activities and either join the new coalition government until the inauguration of the Constitution next December or become at once a recognized political party with full rights and protection. Certain areas might be temporarily reserved for their local administration pending the establishment of real popular suffrage. The American control of military reorganization should be an ample guarantee. If they refuse such an offer—whatever the real or declared reasons—their armed forces and all those discovered in acts of sabotage might be treated as disturbers of peace and order and obstructors of economic recovery. Any such undertaking should be accompanied by a standing invitation to all Communist Party members and fighting units to retract their former allegiance together with full publicity explaining the motives and appealing to all public-spirited citizens to give their loyal support.

Railroads. There is enclosed a detailed statement⁴⁴ of what amount would be required to rehabilitate the railway lines in Government-controlled territory with certain extensions. This has been furnished at my request by Colonel E. C. Bailey, an American adviser in the Ministry of Communications. The loans ought to be very specific as

⁴³ The Assistant Chief of the Division of Chinese Affairs (Rice) commented on this: "I doubt that the CCP would admit this."

⁴⁴ Not printed.

to the particular line, the expenditures for equipment and other needs, etc., and the agreements should include an adequate number of qualified American advisers and auditors.

Currency Stabilization. This might be best achieved at the appropriate time with the cooperation of the International Bank.

Productive Development. This is of course vital to the national economy. The Export-Import Bank might be encouraged to aid on a specific project basis in financing private or semi-private enterprises, as well as governmental ones, on the guiding principles already worked out. American participation, at any rate in the initial stages, will make for honesty and efficiency and will in general be welcomed.

Educational Loans. For a more far-seeing and fundamental program of assistance to China these will be very beneficial. The destruction of educational plants and equipment during the war years has been tragically extensive and the Government can do but little in the immediate future to restore these. The present Minister for Education has talked to me of the seriousness of this problem and I feel the full force of his appeal. The direct and indirect benefits of such aid as is provided for in the Surplus Property Agreement,⁴⁵ which, however, has the disadvantage of not providing needed US dollars, and the potentialities of the impressionable and intelligent Chinese youth both for constructive usefulness and for dangerously radical activities are sufficiently obvious.

Formosa. The maladministration of this island during the eighteen months since the Central Government took it over from Japan can scarcely be exaggerated. The only hopeful signs are the determined resistance of the islanders and the widespread criticisms of the Governor-General and his associates. At this writing the issue has become a sordid struggle between the C-C and the Political Science Cliques to which latter the Governor-General belongs. The danger is that a somewhat better military officer will be appointed and a series of partial reforms be approved without thorough-going improvement. It will be disastrous if through further ineptitude or misrule the disillusioned islanders continue more or less in a state of insurrection and the enormous economic potentialities are dissipated. The annual overseas trade under the Japanese was valued as high as US\$225,000,000. One possibility might be to have it treated as a special economic area and employ a group of American or other foreign advisers to aid in developing its natural resources. This could perhaps be worked out either before or as a part of the Peace Treaty with Japan. While ostensibly for economic advantages, the goodwill of the local population and the realization of enlightened democratic

⁴⁵ Signed at Shanghai, August 30, 1946; Department of State Publication 2655: *Report to Congress on Foreign Surplus Disposal*, October 1946, pp. 40-45.

principles adapted to the historical circumstances could be secured as essential factors. American loans might be guaranteed or liquidated in part at least through this procedure. If tactfully planned so as not to offend the sensibilities either of the National Government leaders and their public or that of the islanders it is not at all unlikely that both groups would welcome some such solution.⁴⁶

The above suggestions are all intended as tentative and preliminary. If approved in principle you may feel it desirable to have them presented in more detailed form.

Respectfully yours,

J. LEIGHTON STUART

893.00/3-2747

*The Consul General at Changchun (Clubb) to the Ambassador in China (Stuart)*⁴⁷

No. 42

CHANGCHUN, March 27, 1947.

SIR: I have the honor to refer to my current telegraphic reports of developments in connection with the Chinese Communist drive across the Sungari River in the first half of the present month, and to enclose as of possible interest in this general connection a copy of a memorandum⁴⁸ of a brief trip made on March 20, 1947, by myself and Assistant Military Attaché Edward T. Cowen to Nungan and Tehhui, which by press report had been respectively surrounded by "tens of thousands" of Communist troops in the course of that Communist campaign.

The outstanding features of the campaign were that 1) the Communists evidently retained the initiative throughout, excepting at the last moment at Nungan; 2) if some 10,000 Communists were surrounded by Nationalist relief forces east of Nungan as reported by the Kuomintang press the major part of that group apparently succeeded in escaping; 3) Kuomintang reports of both numbers of participating Communist forces and their casualties seem to have been exaggerated; and 4) the outstanding loss to the Nationalist side was a munitions convoy destroyed and considerable damage inflicted by the Communists on rail and telegraph communications, as well as reputedly heavy Communist looting of the peasantry of the affected area. In short, no decisive battles were fought, but attrition was more severe on the Nationalist side, whose area was invaded and ravaged, than on the raiding Communist side. The Communists failed to achieve any major tactical success, but their drive had the following strategic results: 1) with the delay of any projected Nationalist advance across the

⁴⁶ See memorandum of April 28 by Mr. Melville H. Walker, p. 460.

⁴⁷ Copy transmitted to the Department without covering despatch; received about April 24.

⁴⁸ Not printed.

Sungari to the date of withdrawal, which antedated only briefly the break-up of the Sungari, a Nationalist drive against Harbin becomes impracticable for the immediate future; 2) the diversion of Nationalist reinforcements to the Nungan-Tehhui front from the Saup'ing-T'ungliao line and south Manchuria weakened temporarily the garrison points from which these relief troops were drawn; and 3) the further wrecking of communications and removal to Communist territory of grain supplies strengthens the Communist supply position and proportionately weakens the Government position. The absolute importance of these strategic results can be determined only by reference to future events.

Respectfully yours,

O. EDMUND CLUBB

893.00/3-2847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 28, 1947—8 a. m.

[Received March 28—4:25 a. m.]

672. There are good indications that the Generalissimo has reached a decision to overcome the reluctance which Chang Chun has developed as a result of the struggle between CC-clique and Political Science group to be appointed president of the Executive Yuan. Chiang Mon-lin of his own volition is retiring as secretary-general of Executive Yuan to return to academic life. K. C. Wu, Mayor of Shanghai, is slated to take his place with General Yu Ta-wei⁴⁹ assuming mayoralty.

As you are aware, T. V. Soong ran the Executive Yuan almost as a one-man show, and the decision to appoint K. C. Wu, who has made an undeniable success in Shanghai under difficult circumstances, reflects a decision to invigorate that key organ of government.

I feel that these decisions, if implemented, are as favorable as could be expected, but the struggle to keep the Chen brothers from representation on State Council is not yet decisively concluded.

Department please repeat Moscow 4 for General Marshall.

STUART

893.00/3-2947: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 29, 1947—5 p. m.

[Received March 29—5:50 a. m.]

689. In interview with Generalissimo, he began by explaining that reorganization which he had confidently hoped would have been com-

⁴⁹ Chinese Minister of Communications.

pleted was again delayed by new demands from Youth Party, but that Social Democrats had agreed to join, although Carson Chang personally would not take office. He asked eagerly what Americans were saying both locally and in reports reaching me, especially whether I was receiving any messages from you. I replied that in general Americans were waiting to see name lists in the expected reorganization, that this was true also of myself and that I was ready to inform you as rapidly as decisions were made known. Without explicitly asking as to possible financial aid, he obviously had this in mind. I told him this could not be considered while there was civil war and unless there were clear indications of trend towards democratic reforms, or in other words that problem continued to center here rather than in Washington.

I reminded him of his declared intention that when the vital railway zones had been recovered there would be another opportunity given Communist Party to join the Government, to which he assented. He said that the military operation could be concluded by September at latest, more probably August, and added that he had more than once made same forecast to both of us. He promised to inform me as soon as reorganization was fairly completed. (See immediately following telegram.)

I then referred to Formosan situation. He insisted that this was not so serious as reported, the casualties fewer, et cetera. I asked if he would be interested in reading a summary of our reports which was being prepared especially for him, and he replied with alacrity that he would. In discussing the pressing need for better and cleaner government, I broached the possibility that the great economic resources of the island be exploited with an adequate staff of American technical advisers, adding that this would require willing cooperation of the islanders, and that export profits might somehow be employed for repayment of or guarantee for any future American loans. He was emphatic in his endorsement and asked me to proceed to work out concrete proposals (see my despatch 588, March 26, 1947). He remarked at least twice that it would be impossible for China to achieve this without American help. I suggested that something of the same sort might be worked out for Hainan and he showed himself equally ready to undertake it.

Needless to say, I should be grateful to receive any guidance you may care to give me.

We discussed President Truman's proposal regarding Greece and Turkey and bearing of this on China, I explaining the official and other American comment. I then took up with him latest strafing of a group of UNRRA workers on Yellow River project and the

interference of a Chinese official in efforts to rescue the American airmen from Lolos near Tibetan border, to both of which he promised his personal attention.

Sent to Department as 689, also to be repeated to Moscow for Marshall as 5.

STUART

893.00/3-2947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 29, 1947—6 p. m.

[Received March 29—5:30 a. m.]

690. Chinese Military High Command now appears optimistic and pleased with military situation. Chief of Staff claims 2 months will defeat and destroy main Communist armies.

Manchuria situation south of Sungari River nearly normal with some Communist harassing action east of Changchun in Huatien-Hailung-Huinan area. Nationalist Air Force bombed Sungari River bridgehead area hastening breakup ice and increasing defense value. Nationalists moving reinforcements Kalgan to Tatung to cut Communist retreat along Great Wall. Yen-an occupied by Government troops who are moving cautiously and slowly to the northeast and mopping up. Nationalist G-2 reports Chu Teh⁵⁰ headquarters [at] Suiteh.

Nationalist troops converging on Taian, Shantung, with one column moving north along railroad and one column east via Feiching. Nationalists hold Tsinan-Weihsien and Tsingtao, remainder of Chiaotsi railroad Communist control, with continuing threats against Nationalist-held cities. Nationalist G-2 claims control of all crossings of Yellow River and estimates Shantung Communist force will be wiped out in 3 weeks.

STUART

711.93/4-447

The Ambassador in China (Stuart) to the Secretary of State

No. 613

NANKING, April 4, 1947.

[Received April 8.]

SIR: I have the honor to acknowledge letters from Mr. John Carter Vincent dated February 25 and March 11, 1947,⁵¹ enclosing memoranda on China policy and an exchange of letters on the same subject

⁵⁰ Chinese Communist commander in chief, formerly at Yen-an.

⁵¹ Letters from Mr. Vincent not found in Department files.

between the Secretary of War and yourself.⁵² These were all extremely informative and we of the Embassy from our more restricted local standpoint find ourselves in hearty agreement with the points as listed.

It is somewhat disappointing not to be able to report more progress in government reorganization. President Chiang K'ai-shek has repeatedly told me that he was almost ready to show me the new name-lists, only to be forced to admit that some new complication had arisen. The latest one is the demand of the Youth Party to have a larger number of both Central and provincial posts. He regards these as quite unreasonable and has left for an absence of a week or more, ostensibly to visit his ancestral graves on the Spring Festival, perhaps also as employing a familiar Chinese device for solving problems of this nature. It means, however, that it may be well on toward the end of the month before a final announcement can be made. Thus far the only definite decision of major importance is the appointment of Governor Chang Ch'un of Szechuan as President of the Executive Yuan. Although certain other items have come to my knowledge it may be as well not to report these until they can be included in a completed list.

General Tsai Wen-chih, Deputy Commissioner of the Peiping Executive Headquarters until its closure, has recently given me his opinion on the Communist Party issue. He is convinced that this cannot be settled by military conflict; that while the Communists have lost heavily in manpower yet the Government losses both in this and in matériel have also been substantial and perhaps on the whole with more serious consequences, this attrition being of the essence of Communist strategy; that the Communists will probably be driven into the mountains where they will find food as well as ammunition more of a problem than hitherto, but that the Government will also have to maintain a difficult encirclement to prevent frequent sallies by means of which the Communists can replenish food and munitions, disrupt railways, etc.; that, assuming there is no radical change meanwhile in the international relations, the Communist Party will probably be ready to make overtures for peace about the end of this or early in the coming year. He thinks that Russia will aid the Chinese Communist Party only if or when it is gaining in power, not when it is losing. He quoted what he regarded as some very significant com-

⁵²The following memoranda were sent by air pouch on February 28 to the Ambassador in China: Memorandum of February 7 by Mr. Vincent to the Secretary of State, p. 789; memorandum of conversation between the Secretary of State and the Chinese Ambassador (Koo) on February 17, p. 1066; memorandum of conversation between the Secretary of State and Dr. S. C. Wang, Chinese Supply Commission, on February 17, p. 1069; and minutes of conference concerning China between the Secretary of State, the Secretary of Navy (Forrestal), and others on February 20, p. 946. For the exchange of letters cited, see letter of February 26 from the Secretary of War (Patterson) and reply of March 4, from the Secretary of State, pp. 799 and 809, respectively.

ments of his former Communist colleague in Executive Headquarters, General Yeh Chien-ying, just before his departure for Yen-an early in March, to the effect that the China issue would certainly be discussed in the Moscow Conference where an agreement would be reached to have it settled jointly by Russia and the United States, perhaps including Great Britain, and that there was no more reason why the Chinese Communist Party should not be aided by Russia than the Kuomintang by the United States, it being already virtually a satellite of that country.

President Chiang, as I have reported previously, thinks that the Government's military objectives will have been obtained by September at the latest, and his Chief of Staff, General Ch'en Ch'eng, is even more optimistic—as he usually tends to be.

One of the uncertainties in any such attempted forecast is the Communist psychology. Judging by recent broadcasts and other published statements, their misconception of American designs is more distorted than ever, so absurdly unrealistic in fact that one wonders whether there is any hope of their being willing to cooperate with a National Government which they are convinced is guided and protected by America for her own ulterior purposes. There has also been more open admission of worldwide Communist connections. For instance, Mr. Wang Ping-nan remarked to me just before he left Nanking that before this Government could crush the Chinese Communist Party they would have to do this to the Communist Party in every other country. On the other hand, Mr. Wang also said to me more than once toward the end of his stay here that they did not regard the peace discussions as broken off and that they would doubtless by [*be*] relying again on American mediation within the next few months. I still incline to the belief that when they are convinced that it is to their interest to temporize by agreeing or appearing to agree to a coalition government they will be ready to resume negotiations.

The difficulties UNRRA continues to encounter from both sides illustrates the baffling complexities and irritations of the conflict. Despite explicit promises that there would be no more strafing by Government airplanes of workers on the Yellow River project and orders from General Ch'en Ch'eng to that effect, a third wholly unwarranted attack has been made on an LST landing supplies on the Shangtung coast, in which the master was very seriously injured and four of the crew wounded. To offset this, UNRRA has just announced the largest relief airdrop ever undertaken in the Far East—nearly one million pounds of clothing and medicine dropped in 80-pound bundles by United States Marine Corps planes in the North China Communist

area, in a series of 94 mercy flights. But I learned from a trustworthy nurse who had every opportunity for personal observation that practically all of this went to Communist troops rather than to the country people for whom it was intended. These are the two latest occurrences of this nature which have come to my knowledge.

President Chiang has heartily accepted my personal suggestion that Dr. T. V. Soong be appointed as the new Governor of Formosa with a group of American economic advisers. Dr. Soong himself is willing if he is not to be subject to interference by his successor in the Executive Yuan. It is largely, therefore, a matter of working out a suitable formula. With such a man in charge and the emphasis on civil rather than military administration and on economic restoration, better treatment of the islanders and in general a more honest and enlightened administration could be hoped for.

The problem of the "reactionaries" in the Kuomintang—in so far as they are sincere but narrowly bigoted rather than selfishly greedy or ignorantly militaristic—is how to absorb them into a constructive program. This applies especially to the notorious Chen brothers. Dr. Soong had intended to try to get rid of them but they turned the tables on him. It is interesting to watch President Chiang's handling of them. He apparently is convinced that it would create more difficulties than it would remove by trying to eliminate them. He has also strong personal attachments for them and has for many years somewhat shared in certain respects their viewpoint. He knows that he can count absolutely on their loyalty to him and to the Party and that they are energetic and efficient. Yet he restricts their activities to relatively minor public affairs. They are themselves free from the evils of graft and hate it. They are quite leftist socially. I have therefore been trying again, with somewhat more hope of success than when you were here, to stimulate their interest in agrarian reforms and in attacking corruption especially in local hsien. They are becoming convinced that the only really hopeful method of combatting Communism is by demonstrating that the Government can do more for the welfare of the rural population. If they can be induced to concentrate on this they have a valuable contribution to make. At the worst their obstructionist influence can be partially neutralized.⁵⁴

In general I must confess to a measure of restive impatience while waiting passively for the conditions to develop which might make possible more positive American assistance to China. But I remind myself of the surpassing importance of this country in the overall world situation if it can be started toward a progressive form of Gov-

⁵⁴ For a further report on the C-C clique and other factions in the Chinese Government, see telegram No. 744, April 5, 1 p. m., from the Ambassador in China, printed in *United States Relations With China*, p. 735.

ernment that provides at once for political freedom and for the economic betterment of a peacefully contented citizenry.

Respectfully yours,

J. LEIGHTON STUART

711.93/4-1047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 10, 1947.

[Received April 10—1 p. m.]

782. Statement issued by spokesman of Ministry of Information night of 9th refuting Tass despatch quoting *Pravda* concerning U. S. military assistance to China :

“On April 7th [6] *Pravda*, a Moscow publication, printed a Tass agency dispatch purporting to review U. S. military assistance to the Chinese Government which contained nothing but fabrications.

The article is so far from the truth that without undertaking to answer all of its misstatements, I deem it sufficient to point out some of the most glaring untruths.

The article charged that since the surrender of Japan, Americans have trained and equipped 40 ‘Kuomintang divisions’ and 50,000 ‘Kuomintang police troops’; that U. S. military advisors have established 27 military training schools; that Americans have ‘separated the port of Tsingtao from China’ and established ‘strong U. S. air bases’ near almost all the large cities.

In the first place there are no such things as Kuomintang divisions or Kuomintang police troops. The only political party with an army in China is the Chinese Communist Party.

During the war the U. S. trained 36 divisions of Chinese troops, numbering less than 400,000 men. Of this total 6 which were trained in India were totally equipped by the U. S. The remaining 30 divisions, trained in China, were partially equipped by the U. S. and largely by Chinese manufactured arms. These troops were all organized for the counteroffensive against Japan. Some of them took part in the fighting in Burma and elsewhere, and the American equipment was all delivered before the surrender of Japan. At present, there are less than 36 divisions of these troops, due to the demobilization and reorganization of the Chinese Army.

Since the surrender there has been no training of Chinese troops by the U. S. Nor have any new military schools been established. Furthermore, there has been no training of police by the U. S. in China.

Chinese Government personnel work without external obstruction in [apparent omission].

No U. S. airbases have been established in China during the war. There was joint U. S.-Chinese use of several bases for air operations against Japan. After the war the Americans rapidly evacuated these airports, starting with those in western China. Some of them continued to be temporarily used by U. S. planes to help implement the repatriation of the Japanese and the reoccupation of Chinese territory. They were even used in connection with the transportation of

Chinese Communist personnel during and after General Marshall's mediation.

Everything the U. S. did in China during the war was in accordance with the joint strategy of the Allies, and American actions then and since at no time infringed Chinese sovereignty. The *Pravda* article makes a total distortion of facts which are openly spread on the record before all nations."

Please repeat Moscow as 9.

STUART

893.00/4-1047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 10, 1947.

[Received April 10—8: 27 a. m.]

784. Comments on Government reorganization by Minister [of] Information Peng Hsueh-pei at regular weekly press conference 9th:

"Reorganization of the Chinese Government is all set to be put into effect since both the Young China Party and the Democratic Socialist Party have decided to participate in the State Council and the Executive Yuan. Both parties have made up the name lists of candidates for the State Council and the lists will be presented to Generalissimo shortly. Both parties also have decided to participate in the Executive Yuan which will be reorganized following formation of new State Council. The Democratic Socialists are willing to fill two posts as Ministers of State without portfolio while the Young China Party will fill posts as Ministers of State both with and without portfolio.

A new bureau of information will be formed to take over all governmental information functions now exercised by present Ministry of Information in accordance with a resolution adopted by the Supreme National Defense Council. The new bureau's organic law is being prepared. The Kmt's information service will be handled by a party board of information."

STUART

893.00/4-1247

The Ambassador in China (Stuart) to the Secretary of State

No. 632

NANKING, April 12, 1947.

[Received April 25.]

SIR: I have the honor to report a recent conversation with Dr. T. V. Soong in Shanghai. President Chiang K'ai-shek had in passing through Shanghai proposed to him the Formosa plan as outlined in my despatch no. 613 of April 4, 1947. Dr. Soong told me, however,

that he could not bring himself to feel any interest in it. He spoke repeatedly of how happy he was, how he was enjoying his new leisure, how much better was his health, etc. He certainly looked less tired and more like his old self. After I had urged the need of drastic reforms in Formosa and the benefits this would bring to China, he went on to say that his unwillingness to return to government service went much deeper than his temporary mood of realizing how tired he had been and how he needed rest. He would not take any position unless there were "fundamental changes". Formosa was, after all, only one detail and no improvements there would mean very much unless the whole structure and spirit of the Government were transformed. What was needed was another revolution. I told him that I had been preaching that to President Chiang ever since my return from America last May, and though he saw the point he was so controlled by his own habits of thought and action and by his closest associates that it was hard for him to take the plunge.

Dr. Soong then remarked that the place to begin would be Kwang-tung whence revolutions usually started and then let it spread by natural processes as neighboring provinces became aware of what advantages followed from really good, constructive administration. He added that he would be willing to undertake this and felt sure that President Chiang would gladly have him do so. He would have no objection to my informing you of this but wished me to mention it to no one else.

Respectfully yours,

J. LEIGHTON STUART

893.00/4-2147

Memorandum of Conversation, by the Second Secretary of Embassy in China (Melby) ⁵⁵

[NANKING,] April 14, 1947.

During the course of a conversation last night on the situation in China, Mr. Lo Lung-chi, Secretary-General of the Democratic League expressed the following opinions:

He prefaced his remarks by saying that the Democratic League stands for a liberal, middle-of-the-road policy and that it is, therefore, opposed both to the Kuomintang and to the Communists, though political exigencies of the moment require it to follow a course of action largely in the support of the Communist position. The League believes that the PCC agreements are the Magna Carta of Chinese liberty, that the Kuomintang deliberately violated them, (if indeed it ever had any intention of complying with them) and that, therefore,

⁵⁵ Copy transmitted to the Department by the Ambassador in China in his despatch No. 654, April 21; received May 5.

the Communists are legally correct when they demand abrogation of the Constitution unilaterally promulgated by the National Assembly in December 1946. Though the Kuomintang does indeed have a legal position of political tutelage which even the Communists admit, still it did voluntarily restrict its position by signing the PCC agreements and therefore must be bound by them and since the Democratic League is a liberal group pledged to a policy of developing a Chinese equivalent of Anglo-Saxon constitutionalism, it must therefore support the Communist position in this respect. He added that the impending reorganization of the government will have very little meaning except as window dressing for foreign consumption since the third parties which will join are little more than Kmt stooges and by entry into the government associate themselves with the illegal actions of the Kuomintang.

Mr. Lo added that the military position of the Kuomintang will, in ten months, be such that it will be forced to accept Communist demands and that by that time all Manchuria and the Shansi area will be in Communist hands. He believes it likely the Communists will then enter the government and that there is a good chance they will, in the end, be the dominant party. He did not believe that it will, however, be a full and complete control. When asked whether he thought the Communists had ever sincerely intended to enter a coalition, he said he thought they did until July 1946 at which time they gave up all hope of such a solution. In answer to another question he expressed some doubt as to whether any coalition government involving elements as divergent as the Kuomintang and the Communists could really be expected to work except under extreme threat from abroad and that this threat does not exist against China at the present.

Concerning American foreign policy, Mr. Lo said the prerequisite for solution in China is cessation of the civil war which can best be achieved by the stoppage of American support to the Kuomintang. Even if such a change in American policy would mean that the Communists would come to power, he does not believe this would involve any genuine threat to Chinese sovereignty since he does not believe that the Soviet Union can control the country because the Chinese people will unalterably oppose Soviet domination just as they now oppose American domination. He added that as between a "fascist Kuomintang" supported by the United States and the Chinese Communist Party supported by the Soviet Union, the Democratic League will support the Communists because they are fighting the greatest menace of all, namely, fascism. Furthermore, even though Communism in China would allow no more scope for the activities of the liberals than does the Kuomintang, still Communism means greater good for the mass of the people and therefore should be supported.

The League, would, of course, prefer to see liberals in power and believes the United States should support the liberals. He did not, however, have any suggestions as to how this might be done effectively. He added that should the Communists come to power and prove to be dominated by the Soviet Union, the League would oppose this Soviet influence even as it now opposes American interference on behalf of the Kuomintang. He said he does not believe the Soviet Union is giving material assistance to the Communists though when asked how he would interpret the calculated departure of Soviet forces from Manchuria leaving behind them large stockpiles of Japanese equipment handy for Communist seizure, he had nothing to say. He stated his belief that the Chinese Communists are Chinese first and Communists second and that therefore they too resent Russian interference, and when asked why the Communists, therefore, did not protest the Soviet looting of Manchuria said the Communists could not afford to do so because they needed at least one friend.

893.00/4-1747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 17, 1947—3 p. m.

[Received April 17—6:07 a. m.]

828. Following is Mukden's 63, April 11:

"Rumors of Soviet assistance to Chinese Communists have been fairly persistent during past 2 months. Most common theory is that Soviets have been sending Communists military supplies from north Korea. Today's local papers go so far as publish report from Tunghua (125 miles east Mukden) that newly established Communist base at Linkiang (east of Tunghua) is constantly receiving ammunition by rail from Korea and that recent military conference there was attended by several advisers of "certain nationality". It appears likely that Communists have in fact been importing gold bars to pay for purchases from north Korea. While not precluding possibility Communists have received and are receiving military aid, am inclined believe that more likely Communists have been getting supplies in return for gold and agricultural products and that such commerce has been more in nature ordinary trade than of military aid in strict sense."

Embassy has likewise thus far received no dependable evidence of physical Soviet assistance of a military character to CCP. Communists are undoubtedly seeking every possible avenue of trade including Nationalist regions. Embassy suggests that most likely source any gold obtained by Communists would be transactions with Nationalist areas.

STUART

III. REORGANIZATION OF THE GOVERNMENT (APRIL 18—MAY 16)

893.00/4-1847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 18, 1947.

[Received April 18—4:05 a. m.]

838. Official Central News Agency made following announcement April 17 on reorganization of Government tentatively to become effective April 21:

“President Chiang⁵⁶ today nominated the following persons as members of the new State Council: Sun Fo, Tai Chuan-hsien,⁵⁷ Tsou Lu, Wang Chung-hui, Wang Shih-chieh, Wu Chung-hsin, Chen Chitien, Wu Hsien-tze, Mo Te-hui, Chu Cheng, Chang Chun, T. V. Soong, Chang Chia Hutuktu, Chiang Mon-lin, Chen Pu-lei, Ho Lu-tze, Hu Hai-men, Yu Yu-jen, Chang Chi, Wong Wen-hao, Shao Li-tze, Niu Yung-chien, Tseng Chi, Yu Chia-chu, Chi Yi-chiao, Wang Yun-wu, Bolhan,⁵⁸ K. P. Chen.

One more member will be nominated later from the Democratic Socialist Party.

The whole list will be published officially by the National Government.

President Chiang has nominated the following persons as presidents of the five Yuan: Chang Chun, President of the Executive Yuan; Sun Fo, President of the Legislative Yuan; Chu Cheng, President of the Judicial Yuan; Yu Yu-jen, President of the Control Yuan; Tai Chuan-hsien, President of the Examination Yuan.

This afternoon the standing committee of the CEC⁵⁹ at the suggestion of President Chiang elected Dr. Sun Fo as the Vice President of the National Government. It also approved the Kuomintang members of the State Council.”⁶⁰

STUART

893.00/4-1847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 18, 1947.

[Received April 18—6 a. m.]

840. Following is official Central News Agency release Nanking April 17:

⁵⁶ Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.

⁵⁷ Tai Chi-tao.

⁵⁸ Burkhan or Pao Erh-han, representative of Turki of Sinkiang.

⁵⁹ Central Executive Committee.

⁶⁰ For statement by President Chiang announcing the reorganization of the State Council and for text of the political program of the National Government of China, see Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), pp. 739 and 740, respectively.

“The standing committee of the Kuomintang CEC at the suggestion of President Chiang, approved the following list of members of the Political Council of the Kuomintang: Chang Jen-chieh, Yen Hsi-shan, Ho Ying-chin, Chen Chi-tang, Kan Nai-kwang, Tseng Yang-fu, Ku Cheng-ting, Lu Chung-lin, Li Yu-ying, Po Wen-wei, Cheng Chien, Hsu Yung-chang, Li Ching-chai, Yu Ching-tang, Fang Chih, Yuan Shou-chien, Feng Yu-hsiang, Hsiung Ke-wu, Li Tsung-jen, Chu Shao-liang, Hsu Kan, Peng Hsueh-pei, Chi Shih-ying, Cheng Yen-feng. Secretary General Chen Li-fu.”

STUART

693.0023/4—1947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 19, 1947—4 p. m.

[Received April 19—5 : 21 a. m.]

848. Yesterday afternoon I called on President Chiang and congratulated him on establishment of State Council after overcoming all harassing difficulties which had delayed this so long. I expressed my approval especially over Kmt⁶¹ names and independents. He remarked that minority parties were also represented by scholarly men of good character though not so well known.

President Chiang spoke of Dairen issue⁶² with strong feeling and of Government's intention to stand firmly for its rights in locating troops, etc., but to rely on diplomatic procedure and publicity and to avoid provocative action. Two battalions would first be sent partly overland and partly by sea.

I had proposed before his departure early this month to supply him with the substance of certain Consular reports from Formosa and, when he asked for this, I gave him a memorandum⁶³ translated into Chinese which had been prepared in the Embassy.

Before leaving, I remarked that recent events were all tending toward struggle between Communists and democratic ways of life in which the test would be which could do more for welfare of common people and with them as judges that we, who believed in democracy, should stress the differences—freedom, publicity, civic rights, etc. and bring out contrasts by our own positive improvements. I expressed the hope that China would for her own sake as well as larger interests involved make her full contribution. He nodded assent though he needs constant reminders of this nature in his progress toward more democratic concepts.

STUART

⁶¹ Kuomintang.⁶² For further correspondence on this subject, see pp. 481 ff.⁶³ Not printed; see despatch No. 659, April 21, from the Ambassador in China, p. 450.

893.00/4-1947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 19, 1947—7 p. m.

[Received April 20—7:40 a. m.]

851. It is too early to assess with any accuracy the eventual effect of State Council reorganization announced April 17 (Embtel 838, April 18) and any such assessment must be approached with caution in the light of a series of past Chinese Govt reorganizations which have been largely for external effect and have brought little effective change to the Chinese domestic scene.

Embassy's initial impression, however, is that caliber and standing of Kmt appointees indicates real effort to place in positions of power and responsibility the most capable and modern figures of the party. It is indeed promising that in the case of Kmt appointees there is a notable exclusion of persons closely affiliated with CC clique.⁶⁴ A possible description [*exception*] to this is the appointment of Wu Chung-hsin, sometime governor of Sinkiang Province.

It is also encouraging that the Political Science group is well represented by its most prominent and ablest members, including Chang Chun, Wong Wen-hao, Wang Chung-hui, and Wang Shih-chieh. Chen Pu-lei and Chiang Mon-lin, although not generally considered as members of the Political Science group, may be expected to support Political Science group policies.

The appointment of Sun Fo as Vice President of the National Govt is no doubt intended to strengthen the progressive or liberal elements and to set [the pattern?] to the Govt. The inclusion of Shao Li-tze and T. V. Soong indicates at least a drift away from the traditional aspects of Chinese political conservatism.

Chu Cheng, Yu Yu-jen, Tai Chi-tao, Chang Chi, and Tsou Lu can be best classified as party elders, faithful to the Generalissimo and essentially conservative in political outlook, but generally accepted as being in support of high standards of public morality.

A disappointing aspect of the announcement was the failure to change any of the Presidents of the five Yuan, with the exception of Chang Chun who replaces T. V. Soong as President of the Executive Yuan and relieves the Generalissimo of his temporary assumption of the office. It had been originally planned that Chang Chun-mai (Carson Chang), leader of the Social Democratic Party, would be appointed President of the Judicial Yuan and that Tseng Chi, leader of the Youth Party, would be given the presidency of one of the other four Yuan. The final refusal of Carson Chang to accept office in the Govt, even though sanctioning the participation of his party made it

⁶⁴ Powerful right-wing group in the Kuomintang, headed by the two brothers, Chen Li-fu and Chen Kuo-fu.

impossible to carry out this plan and for the time being at least all Yuan Presidencies remain in Kmt control.

In the case of the Social Democratic Party, even in the final stages of reorganization of the State Council, there was continued reluctance on the part of members of the party to join the Govt and on the evening of April 17 it was only possible for the Social Democrats to name three members of their allotted four. It has been announced that they will appoint the fourth member as soon as possible.

Youth Party and Social Democratic Party appointees are largely unknown quantities. They represent in the case of the Youth Party a group of Szechuan scholar-landlords who have tended in the past to be affiliated with the right wing of the Kmt. The Social Democratic Party appointees are a group of elderly scholars without important political following in the country.

On the other hand, the independent appointees offer considerable promise, particularly in the case of Chen Kwan-pu (K. P. Chen), the most able private banker in China with a high reputation for his statesmanlike judgment and probity in New York and Washington as well as China. Wang Yun-wu, present Minister of Economic Affairs, seems also a satisfactory appointment as an independent. Both K. P. Chen and Wang Yun-wu are sympathetic to the Political Science group and will tend to strengthen its position in the State Council. Mo Teh-hui has obviously been appointed because of his long affiliation with events in Manchuria. Pao Erh-han (Burkhan), a Turki and present Vice-Chairman of the Sinkiang Provincial Govt, is no doubt intended as a placatory gesture toward the minorities of the northwest. In this same general connection it will be noted that among the Kmt appointees there is included Chang Chia Hutuktu, a Tibetan.

In summary, the composition of the State Council is as regards the Kmt and independents as good as could be expected in the circumstances. Whether or not the State Council, which will constitute itself on April 23, if its members can reach Nanking by that date, will assert itself in such a manner as to bring about substantial social and economic reform in China remains, of course, a question depending upon many factors, not the least one being the attitude of the Generalissimo toward it and his ability to control the Kmt as the still dominant political party in China.

It is interesting to note that at the same time as the appointment of Kmt State Councillors, a separate political committee of the Kmt was established. The Secretary General of this committee is Chen Li-fu and it is a safe assumption that this committee will have an important role in controlling the Kmt political machine and establishing party policies.

Eleven seats in the State Council have been left vacant for the Democratic League and the Communist Party in the event that they

wish to join the interim govt. On the night of April 17 Lo Lung-chi⁶⁵ made known to the Embassy that Democratic League participation was at this time "impossible". Furthermore, it seems extremely unlikely that there will be any Communist participation in the Govt between now and the end of the year when the new constitution comes into force.

The reorganization of the Executive Yuan which will be carried out by the State Council will offer some indication of how assertive and energetic the Council will be and in what direction the Govt may be expected to move. Concessions to the CC clique, however, because of its control of Kmt machinery may be expected to ensue in this reorganization.

In face of the magnitude of Chinese internal problems, aside from the existence of a state of civil war, to expect too rapid change would be unrealistic, but the calibre of Kmt and independent appointees to the State Council offer reasonable ground for hope that there will be an effort made to achieve healthy and substantial change. Such change will come slowly, however, and in the process it must be borne in mind that the CC clique while at the moment not in the forefront, is still substantially in the control of the Kmt party machinery. The inclusion of non-Kmt groups at least offers promise for the stimulation of political activity and the development of non-Communist opposition, but in final analysis the major imponderable is whether or not the Generalissimo will be capable of seeking and being guided by the advice of liberal-progressive public servants rather than acceding to the reactionary henchmen personally loyal to him.

Please repeat to Moscow for Marshall⁶⁶ as 15.

STUART

893.00/4-2247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 22, 1947—7 p. m.

[Received April 23—4:15 a. m.]

874. RefEmbtel 861, April 21, 4 p. m.⁶⁷ Official Central News Agency has announced that on April 21 the Central Executive Committee of the Kuomintang decided to abrogate that provision in article 15 of the organic law of the National Govt providing for presidential responsibility to the Kuomintang.

STUART

⁶⁵ Leader of the Democratic League.

⁶⁶ Secretary of State Marshall was in Moscow attending a meeting of the Council of Foreign Ministers (March 10-April 24).

⁶⁷ Not printed.

711.93/4-2247

The Ambassador in China (Stuart) to the Secretary of State

No. 657

NANKING, April 22, 1947.

[Received May 1.]

SIR: I have the honor to comment further upon some of the causes and possible consequences of the augmenting anti-American feeling in this country. The matter was referred to in my despatch no. 206 of October 17, 1946⁶⁸ in connection with Dr. Nathaniel Peffer's⁶⁹ memorandum. As I remarked then, this feeling seemed to me on the whole latent though widespread and easily capable of becoming more pronounced. The trend is now somewhat more obviously in that direction.

In view of our long record of both governmental and private contributions for Chinese welfare, especially our abundant assistance in the winning of the war, we may well feel a pained surprise at this apparent ingratitude. My observation is, however, that Chinese are fully conscious of all this and extremely appreciative. The explanation must be looked for elsewhere, except in so far as all that we have done for China in the past and our repeated assertions of practical goodwill have tended to raise false hopes in their present distress. Disillusionment naturally stimulates embittered complaint. Chinese also have the instinct for relying on others and even for claiming this as their right. This lack of self-reliance may be partially accounted for by the family system and other age-long social patterns. At any rate, we are the people to whom they have learned to look for help and when we fail to meet their sense of need the reaction is unfavorable to us.

Apart from this the most palpable factor is the insistent Communist propaganda to the effect that we have been perpetuating the civil war by aiding a corrupt and reactionary one-party government. Their assertions, and doubtless their own beliefs, greatly exaggerate the extent of this aid and completely misconstrue its motives. This amounts to the deliberate forging of a weapon with which to weaken their hated enemy by compelling our withdrawal. The constant reiteration and the popular lack of knowledge as to the real facts impress many, more especially those who are already critical of their Government.

A variant of this mood is the discontent over the lengthened civil war and the questionings as to our attempted mediation. The Communists and their radical sympathizers blame us, of course, for enabling the Government to carry on. Conversely, the Kuomintang extremists argue that if we had only given them free rein they could have long since forced a military settlement. Between these two

⁶⁸ *Foreign Relations*, 1946, vol. x, p. 387.

⁶⁹ Professor of international relations at Columbia University, New York, N.Y.

extremes are those who in differing degrees resent our interference or wonder why we could not finish what we had attempted, or suspect our exploitation of their country as an integral part of our designs against Russia, or more vaguely still in despair over their mounting economic and other ills cannot understand why we with all our wealth and power and profession of friendship have watched their suffering and done nothing about it. Such an attitude is perhaps accentuated by the Chinese trait of denouncing some other person for one's own mishaps. This is not confined to Chinese but it is perhaps more highly developed among them as part of the "face" complex. It undoubtedly enters into their sentiments about American policy toward their country.

The misbehavior of individual Americans toward Chinese has at times provoked indignation or angry amazement. But this in itself would have been tolerantly regarded as a matter of personal bad manners or morals were there not a basis of general dissatisfaction. The nationwide demonstrations over the Peiping rape case^{69a} were symptomatic, for instance, of festering grievances seeking an outlet. Such sporadic occurrences, regrettable as they are, could never have aroused so extensively a volume of anti-American feeling. This is due primarily to the causes mentioned in the previous paragraphs.

The growth of anti-American sentiment assumes practical importance in the shaping of future American policy. If or when internal conditions in China may seem to justify substantial assistance to a reorganized Government or to private enterprise would this be a serious deterrent? It is to be expected that the Communist Party will indulge in profuse vituperation, charging us with economic imperialism, etc. This will be taken up at the outset by leftist groups and perhaps by students under organized instigation. Any blunders on our part or misdeeds of individuals may lead to violent demonstrations. But I am confirmed in my opinion that the responsible leaders will welcome not only the material benefits but the most thoroughgoing supervision of these as well, and that they will have the support of public-spirited citizens generally. This may not at first be vocal but as such a program begins to show results the social timidity so characteristic of Chinese will in my opinion dissolve. Much will depend upon our procedure. In China what is done is rarely as important as the way in which it is done. A full and frank preliminary statement of our intentions and the limits of our participation would be very helpful. It would seem preferable that all advisers be selected and maintained by us and that they be chosen not merely for their professional competence but also with a view to their personal characteristics, attitude to China, etc.

^{69a} See pp. 1 ff.

With an adventurous faith in the purity of our purpose and in the capacity of the Chinese people to master modern techniques and to acquire truly democratic standards of public morality, I feel confident that we shall have the heartiest cooperation of the leaders in the Government and of the liberals, with an increasing endorsement from the general public including students, and that this will tend to neutralize anti-American feeling except among those whose political aims or selfish interests are injured by our efforts to serve their nation.

The Chancery here, however, cautions against optimism, the feeling being that we should not expect too much in the way of dissipation of anti-American feeling in China as a result of substantial American assistance to China. While our assistance would serve to bolster up and alleviate the unfavorable economic situation, it could not by itself remove the causes for this situation. And as long as this unfavorable situation continues, the United States will remain the most convenient universal scapegoat; we will be accused simultaneously of having given too much and too little, of interfering too much and too little, of strengthening the moderates and the reactionaries, and of not letting the Chinese settle matters in their own way. The Communists will, of course, attack us whatever we do. An influential and vocal section of the Kuomintang, which is basically anti-foreign, feels that our assistance—and substantial assistance at that—will in any case be forthcoming, and it is this section which tends to be most anti-foreign and to utilize foreigners as scapegoats for China's innumerable ills. There is little reason to believe that their ideology will undergo any basic transformations as a result of American aid.

Respectfully yours,

J. LEIGHTON STUART

[For statement by the Chinese Minister of Information regarding reorganization of the Executive Yuan and for inaugural radio address by General Chang Chun as President of the Executive Yuan on April 23, see *United States Relations With China*, pages 741 and 742, respectively.]

893.01/4-2547

The Ambassador in China (Stuart) to the Secretary of State

No. 670

NANKING, April 25, 1947.

[Received May 2.]

SIR: I have the honor to submit a few somewhat personal comments on the nature of the newly announced State Council. A radiogram⁷⁰ already sent will have served to supplement your own knowledge of these individuals.

⁷⁰ Telegram No. 851, April 19, 7 p.m., p. 102.

It happens that the list was finally completed on April 17, the anniversary of the day twenty years ago when the present Government first took office. But this reveals also the patience needed for even moderate reforms in the unwieldy mass which constitutes present-day China. I can testify that President Chiang K'ai-shek has been working ceaselessly at this task since the passing of the Constitution. He has had every inducement to complete it earlier. The result registers his effort to broaden the basis of representation in preparation for the inauguration of constitutional government. He has on the whole succeeded admirably in assembling the more progressive elements in his own party, in securing the support of two of the minority parties, and in the selection of especially good non-party personnel, as well as in avoiding any open cleavage among the conflicting interests involved.

The most notable feature in the Kuomintang list is perhaps the absence of members of the reactionary C-C Clique and of the dominant military group. It is unfortunate that the presidents of all five Yuan remain unchanged and thus serve to swell the Kuomintang total, but for this the unwillingness of Carson Chang to accept office is chiefly responsible. Had he been willing to become President of the Judicial Yuan, a Youth Party man might have been given the presidency of another Yuan. As it is, however, the continuity of government business is doubtless facilitated. Three elderly members well-known for their consistently independent attitude within the party have been recalled from virtual retirement: Chang Chi (North China), Niu Yung-chien (Shanghai), and Tsou Lu (Kwangtung). Drs. Chiang Mon-lin, Wang Chung-hui, Wang Shih-chieh, and Wong Wen-hao represent the best type of patriotic, western educated types. T. V. Soong's readiness to continue serving a Government which had so recently forced his resignation is very much to his credit and this is accentuated by the fine spirit with which he has done so. Shao Li-tze is generally respected as a broadly tolerant and conscientious official of the old scholar class. Chen Pu-lei has been President Chiang's confidential secretary for many years and is probably included because of his technical usefulness. Wu Chung-hsin would seem to be the least desirable member from the western standpoint but has a long record of party loyalty.

The inclusion of the two minority parties is of symbolic value rather than because of the persons listed. These are in the main elderly scholars with but slight administrative experience. As it is, one vacancy among the Social Democratic Party is the result of split among them, and the Youth Party delayed the formation of the State Council by an undignified demand that their members be given a disproportionate number of posts all through the provinces.

Of the non-party members, K. P. Chen is an American-educated banker of fine character and ability and his acceptance of the invitation is an auspicious omen. Mo Te-hui has had varied administrative experience, chiefly in Manchuria, and is generally respected for his balanced judgment and integrity. Wang Yun-wu helped to build up the Commercial Press and has the general background of "big business". Bolhan and the Kuomintang Tibetan⁷² bring in the non-Chinese elements in the Republic.

The list is composed chiefly of elderly men. But for a brief transition period, bristling with delicate and difficult issues, this is perhaps advisable. It ought not, however, to delay the absorption of younger men for training and promotion.

When President Chiang asked me rather eagerly what I thought of the list I felt able to congratulate him quite sincerely. I have since then told him that American opinion seemed in general commendatory but was inclined to reserve judgment until there was evidence as to how much power this new organ of government would have and what it would do with such power. I took the occasion to suggest that this would be a good time to begin with himself to prepare for the transfer from the age-long Chinese "government by men" to "government by law", to limit martial law to actual military personnel and to stop all secret arrests and punishments. He nodded his assent as usual but will need constant reminders in his somewhat lonely struggle to fit himself and his people for practicing democratic principles.

When I called on the new Premier, Chang Ch'un, at his request, he reminded me of my comment when first hearing of his probable appointment to the effect that I pitied rather than congratulated him, and said that he really was undertaking this at a sacrifice and from a sense of duty. He expressed the hope that our mutual relations would continue on the old basis of personal friendship rather than a strictly official one. He then reviewed the state of the country, the civil war, and the Communist problem in a realistic way. He spoke of his chief deficiency as in economic and financial matters and of his predecessor's absorption with these as well as of the necessity for either maintaining or abandoning Dr. Soong's policies. He described his task of fitting the nation for Constitutional Government in the brief period of only eight months as repairing a dilapidated old automobile for travelling on a road which was itself in need of improvement. He also used the figure of pumping new life into an anaemic patient and the need for blood transfusion, which was his first explicit reference to the hope of American financial assistance. He went on to speak of the problems he had inherited, the brevity of

⁷² Chang Chia Hutuktu.

the time and the complexity of the whole situation. He thought in terms of three factors: the weather, their own efforts, and external aid. His reference to the first of these reveals how predominantly agricultural this country is and how important are the harvests in the national economy.

I took advantage of the implied invitation given me to comment on the possibility of American aid, repeating essentially what I had been saying to President Chiang and others: that I had no instructions nor any reason to believe that a decision had been reached; that my Government was primarily concerned that any financial assistance which might be undertaken should be a real benefit to all the people of China rather than to any faction or group and would neither prolong nor give partisan advantage in the civil war; that in short the earliest possible termination of aggressive military action by the Government while keeping the door wide open to the Communists, and further progress toward reforms made possible by the present reorganization, were the results desired alike by friends of China in Washington and by all public-spirited Chinese.

Respectfully yours,

J. LEIGHTON STUART

893.00/4-2747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 27, 1947—10 a. m.
[Received April 27—12: 45 a. m.]

908. As in the case of the reorganized State Council (Embtel 851, April 19, 7 p. m.) it is still too early to determine what if any effect the reorganization of the Executive Yuan will have internally in China. It is clear, however, that there has been no real change in the actual administration of government which remains firmly in the control of the Kmt. It will be noted that in the Ministries of Foreign Affairs, National Defense, Interior, Finance, Education, Communications, Social Affairs, Food, and Justice there have been no changes and the Kmt incumbents remain in office, though, of course, they are of varying political complexions.

Tso Shun-sheng of the Youth Party has assumed office as Minister of Agriculture and Forestry and Li Huang of the same party has become Minister of Economic Affairs. Both are unknown quantities, and there is no info available indicating their qualifications for the posts they have assumed. Well-informed Chinese point out that in the case of the Ministry of Economic Affairs, it is being denuded of its most important functions which are being redistributed among Kmt-controlled ministries. The Social Democratic Party is repre-

sented only among the ministers without portfolio and it may be noted in this general connection that the leader of the party, Carson Chang, still refuses to take office in the Government.

Miao Yun-tai, well-known independent Yunnan industrialist war-time tin controller, has accepted office as minister without portfolio and in the Executive Yuan this may be accepted as a sign almost as hopeful as the appearance of K. P. Chen as State Councillor.

Out of 17 ministries and commissions, 14 are controlled by the Kmt, 2 by the Youth Party as noted above, and one by an Independent. It is to be noted, however, that the Independent is the Minister of Communications, General Yu Ta-wei, who is closely associated with the Whampoa clique.

Of the ministers without portfolio two are Kmt, 2 Social Democrats, 1 Independent, and 1 Youth Party. Fortunately there is a strong leavening of Political Science group adherents throughout the present Executive Yuan and notwithstanding the absence of any real change in the administrative posts, there remains a possibility that the appointment of Chang Chun as Premier may bring about more coordination and firmer direction than the Executive Yuan has hitherto had. Even with more effective functioning of the Executive Yuan, the political authority of the Premier will still depend upon the extent to which the Generalissimo is prepared to support him as against less progressive elements in the Kmt.⁷³

STUART

893.00/5-147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 1, 1947—7 p. m.

[Received May 2—12:35 a. m.]

941. Following is Tsingtao's 22, April 28, 2 p. m. to Nanking:

"Government sources admit loss of Taian to Communists, who reportedly are launching strong attacks on Tawenkou, Feicheng and Tunga, strategically important points captured by Government forces last month. General Wang Yao-wu⁷⁴ yesterday returned to Tsinan cutting short his inspection visit to Tsingtao. Spiker."⁷⁵

STUART

⁷³ In a summary of "Chinese Government Reorganization" prepared for the Secretary of State, the Assistant Chief of the Division of Chinese Affairs (Rice) on April 28 concluded that "one is inclined, on the basis of past experience and of the limited character of the personnel and organizational changes effected, to doubt" that "the direction and character of the Government as it exists at present will prove substantially better than before the reorganization".

⁷⁴ Commanding Chinese Government forces in Shantung.

⁷⁵ Clarence J. Spiker, Consul General at Tsingtao.

893.00/5-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 7, 1947—2 p. m.

[Received May 7—3 : 40 a. m.]

983. Li Huang, who had been nominated by the Young China Party for the position of Minister of Economic Affairs in the coalition government, has now publicly and formally announced his refusal to accept the position. In sympathy with him, his colleague, Tso Shunsheng, has likewise declined the Ministry of Agriculture and Forestry. Li's decision is attributable to his recognition that the Ministry of Economic Affairs, the most heterogeneous of all Ministries, is now without decisive power which is vested in the National Economic Council and yet is in a position to be made the recipient of criticism for continuing economic deterioration. There is also the important factor that no agreement has been reached, or is as yet foreseeable, on the demand of the Youth Party for large, even disproportionate representation in local governments.

To this situation must be added the apparent serious split in the Social Democratic Party following Carson Chang's decision that members of the Party, though not himself, would participate in the reorganized interim government. At the same time a series of attacks are being made by high Kuomintang leaders against the Democratic League as being merely the tail of the Communist kite to which Lo Lung-chi, secretary general of the League, has publicly rejoined that he regards these as a prelude to drastically repressive measures.

STUART

893.00/5-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 8, 1947—10 a. m.

[Received May 8—2 : 05 a. m.]

990. As previously reported, Central Government military situation has shown steady deterioration within recent weeks. In North Shensi, Central Government forces have become over-extended since capture of Yen-an and considerable difficulty was encountered in capture of Suiteh. Michih has not yet fallen to Nationalists although its fall has been repeatedly reported as "imminent" for some weeks.

On May 1 in report on military affairs to Legislative Yuan, Pai Chung-hsi⁷⁸ stated that forces had been withdrawn from South Shensi for Yen-an and North Shensi campaign. As result, Communist forces

⁷⁸ Chinese Minister of National Defense.

in South Shansi have been increasingly active recently and appear to be enjoying considerable success. The critical state of situation in Shansi is indicated by General Yen Hsi-shan's appeals for Central Government military assistance.

Shantung, however, is for the time being the most critical area. In that province Central Government suffered another serious reverse with loss of Taian on April 24 (reference Embassy's telegram 941, May 1, 7 p. m.). It is not known exactly how much material was lost by Central Government at Taian but there have been reliable reports that Central Government had been using city as a staging and supply area. Other reports indicate that situation in Shantung has also been affected by explosions in ammunition dumps at Hsuechow.

On May 3 Generalissimo flew to Hsuechow, Lini and Tsinan, presumably for purpose of rallying Central Government forces in Kiangsu-Shantung area. He returned to Nanking on May 5. It now seems likely that as result of his visit counterattacks from Tsinan have been launched. Vernacular press on May 7 carried reports that Taian and Feicheng had been recaptured by Central Government units. There are no indications, however, that important Communist strength has been pinned down and destroyed.

Situation in Manchuria is for time being quiescent but as indicated in Embassy's telegram 965 of May 4, 4 p. m.,⁷⁹ there is little room for optimism with regard to overall military situation. Recent reports indicate Communist concentration of forces north of Kirin in Yushu area.

STUART

893.00/5-847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 8, 1947—2 p. m.

[Received May 8—1:37 a. m.]

995. Following is Chungking's 60 of May 7, 1947 to Nanking:

"My telegram 42, March 22 (repeated to Department as Embassy's telegram 653, March 25, 4 p. m.).⁷⁹

"General Li Hsien-nien's⁸⁰ troops numbering about 1,000 now reported along Yangtze between Ichang and Shasi attempting disrupt river traffic that area. Troops being rushed from Chungking to deal with situation. Streeper."⁸¹

STUART

⁷⁹ Not printed.

⁸⁰ Chinese Communist general who had operated in the Hankow area in 1946.

⁸¹ Robert B. Streeper, Consul General at Chungking.

893.00/5-847

The Ambassador in China (Stuart) to the Secretary of State

No. 706

NANKING, May 8, 1947.

[Received May 13.]

SIR: I have the honor to submit for your consideration a few impressions of recent trends in China. It may be fitting to take as a text for these the request of President Chiang K'ai-shek that there be a cotton and wheat credit, that ammunition be supplied, that the 8½ group aviation agreement be promptly and fully effected, and that a highly qualified military adviser be assigned. The text of this request has been transmitted in the Embassy's telegram no. 916 dated April 28, midnight.⁸²

Mr. Butterworth⁸³ and I called on the Generalissimo on the evening of April 28 and in agreement with me he pointed out questions or objections that might be raised in Washington as to one or another of these items and suggested further consideration on his part, to which he finally agreed. This had as its objects both to postpone such widespread requests being formally made and to suggest to the Generalissimo that available resources were not being properly employed. The morning after that interview I left for Tsingtao and Tientsin and have not as yet seen the Generalissimo since my return.

1. Although President Chiang holds firmly to his confident expectation that his military objectives will have been attained by September at the latest, yet this is regarded as entirely too optimistic by many Chinese whose sympathies are all with him. This seems also to be the judgment of our own experts. One factor is the inadequate pay for the officers and men and the hardships in general from traditional treatment of Chinese soldiers, aggravated by war-weariness, Communist propaganda, the lack of an inspiring motive, etc., all of which weaken morale. There seem to be desertions to the Communists and at times even the disintegration of entire units. Another explanation for the lack of progress is that there is a difference of opinion among the High Command as to overall strategy. The Chief-of-Staff (General Ch'en Ch'eng) is supposed to advocate wide encirclement, forcing the Communists to retire to the mountains and waiting for them to break through into the plain in search for food and supplies at which time they can be destroyed or scattered. The Minister for National Defense (General Pai Ch'ung-hsi) and the two National Commissioners for the former Executive Headquarters argue on the other hand for segregating the Communist armies into smaller bands confined in different regions and dealing with them piece-meal. In any

⁸² *Post.* p. 824.

⁸³ W. Walton Butterworth, Minister-Counselor of Embassy in China.

case, the news from the various fronts has of late not been reassuring. The situation in Manchuria seems especially critical and the popular discontent even more widespread than within the Wall. General Tu Li-ming is dangerously incompetent, all the more so perhaps because of his arrogant conceit.

2. The Communist leaders appear confident that—whatever their reverses and deficiencies—the situation will work out increasingly to their advantage. In so far as they base this upon purely internal conditions they probably have good reason for assuming that economic and fiscal difficulties will reinforce the deepening opposition to the Government to the point of forcing it to renew the negotiations for peace. They are counting on preventing American aid to the Government while the civil war continues and are intensifying their vituperative propaganda to this end. They have succeeded in this at least to the extent of instilling into their own people a belief that we are allied with the Kuomintang against them, so that anti-American sentiment is more than ever a reality wherever the Communist Party influence has spread. Chinese Communists share the Russian dialectic theory that a capitalistic economy must have the cycle of recurrent depressions and that this will soon happen again in the United States with the consequent necessity of curtailing our activities in foreign countries. Evidence from widely-separated regions and through unrelated sources all seems to confirm the cruelly authoritarian nature of Communist domination and the revulsion of the populace in many localities against their leadership. “Military necessity” seems to be driving them to oppressive measures not unlike those which have always been prevalent in typical Chinese local administration. By and large perhaps the sufferings of the common people do not vary greatly under either system, and are of course made more acute by the war, especially where the control is constantly shifting. On the whole it would seem that the earlier disillusionment as to the Kuomintang is now becoming no less true of the Communist Party, alike among the intellectuals and the rural masses.

There is another aspect of the Communist Party problem which has an important bearing on any further efforts to effect a reconciliation. They have always, in my opinion, been quite sincere in desiring a Coalition Government—provided that terms satisfactory to them could be agreed upon. But they have thought of this as a somewhat permanent arrangement rather than as an interim device pending the establishment of a constitutional system by which one party or another would be in power as decided by popular vote. In the earlier discussions it would have been a needless complication to introduce this issue. Once the fighting had been stopped and a working government had been or-

ganized this might have been left to a happier future. Perhaps this still holds true. But with the present impasse in peace negotiations and the determination to put the Constitution into effect on December 25, 1947, the period for a temporary coalition would at best be very brief. In my view the Communist Party will have the intention if it should enter into a Coalition Government after the inauguration of the Constitution of maintaining that coalition for a considerable period while it worked from within.

3. We are now witnessing some of the practical difficulties of a Coalition Government without Communist Party representation. The Ministry of Economics and the Ministry of Agriculture and Forestry were allotted to Youth Party members. The former is one of the most thankless tasks in the list and it is not surprising that Mr. Li Huang has steadily refused to accept it. There is a vacancy among the Social Democrat membership on the State Council. One of the three who have taken office (Hu Hai-men) has now been expelled from the Party which creates a perplexing dilemma. From the Government standpoint the minority party members are inexperienced and are in no way superior to the seasoned workers they must displace, thus tending to reduce efficiency. The Youth Party especially is anxious for as many jobs as can be secured for its members, and those of both parties are disgruntled at not having a more responsible share in administration. The new Premier has tact and strength of purpose and should be able to weld together these disparate elements. Part of the difficulty is inherent in the numerical superiority of the party in power.

4. During the past week or two there have been frequent news items in the local press concerned in one way or another with prospective American loans. These have served to dramatize both the desperate predicament which the Government feels itself to be facing and the extent to which our country has become enmeshed in this confused situation. The consciousness that some such assistance is essential in order to avert disaster exists throughout Government circles though a note of bitterness that this is the case and a desire not to be interfered with in the use of it are almost as prevalent. These can be detected in intimate conversations even with one as friendly to us as Premier Chang. President Chiang almost alone among the leaders has recognized with cold realism the inherent weaknesses of his country both human and material and has disciplined himself to paying the price for American monetary aid in having it accompanied by a large measure of American control. This may not be quite fair to him, for I have the impression that—even more than before your departure—he is deeply aware of this need. It might almost be said of him that he

is forced by fiscal and economic exigencies to seek for relief through credits or loans, but that in the field of his own primary interest he is increasingly aware of the practical value of American specialists as advisers. In any case, we can count on a measure of support from him in the matter of control in the event of our decision to give financial assistance for specific projects.

5. The essence of the problem seems to be as to whether the financial structure of the country can endure until the military operations will have opened the way for a negotiated peace. If President Chiang is correct in his confidence that this will be achieved by September, our experts think that there will be no financial collapse before then. General Cheng Kai-min (formerly of Executive Headquarters) modifies President Chiang's forecast to the effect that, if needed ammunition can be obtained, the Tientsin-Pukow Railway zone and all of Shantung Province could be recovered by September, but that it would be toward the end of the year before this could be done for the Peking-Hankow Railway and Shansi.

Whenever the leaders of the Communist Party can be persuaded that it would be to their interest to renew the efforts for a peaceful settlement, all that was originally contemplated for the welfare of this country could be undertaken with the confidence that it will be welcomed more than ever by the inarticulate masses and by all whose sensitive pride or selfish interests are not injured in the process. We will ourselves have probably gained experience for supervising such aid more wisely. Meanwhile, the situation is fluid. How long this will continue cannot be predicted but our policy may have a determinative influence. Mob violence may break out at any time and spread rapidly in the worsening economic conditions and with the attempts to arouse this which are undoubtedly being made. Apart from this there is not apt to be collapse so much as disintegration.

Respectfully yours,

J. LEIGHTON STUART

893.00/5-1147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 11, 1947—4 p. m.

[Received May 11—6:25 a. m.]

1023. Following the discussion reported in the fourth paragraph Embassy's telegram 916, April 28, midnight,⁸⁴ Generalissimo requested that Major Rigg and Captain Collins⁸⁵ call upon him, thus follow-

⁸⁴ *Post*, p. 824.

⁸⁵ Maj. Robert B. Rigg and Capt. John W. Collins, Assistant Military Attachés in China.

ing up the discussion re Manchuria as he had the 8-1/3 group program as reported in Embassy's telegram 963, May 4, noon.⁸⁶

Aside from answering questions regarding their personal experiences and in response to specific questions from Generalissimo, Rigg and Collins gave him the information summarized below:

Morale of Communist troops they had seen or marched with was high and retreat across Sungari River had been conducted in an orderly and unhurried fashion. Nationalist reinforcements had not arrived in time to make any effective contact with them. The other Nationalist troops were immobilized in garrison towns and field commanders were hamstrung by Tu Yu-ming's instructions which required prior permission from his headquarters before any movement could be ordered. Communist troops could now out-march Nationalists since latter had been so long garrisoned. Communists freely stated that First Army under General Sun Li-jen (see Embassy's telegram 965, May 4, 4 p. m.^{86a}) was by far the most effective force they had met with.

STUART

893.00/5-1547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 15, 1947.

[Received May 15—4:05 a. m.]

1056. At weekly press conference held at the Ministry of Information on May 14 the director of the Chinese Government Information Office, Dr. Hollington Tong, replied as follows to questions presented:

1. Query: What is the Government's official attitude to the Democratic League?

Answer: Together with the Chinese Communist Party, the Democratic League has openly repudiated the constitution and rejected the validity of the National Assembly. In spite of its close association with the Chinese Communist Party, which is now in open rebellion against the Government, the League still claims to be a peaceful political party. The Government's attitude toward the Democratic League will be determined by the policies and activities it pursues.

2. Query: Will the League be allowed to run in the coming elections?

Answer: All citizens of the Republic of China may run in the coming elections according to law. The League, however, does not have the right to run as a party.

3. Query: How many political parties are there in China beside those in the PCC? ⁸⁷

⁸⁶ *Post*, p. 826.

^{86a} Not printed.

⁸⁷ People's Consultative Council.

Answer: With the exception of political parties which have been active, the number of political groups is difficult to estimate.

4. Query: What is the Government's attitude toward the peace movement which, according to press reports, might be launched by members of the PCC at next session of the People's Political Council on May 22?

Answer: The Government has never shown reluctance to consider reasonable proposals by which unity may be peacefully achieved, but the Government has been much disillusioned by past experiences. It does not intend to be diverted from its course of unification and democratization by programs which have no substance behind them.

Dr. Tong then referred to a letter received on May 6 by the secretariat of the PPC which was sent by three PPC members, Hsu Teh-hing, Chow Ping-lia and Chien Tuen-sheng, in which they requested the Government to provide facilities for Communist members to attend the coming session scheduled to open May 20. The Secretary General of the PPC replied as follows:

"Regarding the notice for Chinese Communist members of the People's Political Council to attend the forthcoming meeting, we have by wire requested Mr. Wu Yun-fu, Chinese Communist staff member of CNRRA,⁸⁸ to forward it. When a reply is received arrangements can readily be made, as you have kindly suggested, for you to go over and bring the Communist PPC members here by plane.

"However, judging from the attitude of the Chinese Communists towards the PPC during the past year and their turning down in January of this year General Chang Chih-chung's⁸⁹ proposed visit to Yen-an, it is feared that their reaction this time may be none too favorable. It is also my apprehension that they may even ridicule the current proposition as another peace offensive missile.

"Personally, I am deeply impressed by your zest and farsightedness in making this offer to the Communists, and, as requested, I shall discuss the matter in detail with the Government. In the meantime, it is my hope that you will come to Nanking at an earlier date to avail us of your personal counsel."

Dr. Tong then added that the secretariat has not received any peace proposals.

STUART

893.00/5-1547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 15, 1947.

[Received May 15—9:50 a. m.]

1062. In answer to the question "Is the Government satisfied with recent developments of the Shantung offensive?", the director of the

⁸⁸ Chinese National Relief and Rehabilitation Administration.

⁸⁹ Then Governor of Sinkiang.

Chinese Government Information Office gave the following reply at the weekly press conference held at the Ministry of Information on May 14:

"The Government is satisfied with military operations in Shantung. After the capture of Laiwa, Tushihkou and other towns, the Government forces have further advanced toward the North. Fighting is now largely in Poshan and is synchronized with our advances from the south. Garrison troops of Tsinan have meanwhile made gains along the railway leading to Hsuehchow. Other units which have taken Mengying have advanced deeper into the mountainous regions of central Shantung which has been the Communist base of operations for years. About 10,000 Communists will be trapped east of the Tientsin-Pukow railway. All together there are 150,000 Communist officers and men in Shantung. Government forces have contacted and broken Communist main forces and we believe large-scale fighting will be ended in that province soon.

"Between April 21 and May 6 Communist casualties were 22,987. According to information received by the Ministry of Defense, there has not been much change in the fighting in Shansi in the last week. The capital of Shansi, Taiyuan, is not threatened.

"In regard to the war situation in Manchuria, the Communists have massed 200,000 men for a new offensive, of which about 90,000 are attacking Nungan from Fuyu. The decisive battle in that area has now begun."

STUART

893.00/5-1647

The Ambassador in China (Stuart) to the Secretary of State

No. 728

NANKING, May 16, 1947.

[Received May 23.]

SIR: I have the honor to enclose for the information of the Department a copy of a report prepared by Colonel David D. Barrett, USA, Assistant Military Attaché at Peiping, giving his impressions with regard to conditions in China as they appeared to him upon his return from four months' leave in the United States.

Colonel Barrett needs no introduction to officers of the Department and the Foreign Service who have served in China during the past ten years, and the Embassy has read his report with great interest and finds itself in substantial agreement therewith. Colonel Barrett offers little that is new to observers of the China scene, but his report is an honest recapitulation of the views of an American official who has served many years in China. It will be noted that Colonel Bar-

rett's comments again bring to the fore the points which have had an effect upon the situation in China for many decades and have shown little, if any, change within recent years. Colonel Barrett points out the long suffering nature of the Chinese people but also finds growing discontent because their sufferings have not been ameliorated by the termination of the war of resistance,⁹⁰ but have actually been increased. The increasing burden of taxation adds to this discontent and to the general disillusionment of the Chinese people with their rulers.

The Embassy does not agree completely with Colonel Barrett in his paragraphs 15 and 16 wherein he finds that there is little, if any, anti-American feeling in China. As the Embassy has already reported to the Department, the anti-American student demonstrations of last year in Shanghai, Nanking and Peiping were predominantly anti-Government and were only anti-American in character in so far as certain incidents, such as the Peiping rape case, offered an unassailable excuse for calling demonstrations. Since that time, however, the Embassy considers that anti-American feeling has been increasing. Of course, the most outspoken anti-Americanism emanates from the Chinese Communists, but even in certain Government quarters it is believed that anti-American feeling is present but veiled in many cases merely because there is still the hope that the United States will come to the support of the present regime as it is now constituted. The tendency to blame current ills upon American interference rather than on administrative ineptitude is becoming increasingly apparent in official quarters. Xenophobia in China is difficult to estimate or to assess, but it is always latent and, as has occurred on many occasions in the past, can be turned into a political weapon to serve the purposes of any group. At the present time the United States is in a favored position in China, but this situation may not always prevail and we should not allow ourselves to become wedded to the conviction that merely because the present regime is anti-Communist it is therefore pro-American.

In general the Embassy agrees with Colonel Barrett's final paragraph to the effect that developments in the situation in China will probably continue to be slow. Facile predictions of economic or political collapse have too often in the past tended to give substance to the trite remark that things are never so bad in China but that they can not get worse. Events may well continue to end with whispers rather than bangs, but during the past few months the process of deterioration has shown signs of marked acceleration and, as Colonel Barrett points out, the present Government has thus far

⁹⁰ With Japan, 1937-1945.

shown itself "totally incapable of arresting the course of this steady deterioration". Events in China are now governed largely by the civil war situation and accelerated economic and political deterioration resulting therefrom has already developed beyond the stage indicated by Colonel Barrett.

Respectfully yours,

For the Ambassador:
W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

[Enclosure]

Report by the Assistant Military Attaché in China (Barrett)

No. R-263-47

[NANKING,] 7 May 1947.

1. Before departing from China for temporary duty and leave in the United States in December of last year, I had been serving continuously in China for over ten years. Consequently, I had become so thoroughly accustomed to conditions in this country that some of my impressions of the general situation were probably not as clear or accurate as those of a person who had not been here so long. In other words, I had been in China so long that I could not see the woods for the trees.

2. Since my return to China last month, with at least a part of the cobwebs swept from my brain by duty, travel, and leave in the United States, I feel that my impressions concerning the situation are clearer than they would be had I not been for a time away from this distressful country. I hope, accordingly, that I am able to see things not only with a fresh and open mind, but that with a background of almost nineteen years' service in the Orient, I can see the general picture with some degree of accuracy and understanding.

3. One of the first things I noticed on arriving in Shanghai was the people on the street look worried. Always before it seemed to me that the Chinese, no matter with what trials and tribulations they may be beset, in general appear carefree and happy. Even refugees fleeing before an advancing Japanese Army always appeared to me much less wretched than one would expect under such circumstances. During the bombings of Chungking in the summers of 1939, 1940, and 1941, I was constantly astonished at the equanimity, not to say apparent unconcern, with which large numbers of the population faced the loss of their families and destruction of their property. Now, however, the ordinary people on the streets of Shanghai and Nanking look definitely worried to me. After talking to a number of Chinese in various walks of life, I am convinced that they are not only worried but discouraged to the point of apathy. During

all the years I have served in China, I have been hearing the Chinese people cry "Mei yu pan fa," over the political, military and economic situation. They are still crying "Mei yu pan fa," but with a depth of despair that I have never heard before.

4. As is to be expected, the condition which most alarms the average Chinese is the skyrocketing of commodity prices. During the war, commodities were terrifically expensive, and this of course caused an untold amount of hardship and suffering. Bad as was the situation at that time, however, the people could take some comfort in the thought that their troubles were the inevitable result of war, and there was always the hope that after the *dwarf slaves* had been defeated, things would get back again to normal. Now China has won the war, but prices are rising to heights never dreamed of during the darkest hours of the conflict. This situation has the Chinese people terribly worried, because there is apparently no relief in sight.

5. The people with whom I have talked since my return to China (and I have tried to obtain the views of as representative a group as possible, excluding Communists and those with extreme leftist tendencies) are open and bitter in their condemnation of the Government. No one with whom I talked has criticized the Generalissimo, except to say that he is completely out of touch with the real situation in China, and that among the people closest to him are bad characters by whom he is considerably influenced. One conservative and open-minded Chinese said to me, "It has probably been at least twenty-five years since anyone has dared to talk to the Generalissimo frankly and openly, without an axe to grind or without fear of the consequences if he should incur the easily aroused anger of the Generalissimo. It has probably been even longer since the Generalissimo has walked on the streets and mingled with the people like an ordinary man. How can he be expected to understand the real situation in China?"

6. No one with whom I have talked since my return to China has had the slightest hope that the Generalissimo will ever effect a real reorganization of the government. "Huan t'ang, pu huan yao" ("Change the solution in which the ingredients are suspended without changing the ingredients.") is the comment I have invariably heard on this subject. A Chinese general who holds an important military post and is absolutely loyal to the Government told me that it made no difference whom the Generalissimo placed in the position of Chairman of the Executive Yuan, as the Generalissimo himself completely dominated this office and would brook no real interference in administering it.

7. Those with whom I have discussed the present situation agree that the Generalissimo undoubtedly sincerely desires to do right by China, but because of his stubbornness, desire to continue in power, isolation from the people, and influence of certain bad men around him,

he has no conception of what steps should be taken to bring about an improvement in the distressing conditions which now prevail.

8. Observers of the Chinese people have long agreed that ability to eat bitterness is one of their strongest points, but also one of their weakest in that they are too much inclined to resign themselves to conditions as they are without putting up a struggle to improve them. Consequently, they have been accustomed for centuries to enduring the miseries of corrupt and incompetent government without doing anything about it. Never before, however, have I seen the Chinese people so thoroughly fed up with the present all-pervading rottenness of the government as they are now. Those with whom I have discussed this subject admit that since no Chinese official is paid enough to live on, he must either be corrupt or starve. They complain bitterly, however, about the unlimited rapacity of many persons in high places who have already made their pile, and therefore might reasonably be expected to keep their hands somewhat cleaner than the run-of-the-mill official whose opportunities for attaining any degree of economic independence are limited.

9. I find the ordinary people of China tremendously embittered by the multitude of burdensome taxes which they must pay without seeing the slightest evidence that the money goes anywhere except into the pockets of officials. Examples of these exactions are the "feast tax" in Peking on all restaurant meals costing over three hundred dollars, when three hundred dollars will not buy a single ball of steamed bread; the heavy "sanitation tax" which is supposed to raise money to buy trucks in which to cart away garbage, while in fact garbage is collected in the carts of farmers impressed for forced labor; and the "education tax" on hotel bills and other items, while school teachers starve and school buildings, in the last stages of dilapidation, are frequently occupied by the military. Over these and a myriad of other taxes, the Chinese people are furious. Taxes, they say, they have always had and always will have, but never before have taxes been so burdensome or produced such little results.

10. The owner of a watch and clock shop told me that if his business paid all the taxes levied on it by the government, he could not keep it going. The only recourse, he said, was to grease the palms of the tax collectors, who for due consideration would forego the collection of the levies which it was their duty to gather.

11. Chinese who know the truth about Formosa have been outspoken to me in their condemnation of the manner in which the Generalissimo has allowed the affairs of that once prosperous island to be woefully mismanaged. They say they cannot understand why the Generalissimo would give to Chen Yi, a man whom he would not allow to be

a provincial chairman during the war, the biggest plum which could possibly fall to an official since the Japanese surrendered and then not check up to see how this man was carrying out his trust. A young, well informed, and by no means leftist-inclined Chinese who has, or did have before the island was virtually ruined by Chen Yi's beneficent administration, financial interests in Formosa, told me he feared it would never recover from the blows which it has recently been dealt. All he could see for the future was a slow but certain process of deterioration, with the Soviet Union and Chinese Communists taking every advantage of the opportunities presented for fishing in troubled waters.

12. Not one Chinese with whom I have talked since my return (it must be admitted that I have not discussed the subject with any high civil official) has expressed any criticism of the United States for not granting China a loan. All have frankly stated that the United States cannot reasonably be expected to lend money to China while she is carrying on a civil war; and that the past record of China in spending loans has not been one to inspire the United States with a desire to grant another one. When I have asked if China would accept a loan with strings attached concerning the manner in which the money is to be spent, the answer has been in the affirmative. The opinion has been generally expressed, however, that both the government and certain groups in the United States would undoubtedly raise the cry that the attaching of strings constituted an unwarranted interference in the affairs of a friendly sovereign nation.

13. The Chinese general to whom I have referred above, whom I consider one of the best informed and most fairminded Chinese I have ever met, expressed the belief that the only thing which keeps the Kuomintang in power is the bayonets of the Chinese Army, which still has but one loyalty, the Generalissimo. He stated that the power of the secret police had decreased considerably since the death of Tai Li,⁹² but the people were very definitely held in line by the Army. When I asked the General how long he thought the Kuomintang could stay in power without the Army behind it, he did not reply, but only laughed.

14. The general opined, and others with whom I have talked agree with him, that the Kuomintang will never relax its grip on China unless it is driven out by force of arms. The general was not unduly pessimistic about the new Constitution, but he was doubtful if through it the people will ever be allowed to exercise real suffrage until the power of the Kuomintang is broken. Asked when he thought this would be brought about, he said it was very difficult to make a pre-

⁹² Former head of the secret police system.

diction. He thought it unlikely that it would come in the near future, and it might not happen for many years.

15. Both before leaving China last year and while I was in the United States, I heard a great deal about anti-American feeling in this country, particularly among the students. It was my good fortune to miss the anti-American demonstrations last year in Shanghai, Nanking and Peiping, and my opinions on this subject must be judged accordingly, but as far as I am concerned, I have never at any time personally seen any evidence of anti-Americanism in China. In my opinion, the anti-American demonstrations were engineered by a hard core of Communists and professional agitators working under a group which in every country is volatile and easily aroused to mass action. I doubt if a fraction of the individuals who took part in the demonstrations really had any hard feelings toward America. This opinion is supported to some extent by the statements of Americans who witnessed the demonstrations who have told me that while the attitude of the participants in general was decidedly hostile, and many inscriptions on banners and shouted slogans were insulting, whenever one talked to an individual demonstrator or a small group, the attitude of the persons addressed was reasonable and their language polite.

16. Both before leaving China and since my return, I have asked many Chinese about the feeling of the Chinese people toward America and the consensus of their statements was always that the United States is the best friend China ever had or ever will have. Allowing for Chinese politeness, I think this is the real feeling of all thinking Chinese, except the Communists and a percentage of those under the control or influence of Communists. In other words, I do not believe our reservoir of goodwill in China has been drained or will be in the near future.

17. In view of what I have written above, it is unnecessary for me to say that the present situation in China appears to me extremely bad. The most alarming feature is undoubtedly the sky-rocketing of commodity prices caused by the steady depreciation of the Chinese currency in terms of the U. S. dollar. The recent dismal failure of the attempt to hold the Chinese dollar to a pegged rate of 11900 demonstrates clearly the inability of the government to control the black market in United States dollars. Here in Peking, U. S. dollars are being bought today more or less openly at about 22,000. Since the most recent break in the Chinese dollar, prices of commodities have been revised upward, sometimes as often as twice a day, almost exactly paralleling the rise of the U. S. dollar, or if one prefers to put it the other way around, the fall in Chinese currency. To cite an

example, for a brief period in which the currency was being held fairly steady at the present official rate, a bag of flour in Peking costs about CNC 120,000 (I remember well the time when the local populace cried to heaven when the price rose to CNC \$3.00). Now that the black market rate for the U. S. dollar is around 22,000, the price of flour has risen about one hundred percent.

18. Rise in the price of flour works the same hardship in North China that soaring rice prices do in Shanghai. In North China another important factor, the price of coal, is injected into the situation, as it is almost impossible to get along in the North during the winter without some heat other than that needed for cooking. In my opinion, the Chinese people can stand almost any degree of rotten government provided they can keep from starving and freezing. From the present look of things, the time when a large percentage of the population will no longer be able to get enough to eat, and come winter may freeze to death, is not far off.

19. In the face of the conditions in which I have commented above, what is likely to happen? From the experience of seventeen years' service in China, I would say probably nothing, at least not for a long time. Since 1924, when I first began to study the situation in this country, China has frequently appeared on the brink of complete economic collapse and sometimes even a peasant revolution. These disasters have not yet come, and even though China appears at the moment to be facing the worst crisis in many years, they may not come now or, at the worst, for a long long time. What I expect to see is a steady deterioration in the over-all situation until some day even the Chinese cannot stand it any longer and the lid will blow off. Long before that time, however, some outside power may have taken a hand in the China situation. In my opinion, the present government of China, without help from the outside, is totally incapable of arresting the course of this steady deterioration.

DAVID D. BARRETT

893.00/5-1647

The Ambassador in China (Stuart) to the Secretary of State

No. 730

NANKING, May 16, 1947.

[Received May 23.]

Subject: Probable Course of Central Government Policy Toward
Non-Kuomintang Political Groups

SIR: I have the honor to bring to the attention of the Department two recent developments which are considered significant in assessing the probable future course of Central Government policy vis-à-vis the Chinese Communists and other non-Kuomintang elements.

On May 1, 1947 General Pai Chung-hsi, Minister of National Defense, attended a meeting of the Legislative Yuan for the purpose of reporting on military affairs. There is enclosed a summary report of his remarks⁹³ as published in the *Nanking Jen Pao* of May 2. This is the most detailed published report of General Pai's remarks which has come to the attention of the Embassy. Usually well-informed sources, however, have stated that General Pai, in addressing the Legislative Yuan, used far stronger language than is indicated by the enclosed newspaper account. Even from this alleged watered-down version, it seems clear that it was General Pai's intention categorically to inform the Legislative Yuan that economic and political considerations were at this time in China to be considered subordinate to military questions and that the military would not countenance any change in the present policy of pressing for expanded conscription and grain requisitions for military use.

On May 2 the Central News Agency, English Service, released at Nanking a story to the effect that a Communist document entitled "Outline of Underground Struggle" had been captured by Government forces in northern Shensi. A copy of the Central News Agency report is enclosed.⁹³

Since the adoption of the new Constitution by the National Assembly on December 25, 1946, and particularly since the recently announced reorganization of the State Council and the Executive Yuan, there have been numerous Government statements implying that the door would be left open to participation in the Government by the Communists, the Democratic League or any other non-Kuo-mintang groups. The overall implication has been that current military operations were aimed solely at re-establishing lines of communication and that while pursuing this objective the Government would welcome the reopening of peace talks with dissident elements.

From General Pai's remarks it is difficult to avoid the conclusion that the Central Government military hierarchy is determined upon attempting forcible unification of the country before the initiation of any talk of peace, and the obvious inference flows from his remarks that unification to the Chinese military mind presupposes the prior elimination of the Chinese Communists, in which case there would automatically ensue a state of peace by reason of the elimination of the only armed opposition. The parallel with similar Chinese military thinking during the period of previous campaigns before 1936 aimed at the elimination of the Chinese Communists by force of arms is only too obvious.

General Pai's remarks acquire added significance when considered in conjunction with the almost simultaneous appearance of an alleged

⁹³ Not printed.

Chinese Communist document in the nature of a directive on underground and terrorist activities. Regardless of whether the document is genuine, it is difficult to understand the excitement, which in certain press organs took on an hysterical tone, of the Government concerning it inasmuch as it would seem to have been a logical Government assumption for planning purposes that the Communists would adopt the tactics which are outlined therein.

It will be noted from the alleged captured document that direct reference is made to the Democratic League and other non-Kuomintang groups, even those at present participating in the Government, as channels for subversive Communist activity. The release of the document at this time has given rise to considerable concern among non-Kuomintang political groups. Dr. Lo Lung-chi, Secretary General of the Democratic League, on May 3, 1947 issued a public denial that the League was a creature of the Chinese Communist Party and declared that the publication of the alleged Communist document at this time was but a forerunner of repressive measures aimed at any or all groups in opposition to the policies of the Government. Other political groups referred to in the document have issued similar but less vociferous statements. The concern of non-Kuomintang political groups with regard to their future position was given substance on May 14 when the Director of the Chinese Government Information Office, in reply to a question at his regular weekly press conference, linked the Democratic League with the Chinese Communist Party as having openly repudiated the Constitution and rejected the validity of the National Assembly, and added that the Government's attitude toward the Democratic League would be determined by the policies and activities it pursues. In reply to a second question, the Director stated that the Democratic League did not have the right to join in the forthcoming elections as a political party.

The remarks of General Pai Chung-hsi before the Legislative Yuan and the almost simultaneous appearance of an alleged Communist document which impugns all important non-Kuomintang political groups, adds weight to the widely held belief that the Government is irrevocably wedded to a policy of extermination of the Chinese Communists in spite of constant lip-service to the principles of settlement of internal problems by political means and multi-party participation in government. It is possible that the anti-Communist bias of the Government may well develop to a point where political opposition will be suppressed in the name of national security and behind a façade of reorganized government if the civil war drags on and the Government feels its force weakening.

It is not without significance that General Pai's remarks were addressed to the Legislative Yuan. Within this organ are to be found

many of the most intelligent and progressive Chinese officials from whom there has emanated much sound and constructive criticism of Government policies and who have fostered many liberal laws aimed at the roots of Chinese problems. In this latter connection a notable example is the new Land Law promulgated in April 1946, but thus far unenforced.

In spite of repeated warnings from enlightened Chinese and unbiased foreigners that social and economic problems can not be permanently resolved by force, the military hierarchy gives every indication of having embarked once again, in the name of "bandit suppression", upon a final campaign to eliminate political opposition by military means. In this general connection it is significant to note that on May 12, 1947 an official Government announcement revealed that General Ho Ying-ch'in⁹⁴ was about to emerge from temporary obscurity and assume the chairmanship of the Military Advisory Council of the Ministry of National Defense.

Respectfully yours,

For the Ambassador:
W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

IV. ANTI-GOVERNMENT STUDENT DEMONSTRATIONS; MEETINGS OF THE PEOPLE'S POLITICAL COUNCIL; CRITICAL POSITION OF GOVERNMENT FORCES IN MANCHURIA (MAY 19-JULY 3)

893.00/5-1947: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 19, 1947—7 p. m.

[Received May 20—11:22 a. m.]

1090. Following is Mukden's 107 of May 16 to Nanking.

"Information available here indicates NECC headquarters⁹⁵ regards present Communist offensive as most serious yet faced. Communist forces pushing westward from areas some 100 miles northeast Mukden have taken Shangchengtze and are threatening Meihokow and Tsingyuan on Mukden-Hailing railway. Observers believe these forces aim reach main Harbin-Mukden line in region Seupingkai with view there meeting southward pushing Communist forces now near Hwaite thus completing isolation Changchun. Communist attacks to cut Mukden-Tientsin line near Shanghaikwan also believed likely.

⁹⁴ Former commander in chief of the Chinese Armies and from 1946 Chief of the Chinese Military Mission to the United States and Chief Chinese delegate to the United Nations Military Staff Committee.

⁹⁵ Headquarters of the Commander in Chief of the Chinese forces, Northeast China Command.

(See Tientsin's 103 of May 19 to Department⁹⁶ and Changchun's 74 of May 19, 9 a. m. to Department.⁹⁷) Nationalists reported moving much needed troops from Tungliao area to reinforce other areas. Ward".⁹⁸

STUART

893.00/5-1947 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, May 19, 1947.

[Received May 19—4: 35 a. m.]

103. Changli, 20 miles west of Peitaiho, captured by Communists yesterday afternoon who also damaged railway and bridges for some distance both sides of city. No information received as yet re following 8 Americans in Methodist Mission, Changli: Mr. and Mrs. E. J. Winans, Miss Dora Fearon, Horace Dewey, Miss Pansy Griffin, Miss Clara Nutting, Lora Batten, Edward Dixon. We are endeavoring through Marine Detachment, Chinwangtao, to obtain report from Consul Rutherford⁹⁹ who proceeded Peitaiho May 17 for week end. Further information expected this afternoon will be promptly reported.

Sent to Nanking as 87, repeated to Department as 103 and to Peiping.

SMYTH

893.00/5-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 20, 1947.

[Received May 20—1: 20 p. m.]

1100. In move to bring under some semblance of control the 2-week-old series of rice and student demonstrations and disorders, Government on May 18 promulgated a series of decrees forbidding public mass demonstrations and setting up channels for the presentation of grievances. Coincidentally, the Gimo^{99a} issued a statement calling for discipline and the application of the processes of law (see Embtels

⁹⁶ *Infra.*

⁹⁷ Repeated as No. 195 to Nanking, not printed; it concerned questions regarding disposition of the Consulate code machine and materials in the event of Chinese Communist capture of Changchun (119.25 Strip Cipher/5-1947).

⁹⁸ Angus Ward, Consul General at Mukden.

⁹⁹ M. Robert Rutherford, from Tientsin.

^{99a} Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.

1089 and 1086 of May 19¹). Background and development of this mounting crisis appear to be as follows:

As already reported in previous telegrams, the first outbreaks were looting of rice shops in areas as widespread as Shanghai and Chengtu but predominantly in lower Yangtze Valley. These outbreaks closely followed a spectacular increase in the price of rice with the merchants refusing to sell accumulated stocks. In self-defense the rice dealers then began to organize themselves. Effective action by the police has reduced the number of rice riots and held them under control.

In the meantime, unrest in the university has increased to such a point that practically every academic center in the country is on strike. The demands in the original university demonstrations were somewhat fanciful in that they comprised such things as protesting the elimination of a course on navigation in the curriculum of the Hangchow Christian College, protests against examinations which are now scheduled, and demands for removal of certain colleges from one city to another. As the demonstrations spread, demands become more basic; now they are principally for an increase of Government subsidies to students and immediate termination of the civil war.

Giving added weight to the current seriousness of student demands is that majority of sympathy among faculty members is with the students. The highlight in protests by professors came in the form of a manifesto issued by the faculty of the Government's National Central University in Nanking which strongly condemns Government neglect of education, small appropriations, and attempts to control academic freedom of thought. The manifesto demands higher pay for teachers, larger appropriations for education and purchase of books and scientific instruments. It further warns that unless there is a drastic revision of basic policy, placing education on a more important level, the educational system of China is rapidly heading for disaster.

Demonstrations are estimated at between 3 and 10 thousand students each.

Leadership and motivation of the demonstrations have shown definite signs of changing. Most competent observers believe the original impetus was given by the CC clique² which was desirous of inciting a series of disorders which would in time publicly discredit a Political Science group-dominated government by proving it incapable of maintaining order, and in the long run provide the justification for a strong-arm, right wing government coming into power either through a *coup d'état* or through sweeping the elections to be held this fall. All this has coincided with growing public agitation for a new

¹ Neither printed.

² Kuomintang group led by the two brothers, Chen Li-fu and Chen Kuo-fu.

peace movement. Aside from repeated demands for peace in the liberal and independent press, two outstanding examples are the request by three members of the People's Political Council that Communist representatives be invited to attend the session which convenes on May 20, and a petition signed by 13 members of the Legislative Yuan that the Government forthwith offer new peace terms. With this kind of public backing it is now apparent that leadership in the disturbances organized by the CC clique is passing into the hands of the Democratic League and the Communists. This development can hardly be displeasing to the CC clique, which can now claim that lack of public order is attributable to their enemies. Just how much of the agitation is now under Communist leadership is debatable, but it must be assumed that the Communists are present and, if not already active, are prepared to exploit the situation should it become necessary or desirable.

Chang Chun's government is facing an important test. Having banned demonstrations on May 18, several thousand Shanghai students on May 19 proceeded to disregard the order and demonstrate for peace. No measures were taken against them. On May 20, students in Nanking organized a demonstration to demand peace at the opening session of the PPC. The Government stationed troops around Nanking University to prevent movement in or out. Other university students, under the leadership of the National Central University, organized a movement to "liberate" their fellow students. They marched into the Nanking University, joined forces with students there and marched out. Again no action was taken by either police or soldiers beyond some blank rifle fire. As the students marched on the national assembly hall, where the PPC was meeting, they were confronted by barricades, fire hoses, and blackjacks which resulted in some disorder and a few injuries to students, as the PPC hastily adjourned for the morning.

Large bodies of students are still assembled in the vicinity of the national assembly hall confronting barricades manned by police and gendarmes. It remains to be seen what action the Government will take in face of this public flouting of its authority, but it is apparent that there is in train a student movement of considerable proportions which if not halted soon will tend to expand and contribute to further deterioration of the already parlous politico-economic situation.

STUART

893.00/5-2047 : Telegram

The Consul General at Changchun (Clubb) to the Secretary of State

CHANGCHUN, May 20, 1947—6 p. m.

[Received May 21—3 a. m.]

77. Am having American consular women and children prepare for possible evacuation if major Communist attack on Changchun develops. Direction next Communist move will presumably become clear in next 48 hours.

West field lost to Communists, north field is immediately outside inner defense perimeter but fit for landing C-47 and still safe. Landing such plane on parkway stated by American flier to be feasible if certain wires removed. In any event ESD³ holding three L-5's at Mukden and Singlaub states he will effect evacuation if desired.

Request any American C-47 now in Peiping or Tientsin be held there temporarily against request for evacuation nine women and children including British Consul's family of 3, tomorrow or 22nd. Would report on condition field and clearance at time of making request.

Sent Nanking; repeated Peiping, Tientsin and Department as 77.

CLUBB

893.00/5-2147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 21, 1947—10 a. m.

[Received May 21—7 a. m.]

1103. Available information indicates Communist forces Manchuria have assumed initiative and mounted sizable offensive from east and west against Changchun area. Although Changchun airfield under attack from Communist militia units night May 17 and Communist cavalry patrols operating within 7 kilometers of city, it seems unlikely at this juncture that Communists have intention or capability of occupying Changchun. It seems probable that Communists will endeavor harass Government line communication and supply south of Changchun with intent cause further attrition Government strength which may eventually force Government withdrawal southward.

Well coordinated plan is indicated by large scale raid Changli area May 18 (reference Embassy telegram 1088, May 19⁴). Possibility also exists that interdiction rail line Changli is forerunner to attack on major Government supply base for Manchuria at Hulutao.

STUART

³ External Survey Detachment 44, an American civilian intelligence unit attached to the Western Pacific Naval Command.

⁴ Not printed.

893.00/5-2147 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, May 21, 1947—5 p. m.

[Received 11:45 p. m.]

105. Reference my 88 (104 to Department), May 20, noon.⁵ Changli recaptured by Government troops yesterday afternoon. Chinese military headquarters here have not yet been able to obtain information from their forces at Changli regarding 8 Americans there. They will advise as soon as word received.

According to unconfirmed rumor from Chinwangtao brought back by Rutherford, Americans at Changli were taken away by Communists when they left Changli yesterday. I am sending Consul Warner⁶ by Marine plane to T'ang-shan early tomorrow morning to contact Chinese Army Headquarters in control of Changli. If no definite information available, Warner will proceed to Changli. Chinese authorities have been notified. Report from Marine planes indicate that practically every bridge between Luan River and Liushouying (stretch 28 miles) has been destroyed by demolition or fire; 150-meter steel bridge near Changli badly damaged. Estimated at least 3 weeks for repairs. Communist attacks undoubtedly in response to Manchurian offensive to block communications.

Sent Nanking as 93; repeated Department 105 and Mukden, Peiping.

SMYTH

893.00/5-2147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 21, 1947—6 p. m.

[Received May 21—8:19 a. m.]

1110. Following is Changchun's 196, May 19, 3 p. m.

"Communist forces yesterday evening were about 8 miles west and 5 miles north of Changchun. There was light skirmish at West airfield night of 17th, planes having been removed and preparations indicate Government forces anticipate they may be forced to abandon it. Population and hospital between airfield and inner western perimeter of town have been evacuated. Government forces are concentrating within inner perimeter with construction additional pillboxes and trenches and placing of artillery inside city. ReContel 195, May 19.⁷ Sent Nanking, repeated Mukden.

⁵ Not printed.⁶ Gerald Warner.⁷ Telegram No. 74 to the Department, not printed.

Present Communist drive still lacks clearly defined ultimate objective. Note, however, that drive is on larger scale than any previous movement in Manchuria. It seems probable that this time Communists have intention of carrying through farther in distance and longer in time than they did in three previous drives this year with objectives (1) supporting Communist campaigns in North China and (2) ultimately gaining control Manchuria.

Because of concentration troops Changchun it seems improbable major Communist attack will be launched on town at this juncture. Obviously, however, if Communists felt they were now in position to take Changchun they would choose to do so and thus (1) shatter whole Government defense position in central Manchuria and (2) strengthen their own position directly by capture important stocks war material. This latter alternative must be viewed as theoretical possibility.

It nevertheless appears more probable, if estimates of relative troop strength and information re deployments are reasonably approximate, that movement toward Changchun is in present stage primarily diversional to pin troops down and cover blow at weaker point. If assumption made in paragraph 2 is valid one possible logical Communist move would be to make long sweep eastwards south of Changchun to join up with Communist groups scattered between Hsian and Hailung, with aim of interposing substantial blocks to rail communications of Changchun (rail line to south is still open) and Kirin with Mukden and gradually effecting reduction of first two cities.

Two Govt divisions have reputedly arrived Manchuria from Jehol having been replaced by units from inside Wall.⁸ There is however also reported some increase Communist movement in Jehol regions. Clubb.”

STUART

893.00/5-2147 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, May 21, 1947—7 p. m.

[Received May 22—8: 55 a. m.]

69. Following is military situation Changchun based on observation ESD on reconnaissance flight May 20. Withdrawal been effected. (ReContel 112, May 20.⁹) Changchun being defended by thin defensive circle which at places is within city limits and excludes both north and west airfields. One airfield still ostensibly in National hands but Communists so close use of airfield dangerous.

⁸ The Great Wall of China.

⁹ Sent to the Department as No. 67, May 20, 8 p. m., not printed.

Evacuation US personnel by heavy planes possible by removing power lines on boulevard near city zoo. Apparently impossible for Nationals reinforce Changchun immediately because Communists have cut and hold rail line from point 43-48 north 125-9 to point 43-26 north 124. Communists aware critical railway cross ties shortage and have removed and are burning ties between points mentioned.

Bridges at Fanchiatun and Kungchuling were burning afternoon May 20. These bridges were formerly destroyed by Communists but Nationals jacked steel girders up on crosstie cribs and cribs now being destroyed. Railroad station at Fanchiatun burning afternoon May 20. All above railway points seemed held by small Communist units probably platoons except Kungchuling where Communists observed in greater strength.

NECC has advised ESD sources they estimate present Changchun garrison can hold city without reinforcements another 2 weeks.

Sent to Nanking as 114; repeated Department as 69, Changchun as 27.

WARD

893.00/5-2147

The Ambassador in China (Stuart) to the Secretary of State

No. 742

NANKING, May 21, 1947.
[Received about June 9.]

SIR: I have the honor to report the latest developments in China in their bearing on possible renewal of peace discussions.

The recent student and labor strikes have various explanations. The Government believes that it has discovered a Communist Party organization with headquarters in Shanghai known as the "Activities Committee", the function of which is to foment such disturbances. Rumors circulate that Dr. Chen Li-fu has been inciting the student agitations in order to embarrass the present Minister of Education,¹¹ or possibly the new Premier and Cabinet. President Chiang K'ai-shek cites this rumor as part of Communist Party machinations to discredit and divide the Kuomintang. The student demonstrations are largely due to unsatisfactory living conditions and to deepening discouragement, all exploited by trained agents among them. But the food riots and labor strikes could easily be spontaneous outbreaks. In any case, they are all symptomatic of economic distress and of political grievances. It is significant that all of these are directed against the Government which gives ground for the suspicion that they are at least being utilized for subversive ends. The authorities for the first time are begin-

¹¹ Chu Chia-hua.

ning to admit that the situation may get out of their control. There is throughout an undertone of anti-American feeling, the radicals blaming us for enabling the Government to continue the civil war, the loyalists for our apparent indifference to the national danger.

Meanwhile, groups are forming in Shanghai, in Peiping, and quite possibly elsewhere, organized for making an appeal to both sides to stop the fighting and renew the efforts for peace by negotiation. The time seems ripe for some such assertion of the popular will and any such movements will probably gain wide-spread support. These are to be distinguished from the more or less violent and self-centered or instigated protests referred to in the preceding paragraph.

The People's Political Council meets here on May 20. The Democratic League delegates have promised to attend. Almost certainly there will be a motion passed looking toward ending hostilities and securing a negotiated peace.

President Chiang and the Premier are both extremely worried and with ample reason. The former always begins an interview with me by asking eagerly if there is any word from you. I am leaving tomorrow for Hankow to be gone only three days, but each has asked me to hurry back and even raised the question as to whether the trip could be postponed. This suggests the tension.

Dr. S. C. Wang¹² has been called back from Washington for consultation as to an overall request for loans and credits. He will return as soon as details are completed. He seems to me to have a sane and balanced understanding of the China problem as well as of American perplexities in our effort to be really helpful.

Respectfully yours,

J. LEIGHTON STUART

393.1115/5-2247 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, May 22, 1947.

[Received May 22—5: 50 a. m.]

108. Chinese military here informed me last night message from Changli reported all Americans safe. Warner flew Tangshan this morning to phone mission Changli and arrange their transportation Tientsin. Peitaiho reported quiet but about 20 persons including few Americans availing themselves Marine offer transportation here from Chinwangtao. Two Americans already arrived here.

Sent Nanking as 94; repeated Department as 108 and Mukden, Peiping.

SMYTH

¹² Chairman of the Chinese Supply Commission in Washington.

893.032/5-2347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 23, 1947.

[Received May 23—8:34 a. m.]

1121. Following is a translation of the full text of President Chiang Kai-shek's speech at the opening meeting of the third plenary session of the fourth People's Political Council held in Nanking on May 20, 1947:

[Here follows survey of developments since 1945.]

"The reorganized government still adheres to the policy of resolving the Communist problem by political means. But whether peace and unity can materialize depends entirely on the attitude of the Communist Party. What we ask of the Communists is merely to abandon their attempt to seize power by armed force, to halt their military operations and to abide by the agreement for the restoration of nationwide communications. If the Communists will show their sincerity by deeds, the Government, desirous of peace, is ready to seek a solution of the situation politically in order to relieve the people of suffering. I believe this policy is in conformity with the wish of the entire nation and has the support of this Council. I wish to make this clear first of all.

"The absence of peace and unity denies the necessary conditions for peaceful national reconstruction. Rehabilitation and relief have therefore run into formidable obstacles everywhere. The people have been exposed to the pressure resultant from a disturbed social order. Consequently, national economy and living conditions in the country have failed to attain stability and social order and public morality have been gravely affected. These factors have thus far retarded China's return to normalcy.

"It is the duty and determination of the Government to overcome all obstacles and effect all necessary reforms.["]

[Here follows discussion of program for action.]

STUART

893.5045/5-2347 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, May 23, 1947—11 a. m.

[Received May 23—12:30 a. m.]

1251. Local Kuomintang, independent and liberal press giving very extensive coverage to student strike news throughout China. Student counter-strike movement urging return to classes, started last weekend, appears to be losing ground. There is no sign that strikes will

be terminated in near future. (Reference my telegram 900, May 21, 8 p. m., repeated Department as 1238.¹³)

Ex-Youth troops¹⁴ were repulsed on 21st by Chinan University students when former attempted to hold meeting on campus. Arrival garrison officials prevented open conflict.

Police watching situation very closely and have stationed plain-clothesmen at close hand to universities involved. Police attended two student meetings held on 21st. Press reports student fight at Shanghai law college in which several were injured and six arrested by police.

Shanghai Federation of National University Students met at Tung-chi University 21st to consider publicity measures for protesting Nanking incident.¹⁵

For third consecutive day press carried official notice of prohibition of parades and demonstrations and threat of severe punishment for violators. Possible imposition of martial law hinted.

Source stated 22d that student agitators from Nanking at work on St. John's University campus. Anti-civil war posters plastered over buildings and speeches being given by noted leftist leader Mao Yin-chu and others. He stated that he believes strike will be called 23d. If this eventuates, school plans to suspend classes for several days. Shanghai University has suspended all classes and is attempting to close school temporarily.

Sent to Nanking 915, repeated to Department 1251.

DAVIS

893.00/5-2347 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, May 23, 1947—11 a. m.

[Received May 24—4: 10 a. m.]

110. Reference my 94, May 22 to Nanking.¹⁶ Marines intended to send motorcars yesterday from Chinwangtao to Peitaiho to take away any Americans who wished to leave, but were prevented by sporadic fighting. At 5 a. m. Marine detachment Chinwangtao reported fairly heavy action going on between Chinwangtao and Peitaiho junction. Peitaiho beach reported quiet. A Marine LCI has been sent from Chinwangtao to stand off Peitaiho beach to take away the four Americans, about four British, eight or nine French, a few others who might wish to leave. I have sent message through Marines strongly advising

¹³ Not printed.

¹⁴ Possibly San Min Chu I (Kuomintang) Youth Corps.

¹⁵ Clash between demonstrating students and unarmed police and gendarmes.

¹⁶ Repeated to the Department as No. 108, p. 138.

Americans to take advantage of this opportunity to leave. British Consul General has sent similar information to his nationals.

Information from Marine G-2,^{16a} local and other sources indicates that it would be highly inadvisable for Americans to remain in Peitaiho in foreseeable future. Consulate General had accordingly sent notice to Americans here strongly advising, in view of this situation in general vicinity of Peitaiho, that American citizens should not proceed to Peitaiho pending further notice. It is recommended that Consular offices at Shanghai and Peiping should similarly advise Americans who plan to go to Peitaiho, and that this office should be consulted in the future regarding the situation current there.

Sent to Nanking as Tientsin serial 96; repeated Department as 110, Shanghai as 98 and Mukden, Peiping.

SMYTH

893.00/5-2347 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, May 23, 1947 [—8 p. m.]

[Received May 23—4:47 p. m.]

113. Reference my 96, May 23, 11 a. m.¹⁷ LCI evacuated 66 persons, including 2 Americans (Mrs. George Simme and Clinton Sharp) from Peitaiho this afternoon, due arrive Tientsin tomorrow morning.

Edward Dixon, one of Americans at Changli (my 94, May 22),¹⁸ arrived here this afternoon, coming by push car and train. Reports all Americans safe, well. Three Americans taken away with several hundred mission students when Communists captured Changli May 18 and held in nearby hills for 2 days: not molested by Communists and escorted back to Changli, May 22. Mission and city thoroughly looted.

Sent to Nanking as Tientsin Serial No. 99, May 23, repeated Shanghai as No. 103, to SecState as No. 113, to Mukden and Peiping.

SMYTH

893.00 Manchuria/5-2347

*The Consul General at Mukden (Ward) to the Ambassador in China (Stuart)*¹⁹

No. 4

MUKDEN, May 23, 1947.

SIR: I have the honor to report on matters centering on the return to Manchuria of General Ma Chan-shan, veteran cavalry leader and

^{16a} Military intelligence.

¹⁷ Repeated to the Department as No. 110, *supra*.

¹⁸ Repeated to the Department as No. 108, p. 138.

¹⁹ Copy transmitted to Department by the Consul General at Mukden without covering despatch; received about June 24.

prominent figure in the former, native and semi-autonomous Manchurian regimes of Chang Tso-lin and Chang Hsueh-liang.²⁰

Summary: After protracted negotiations, General Ma Chan-shan has finally returned to Manchuria at the insistence of the Central Government and assumed the position of Deputy Commander of the Northeast China Command (NECC). The growing offensive power of the Communist armies and their constantly mounting numerical superiority resulting from their greater utilization of native recruits and from aid given them by underground native forces has made the Nationalist leaders see the urgent need of attracting popular support to the Government. In bringing Ma to the Northeast in an apparently important military capacity, the Government was motivated by a desire to utilize Ma's potential strength inherent in his wide popularity here and in the presence of many thousands of his former followers scattered throughout Manchuria, including large numbers in Communist areas. At the same time the Nationalist leaders fear Ma (whose background is more anti-Kuomintang and pro-autonomy than anti-Communist) and seek to keep his activities circumscribed and under close surveillance.

While Ma and other sources deny the possibility of the Government's allowing Marshal Chang Hsueh-liang to return to Manchuria, there are persistent rumors that he may come, and the rapid deterioration of the Government's military position may conceivably cause the Government to bring him here as an additional step toward winning defections from the Communists of native guerrilla forces.

It is believed that the Government cannot hope appreciably to strengthen its weak position by the mere appointment of popular native sons to figurehead posts and that far more substantial concessions to native aspirations and needs would be required to gain popular support for the Government. It is thought that Ma will either find his activities so circumscribed by the Government as to render him useless, or—if managing to gain a free hand—will prove an important factor in helping the Communists, possibly directly and deliberately, but more likely indirectly, by stimulating a native movement which would be utilized by the Communists and made subject to strong Communist and Russian influence. The same would apply with respect to Chang Hsueh-liang if he should return here. *End of Summary.*

[Here follows detailed account.]

A[NGUS] WARD

²⁰ The "old" and "young" Marshals who dominated Manchuria until September 1931; the son succeeded his father on the death of the latter in June 1928.

893.00/5-2447 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, May 24, 1947—4 p. m.

[Received May 24—7:45 a. m.]

115. Reference to my 99, May 23, 8 p. m.²¹ Dixon reported Communists arrived Changli early morning Sunday May 18 and captured railway station, few hundred yards from Mission (which is just outside city wall) after fighting in which half of 300 Government troops engaged became casualties. Communist casualties not known as all taken away. City gates burned and city captured with little fighting. Communists departed borders without much fighting. Total Communists Changli unknown, possibly 100,000 or more. Dixon said most Communists were young boys 15 or 16. Communists came from Tsunhua and Chienan, possibly Jehol.

Citrus market very thoroughly looted during which "quite a few" civilians killed. Communists chiefly interested cloth and flour. Government buildings burned.

Shortly after arrival, Communists entered Mission residential, school and hospital compound and thoroughly looted all. Dixon estimates residences 95% looted, school 90%, from 80-bed hospital all equipment including all beds, X-ray, surgical instruments, medicines, et cetera taken, about 100% looted. Communists brought carts and commandeered others to carry loot. One mission residence, which housed CNRRA^{21a} personnel, burned.

Dixon said Communists did not physically molest them, but expressed bitter anti-American sentiments over alleged "pro-Chiang" American policy. At 6 a. m., May 18, Communists rounded up 200 or 300 boys from Mission middle school and 50 girls from Mission girls' school, also Chinese school principals, and marched them 7 miles in hills "to educate them, as they were too American".

Along with this group, they took 3 American ladies, Dr. Clara Nutting, Miss Lois Battin and Miss Pansy Griffin, aged 50 and above. For 2 days group was lectured. During same time Chinese school principals had continuous discussion with Communist leaders and finally convinced them Americans and students should be released because (1) purpose school was not pro-Chiang Kai-shek but educate Chinese youth life work; (2) American missionaries were not representatives of the Government of United States but were there spread Christianity and help Chinese youth education; (3) if Americans and Chinese students were taken away prisoners, Communists' cause would receive very bad publicity in China and the United States.

²¹ Repeated to the Department as No. 113, p. 141.

^{21a} Chinese National Relief and Rehabilitation Administration.

Dixon said third argument apparently most effective. On May 20, Communists escorted the 3 Americans and all Chinese students back to Chang Li. No one was harmed.

Communists endeavored to take away Dixon, Winans and Dewey but [they] refused on the ground that they must remain with the other ladies (Mrs. Dewey, Mrs. Winans and Miss Dora Fearon) who were sick; sickness mostly due to fright and they are not now well.

Sent Nanking, Tientsin 102, Shanghai 105, Dept 115, and Mukden, Peiping.

SMYTH

893.00/5-2447

*The Consul General at Mukden (Ward) to the Ambassador in China (Stuart)*²²

No. 5

MUKDEN, May 24, 1947.

The Consul General has the honor to refer to his despatch No. 4 of May 23, 1947 on matters centering on the return of General Ma Chan-shan to Manchuria and especially to sections of that despatch concerning evidence that the morale of the Nationalist troops in Manchuria has been rapidly deteriorating and that the Nationalist military leaders are greatly concerned over the growing offensive power of the Chinese Communist forces and their constantly mounting numerical superiority resulting from their greater utilization of native recruits and from aid given them by underground native forces.

In this connection, there is quoted the following translation (by this office) of a very recent local press item, which, it is believed, speaks for itself sufficiently to require no comment:

“Lot-Drawing for Conscription Called Off Owing to
Insufficient Attendance

“The Second-Term lot drawing by young men of conscription age was to take place yesterday at the auditorium of the Municipal Government, with Mayor Chin presiding. Out of 4,000 men called, only 82 reported, of whom 39 passed the final physical examination.

“The lot-drawing was called off and the 39 men were enlisted without drawing lots, in accordance with the Conscription Enforcement Law.” (Local Central News Agency despatch in *Sino Soviet Daily*, May 22, 1947).

This sad commentary on the public attitude toward participation in the war against the Communists is paralleled by fast accumulating testimony concerning the deterioration of morale in the ranks of the Nationalist armies. Such testimony comes from many sources, in-

²² Copy transmitted to the Department by the Consul General at Mukden without covering despatch; received June 19.

cluding Chinese of various types and callings and foreign observers; and information picked up casually by American and Chinese members of the staff of this office indicates that the low spirit of the Nationalist soldiers is a matter of wide public knowledge and discussion. General Ma's testimony has already been reported in the Consulate General's above cited despatch. Another noteworthy example of evidence of the state of affairs is the following:

Mr. S. Thistleton, Administrative Officer of the Northeast Regional Office of UNRRA,^{22a} while traveling on the train from Changchun to Mukden a few days ago (just before the Communist attack on Changchun cut communications between the two cities), in the company of a correspondent of the London *Times* and other foreigners, noticed that several uniformed train attendants were unburdening themselves in loud voices and in no uncertain terms before a high ranking officer of the Chinese National Army. One of the members of Mr. Thistleton's group, who understands Chinese well, listened to the conversation and discovered that the train attendants were freely and vehemently denouncing the National Government Army for the manner in which it treats its troops and declaring that the Communists treat their soldiers much more considerately.

It is only fair to state that there have been frequent reports from sources which include Catholic Missionaries living in the interior that desertions from the Communist forces are of common occurrence. However, the Consulate General has strong reason to believe that the general state of morale in the Communist ranks is nevertheless definitely superior to that of the Nationalist troops. Quarters in close contact with NECC agree that such is the case, and the very fact that the Communist Armies are constantly being increased by native recruits constitutes the best possible supporting evidence. Important factors contributing to the better morale of the Communist forces are: (1) the fact that the Communist Armies, being largely composed of native Northeasterners, are in the position of fighting for their native soil, whereas, the Nationalists, being mainly from intramural China, are in the demoralizing position of "foreigners" fighting far from home among populations alien and hostile to them; and (2) the greater comradeship, solidarity and spirit of common purpose which, as a general rule, appears to unite the Communist fighters of all ranks.

^{22a} United Nations Relief and Rehabilitation Administration.

893.00/5-2547 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, May 25, 1947—11 a. m.

[Received May 25—3 a. m.]

118. Reference my 101, May 24, 11 p. m.²³ Arrival at Chinwangtao early morning yesterday of a Nationalist division from Manchuria [caused] change in the situation. Communists dispersed into hills.

Railway administration here reports that temporary repairs have been made on damaged sections of railway and that trains may be run very slowly from Chinwangtao to Luanhsien today; from Luanhsien to Tientsin railway is fairly normal. Large labor forces are being used to repair railway, restore communications with Manchuria and to ship coal to Shanghai. At the Consulate General marines are evacuating their small force (less than 200) from Chinwangtao; evacuation will be completed today.

Sent to Nanking as Tientsin serial number 104; repeated to Shanghai as my 108; to Dept as my 118 and Mukden, Peiping.

SMYTH

893.00/5-2547 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, May 25, 1947—5 p. m.

[Received May 24—3 : 46 a. m.]

112. Warner^{23a} returned Tientsin yesterday afternoon from Tangshan (remytel 94, May 22²⁴) where he saw Commanding General Hou, 92nd Army, who said all 9 Americans Changli safe, well and Changli firmly held by Govt forces but advised Americans proceed Tientsin when rail restored 2 or 3 days in view likelihood further fighting general area. Warner sent message by Chinese army radio to Changli Mission advising proceed here soon as rail restored. No other present feasible means departure. General Hou promised to extend all protection.

General Hou said fighting going on some sections railway to Chinwangtao but confident railway restored within week. He said Communist troops now engaged total 10,000, chiefly from Jehol, purpose cut communications Manchuria.

General Hou felt Peitaiho definitely dangerous, felt Americans should be advised not stay there. This connection marine G-2 officer informed May 21 by Chinese Commander General Chinwangtao that

²³ Not printed.

^{23a} Gerald Warner, consul at Tientsin.

²⁴ Repeated to the Department as telegram No. 108, p. 138.

Chinese Army will not defend Peitaiho beach but confine efforts hold Peitaiho railway in action. As troops urgently needed in action, Chinese cannot be expected protect summer resort. In view above, and probability further fighting general area for some time, Consulate and Marine Hdqts feel Americans should stay away from Peitaiho (see my 96, May 23.²⁵)

Unless Govt reinforcements received, seems probable Communists can, if they desire, keep railway almost constantly broken. Separate telegram reports effect on coal supply here and Shanghai.

Sent Nanking as 98, repeated Shanghai as 102, Peiping, Mukden May 23.

SMYTH

893.00/5-2747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 27, 1947—8 p. m.

[Received 11 : 38 p. m.]

1156. Following is Shanghai's 917 to Embassy, May 23, 6 p. m. :

"Officer of Consulate General met Wang Hsin-heng, head of local secret police and was informed by him substantially as follows :

Present student agitation stems from time of so-called Peiping rape case²⁶ at which time a nation-wide student organization was set up called Anti-American Atrocity Association in the formation of which the Communists were instrumental. This organization continued in existence and was later utilized by CC clique in an endeavor to cause embarrassment to newly reorganized Govt (Embtel 1065, May 16²⁷). However, CC clique soon learned that they were unable to control it and that Communists were also using it to better advantage than were they; so they withdrew. The Communists soon learned that they also were unable to control it and they consequently have now also withdrawn. At present students appear to be without the control of any recognized dissident factions. They do not know what they want; after their demands are met they still are not satisfied.

Wang stated that at that moment the students were visiting shops and factories in Shanghai trying to induce workers to join them, realizing that without their support the students would be ineffectual. He stated that in this they would not succeed because of the relatively superior economic position of the workers. He said he had been able to convince the mayor and the commander of the garrison headquarters of the inadvisability of using force against students. He did not hazard an opinion as to solution of present student problem but appeared to think that moderation at present time was called for lest a more serious situation be created. Davis."

²⁵ Repeated to the Department as No. 110, p. 140.

²⁶ See pp. 1 ff.

²⁷ Not printed.

Embassy's own info indicates that both CC clique and Communists had hand in various, though different, demonstrations. It is possible that CC group has now completely withdrawn since it is plain that their efforts [give] advantage Communists more than themselves. However, we doubt withdrawal Communists' activity and certainly not their influence. Most important outside instigating factor is probably Democratic League, which has strong influence not only with students but with many faculty members. Democratic Leaguers here told Arch Steele²⁸ on May 23 they considered themselves prime moving force. However, student movement is believed based on general sentiment of dissatisfaction and while probably sparked and coordinated by Leftists has not been wholly captured by any one faction, although it may later become so.

STUART

893.00/5-2847: Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, May 28, 1947—8 p. m.

[Received May 28—4:55 a. m.]

77. Increasing number reports received Korean troops actively engaged present Communist offensive. NECC states Korean unit being used for attack on Changchun (reContel 127 to Nanking²⁹). May 16 YNA [*CNA?*]³⁰ despatch states two mixed Chinese-Korean Communist divisions [are] on Changchun front totalling 12,000 men. Leader these troops Korean named Chin 'Tsieh. Same despatch reports two Korean divisions, 10,000 men, active in Communist Kirin drive, two mixed Chinese-Korean battalions numbering 8,000 in east Liaoning Province and 50,000 Korean Communists in Yenchi area 42-56 north 29-3. While sizes Korean detachments exaggerated appears probable some Korean troops being used by Communists. Catholic priest Quirk from Fushun states Chinese in his parish informed him majority Communists attacking Neihokou are Koreans from Linchiang area 41-north 127.

Sent Nanking as 128, repeated Dept as 77, Changchun 36.

WARD

²⁸ Correspondent of *New York Herald Tribune*.

²⁹ Not printed; it was a report of External Survey Detachment 44 (not transmitted to the Department) dealing with the military situation in Manchuria.

³⁰ Central News Agency.

893.00/5-2947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 29, 1947—8 p. m.

[Received May 30—3:50 a. m.]

1180. Over-all political scene, which continues to be dominated largely by economic and military situation, is deteriorating at an accelerated pace. Within recent weeks existing bad rice situation, brought about in the main by military requirements and hoarding, has added to spreading unrest. On May 18 the Government issued an edict prohibiting student demonstrations which was immediately disobeyed in major urban centers and has resulted in further loss of prestige by Government. At present time students are actively agitating for nation-wide general strike to commence June 2, but student movement thus far characterized by considerable indecision and has not fallen under control of any single group or party. There are strong indications, however, that student movement will assume larger proportions and eventually come under leadership of anti-Government groups, particularly of Democratic League if not Communists.

The reorganized Executive Yuan under Chang Chun is more strongly based than the previous T. V. Soong regime, but the political maneuvers of the CC clique and the pace of economic and military developments have tied its hands to date. Furthermore, in the race of existing problems, non-Kmt^{30a} participants in the reorganized Government have thus far shown no capacity for initiative. However, outlook for next few months is not, in Emb's opinion, for any spectacular collapse but in the direction of increasing deterioration in Government authority and control. In the meantime, general Government sentiment will continue to look to American aid as a means of staving off further economic and military deterioration.

As general unrest and disillusionment increases, Communist prestige is enhanced, largely through recent military successes in North China and Manchuria. Although completely reliable information is not yet available, it is reasonably clear that in Manchuria Central Govt has suffered reverses along China Changchun railway and at least a partial Government withdrawal in the northeast may become necessary. Recent Communist military activities in Manchuria have been well coordinated with large-scale raids on north China and Jehol rail lines assisted in large degree by the military blunderings of General Tu Li-ming in Manchuria. An important aspect of the north China situation is the evident Communist capability of disrupting communications between the Kailen mines and the sea which will have continuing effect upon the coal supply situation, especially for Shanghai.

^{30a} Kuomintang.

Although anti-civil war sentiment is increasing, largely among student academic and business groups, it has thus far not reached a point where it will be decisive in influencing the Government as evidenced by the character of the two statements issued by Generalissimo this week (Embtel 1176, May 29³¹). The fact that he felt called upon to issue any statement speaks for itself. One indication that there is growing sentiment among liberal Kuomintang members of the Government for peace negotiations was a resolution presented to the Legislative Yuan recently by some 20 of its members calling for resumption of peace talks and reportedly having the tacit approval of Dr. Sun Fo. On May 27, the PPC^{31a} adopted a resolution to invite Communists to resume peace talks which can be interpreted as largely a Kmt maneuver stemming from recent military reverses and growing anti-civil war sentiment, and designed to pin sole responsibility for continuation of civil war on Communists. In the face of Communist military successes, it seems unlikely that the Communists would be prepared to join in peace talks except on terms much more favorable than the Government is apparently now willing to accept.

Nor is there any basis for believing that Communists do not regard time and the tide as working for them or that they would be willing at this time to accept equitable and feasible proposals.

For the immediate future, gravest danger to Government would result in this atmosphere if disaffection commences among National troops with Government unable to supply adequate rations. There has been fairly steady deterioration morale Government forces, especially in northeast, but for the time being it is believed that Government can hold loyalty of best trained and equipped troops. It may be anticipated that Government efforts will be bent towards supplying these troops adequately and in expectation that civilian unrest can be held in check or quelled by show of force.

The emergency economic regulations promulgated on February 16 gained a temporary respite of about 6 weeks to 2 months, as was generally anticipated. By April their effects had worn off and the signs of economic crisis are again clearly in evidence. Prices which remained stable until 1st of April then sharply resumed their upward spiral. Price of rice, best single index, is now over 6 times above December 31 in Shanghai and over 3 times above February 15 and is continuing to rise. There is considerable nervousness with respect to supply of rice, rice riots having occurred in a number of towns. Government is groping both towards relaxation of controls over movement and price of rice and towards experimental rationing scheme for Shanghai, which has fundamentally sound objectives though there is some uncertainty as to how to achieve them.

³¹ Not printed.

^{31a} People's Political Council.

The next 3 months which are even normally marked by a seasonal increase in price of foodstuffs will necessarily be difficult from point of view of food supply, as winter crop only beginning to be harvested and major crops are not harvested until August–September, while land tax and military requisitions in various forms further complicate situation. Winter crop prospects around average, according to Agricultural Attaché.³² Minister of Finance³³ claims Szechwan prospects exceptionally favorable with fair reports from other provinces, but other sources pessimistic about North China plain, South Hunan, etc. Harvest is always dominant feature of China economy and will not be favorable this year. The industrial situation shows no improvement.

On financial side, note issue by mid-May dollars 7.6 trillion, or more than double note issue at beginning of year; this rate of increase in note issue noticeably sharper than for same period in 1946. General budgetary situation remains in imbalance with receipts covering about 40 percent of expenditures in first 4 months of 1947; Minister of Finance has already revised estimated expenditures for 1947 upwards by 100 percent and no doubt further revision will become necessary before end of year. Combined sales of State and Treasury notes issued on April 1 have reached only about US dollars 25 million or its equivalent at official rate with sales tapering off sharply of late. Rising prices have inevitably brought about recrudescence of black market for US currency, though in a restrained and more subterranean form. Official rate of exchange has again been rendered quite unrealistic with consequent falling off in exports and inward remittances.

Embassy proposes to prepare an analysis of course of action open to the US with their several advantages and disadvantages in the light of probable developments.³⁴

STUART

893.00/5-3047 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, May 30, 1947—10 a. m.
[Received May 31—5:35 a. m.]

78. Following summarizes situation reported in despatches awaiting air mail to Embassy as supplemented by more recent info:

In past 2 months morale Nationalist forces has deteriorated at rapid accelerating pace. Present serious state of their demoralization has been confirmed to us by many sources (including General Ma Chan-shan, various other Chinese contacts, UNRRA officials, Ameri-

³² Owen L. Dawson.

³³ O. K. Yui.

³⁴ See memorandum prepared in the Embassy in China, July 5, p. 222.

can just arrived from Kirin, and indirectly NECC quarters) and has become matter of wide public knowledge and talk. It is reflected in jumpy nerves of military garrison, reported evacuation [word garbled], efforts to evade conscription, and reliable info from all sectors Nationalist territory (including points distant from current fighting) indicating that Nationalists in panicky state are feverishly building trench systems everywhere with only "Maginot" defense strategy in mind. There is good evidence that apathy, resentment and defeatism are spreading fast in Nationalist ranks causing surrenders and desertions. Main factors contributing to this are Communists' ever mounting numerical superiority (resulting from greater use native recruits, aid from underground and Korean units), national soldiers' discouragement over prospects getting reinforcements, better solidarity and fighting spirit of Communists, losses and exhaustion of Nationalists, their growing indignation over disparity between officers' enrichment and soldiers' low pay life, and their lack interest in fighting far from home among "alien" unfriendly populace (whereas Communists being largely natives are in position of fighting for native soil).

This does not mean Manchurian collapse is necessarily imminent. It does mean, however, that Nationalist morale has reached point where there is possibility of sudden debacle laying all Manchuria open to Communists whenever they choose to take it. In such event Communists might close in immediately for kill or prefer wait, while preparing ground psychologically and ruining Government's morale which is not yet fully reflected in military picture.

Most serious factor in Nationalists' situation here is deterioration political and economic position, till they were better prepared to run large cities and defend them against retaliatory Nationalist air attacks.

While danger would be temporarily lessened by Nationalist reinforcements and increased Nationalist air activity, it could be definitely averted, if at all at this late date, only by drastic measures of spectacular character clearly demonstrating to Nationalist troops and north-east people that Government has their interests generally at heart.

Sent Embassy as 131, repeated Department as 78, Changchun as 38, Tientsin as 36.

WARD

893.00/5-3047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 30, 1947—1 p. m.

[Received May 30—4: 15 a. m.]

1182. People's Political Council May 26 by a large majority passed a resolution inviting Chinese Communist representatives to come to

Nanking for discussions on ways and means of bringing about the termination of civil war. Resolution reads as follows:

“In view of the fact that peace is the unanimous desire of all the Chinese people, and of the delegates to the People’s Political Council who have decided to do their utmost to solve the present national crisis,

We have therefore resolved to ask the delegates of the Chinese Communists to attend the PPC meeting to discuss national affairs.”

It has been broadcast on all Government radios.

This resolution points up one phase in the growing agitation, particularly among left wing and intellectual circles, for a negotiated peace. First aspect of this movement is that many, perhaps even most, of those involved in the agitation are sincere in their professed belief that the first essential step to solution of any of China’s multitudinous problems is peace. It is perhaps unfortunate that none of the groups or leaders involved have so far brought forth any constructive suggestions as to how this commendable objective is to be accomplished, nor has there been any suggestion that the Communists in their present and relatively favorable position may not be amenable to compromise.

The second aspect is that the Government, since the agitation has arisen and presumably having a fairly realistic understanding of what the Communists could or could not be expected to do, may not be altogether displeased that the peace movement has developed as it has. If the words of prominent Government spokesmen can be taken at their face value, they must believe that any overtures of peace negotiations would be either ignored or repulsed. Hence it is not unreasonable to assume the probability that the PPC resolution combined with similar agitation in the Legislative Yuan will in the predictable future be followed by a formal Government offer to the Communists for negotiations.

STUART

893.00/5-3047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 30, 1947—1 p. m.

[Received May 30—5:30 a. m.]

1183. Several staff members of Academia Sinica, the most prominent government-owned research institute in China, expressed the opinion to an officer of the Embassy that the economic situation in China is generally worse than is known because of the food situation. They stated that in the Yangtze valley and in southern China 80 percent of the peasants are now completely out of rice, which is in the hands of wealthy landlords. The peasants are depending upon the spring wheat crop which is below normal due to a dry spring. They

anticipate the situation will deteriorate further in early summer and that even more extensive disorders will take place.

They believe the general university strike called for June 2 will result in violence, particularly if it is accompanied by a general labor strike, and that if it is, students will become hopelessly alienated. They believe the Government blundered seriously when it issued the May 18 decrees forbidding demonstrations and that the violence attending the subsequent Nanking and Peiping demonstrations only served to crystallize sympathy for the demonstrators among those students and teachers who had previously remained aloof or had wavered. They furthermore believe that as the crisis deepens and the Communist and right-wing Kuomintang attitudes harden, additional segment of support from groups nearer the center will be attracted to the Democratic League.

It is interesting to note that the Woosung garrison commander in Shanghai closed three more prominent independent papers on the grounds of their having divulged military information detrimental to army morale. These were the *Wen Hui Pao* which generally adheres fairly closely to a Communist line; the *Lien Ho Wan Pao*, somewhat to the right of the *Wen Hui Pao*; and the *Hsin Min Wan Pao*, which is liberal and highly critical of the Government. The *Ta Kung Pao* is now the only influential independent newspaper in Shanghai.

The "next step" promised by Nanking students, should the Government fail to comply satisfactorily with their 3-day ultimatum which expired May 26, consists of an announced determination of all Nanking universities to remain on strike until the general strike of June 2 to reaffirm their determination to participate on June 2 and to send small roving squads around Nanking papering the town with protests and agitating among crowds in the streets wherever they can find listeners.

STUART

893.00/5-3047

The Ambassador in China (Stuart) to the Secretary of State

No. 768

NANKING, May 30, 1947.

[Received June 9.]

SIR: I have the honor to attempt an interpretation of recent political trends in this country. The two phases of the outcry for peace described in my previous despatch no. 742 of May 21, 1947 are both gaining rapidly in force. This demand is in essence the raw stuff out of which democracy can be given form. The manifestation in Shanghai especially is on the verge of destructive violence with no

sufficient military reserves for coping with it. The People's Political Council is now in session and there is an insistent urge among its members to appeal for peace but this is being resisted by Kuomintang politicians. The students are planning a nation-wide demonstration on June 2 which marks the conclusion of the People's Political Council. This student movement, while attended by the usual evidences of immaturity, is, as always, a fairly reliable register of public opinion. The students are the most highly sensitized element of the population and with fewer inhibitions. They react therefore more quickly and spontaneously than others.

The military situation is, for the present at least, unfavorable to the Government and is complicated, if not controlled, by economic and psychological factors. The Government leaders hesitate to respond to any appeal for peace as appearing to the Communists as an admission of weakness.

Will the Government leaders regard the will of the people, now at last articulate, as a mandate to be carried out in the spirit of the new republican principles? Or will they continue in the old tradition to attempt to suppress even orderly agitations and to control the working of economic laws by coercive measures? All the signs thus far point to the latter though there are searchings of heart among many of them, including some who are branded as chief among reactionaries.

In a sense the problem is acute not so much because of the venal, selfish and incompetent types of officials, and their counterpart among the people, as because of the more public-spirited leaders of thought and action whose narrow prejudices and conventional procedure have been sharply accentuated by perplexity and fear. Thus the fanatical bigotry and suspicion on the part of the Communists is now paralleled by a sort [of] desperate stubbornness among their opponents who rationalize their stand as patriotic duty.

President Chiang has a supreme opportunity to declare himself the exponent of the popular will and because of the distress of the masses and the danger to the nation to ask the Communist Party once more to join in a cease-firing order and in a renewed attempt to secure a negotiated peace. In doing so he would demonstrate his intelligent and genuine acceptance of new democratic standards and ought to rally the enlightened, forward-looking elements of the people, as well as the great mass who clamor merely for peace and an opportunity to work undisturbed by conflicting factions or ideologies. If he should make such a proposal heartily and with no provocative assertions, and if public opinion supports him in this, the responsibility for continuing the disastrous and indecisive warfare would seem to rest clearly on the Communist Party.

Respectfully yours,

J. LEIGHTON STUART

893.00/5-3147 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, May 31, 1947—5 p. m.

[Received June 2—4 : 46 a. m.]

79. Military situation based on information received from NECC thru ESD sources is as follows :

Communists have captured Meihokou and Changtu and isolated Nationalist garrison Ssupingkai. Nationalist forces defeated at Meihokou retreating toward Hsian since this only escape route Communists left open. Main body Nationalist forces now at Kaiyuan and Chingyuan. Communist offensive last 2 weeks succeeded splitting Nationalist Manchurian force into 4 groups, 3 of which are isolated. Isolated groups in Changchun, Kirin, Ssupingkai areas. Only free group is in Kaiyuan and Chingyuan area. Communists employed baffling strategy as far as Nationalists concerned by by-passing Nationalist strong points and isolating garrisons. Communist strategy has been exceedingly effective. Nationalists worried over future plans Communists and appear unwilling to commit large numbers forces to relieve isolated units because are unable to guess where Communists will strike next. Nationalists appear completely on defensive. Typical example Nationalist bewilderment was they expected Communists to attempt take Hsian after capturing Meihokou, but Communists have given no indication this is their present plan.

New subject: Well-informed Chinese official states that main Nationalist counter drive is due start May 31 in form of northward push from Kaiyuan. Our estimate is that Nationalists may start offensive for benefit of visiting Gimo but offensive may be for display purposes only.

Sent Nanking as 133, repeated Dept as 79, Changchun as 41.

WARD

893.00/6-347 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, June 3, 1947—7 p. m.

[Received June 5—3 : 35 a. m.]

85. Following is military situation based on information from sources indicated: Morale National armed forces Manchuria lowering daily. Smoldering resentment and hatred local population appear greater National threat than recent military reversals. Communists realizing their psychological advantage, playing it to the fullest. National wounded soldiers at Kaiyuan railroad station awaiting evacuation were left because high ranking National officers evacuating

families. Communists captured station June 3 after National collapse. National eye witness says Communists dressed wounds of National soldiers and removed more seriously wounded, handling them carefully and seemingly with kindness. Made deep impression on witnessing National soldiers.

National officer cadres principally southern Chinese and resentment of northern soldiers toward them no longer concealed. Open criticism of excellent food and living conditions of southern officers being expressed. Communists treating prisoners very well and are fed rice while Communists themselves eat kaoliang. National soldiers no longer fear capture by Communists. Entire artillery battalion of National 71st Army with over 10 field pieces surrendered to Communists at Ssuping kai last week. Over 30 former US Army trucks captured by Communists at Kaiyuan. High ranking Fushun mining officials evacuating families and furniture to Mukden by truck. Mukden north railroad station crowded with evacuees of high ranking National officers and Kmt officials.

Source: USIS ^{36a} employee, former army man, and news correspondent. Educated. Excellent connections with National Army, Government officials, and local population. Not Communist.

Sent Embassy as 141, repeated Changchun as 47.

WARD

893.00/6-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 4, 1947—9 a. m.

[Received June 3—11:45 p. m.]

1202. Following is Changchun's 232, May 29, 4 p. m.:

"Despite attempts Kmt press gloss over Nationalist defeats in current Communist drive, known facts of situation throw into strong relief present impotence and ineffectualness Nationalist military Manchuria. Several factors noteworthy:

1. Communists have held initiative from beginning to present with Government holing up in respective bastions permitting Communists implement their plans without active interference.

2. Certain strategically important Kmt garrison points have consequently been reduced by Communists and main bodies available Nationalist troops central Manchuria immobilized by Government's strategy apparently dictated more by a surfeit of caution than by sound military judgements.

3. Communists evidently are beginning overall campaign for destruction Nationalist position Manchuria but Nationalists cling even

^{36a} United States Information Service.

when hope is vain to proposition that Communists, having in past three campaigns returned north of Sungari, will do so again without Nationalists having to fight to put them there.

Military situation is distinctly worse than would appear from tendentious Government communiqués. I invite attention to following revealing facts. Nationalists have lost garrison towns Huaitch, Kungchuling and Kangping on west and Wulakai and Laoyehling on east. Those towns all have strategic importance. Following garrisons are isolated and immobile: Nungan, Tehhui, Kirin, Changchun and now Ssuningkai. Chinese press occasionally seeks comfort by noting that small garrison in forts of Sungari bridgehead still "holds out", but as strategy based upon refusal of garrisons of one place to help another when whole position threatened mathematically bound to result in defeat. Press reports of "relief columns" have never been followed in this drive by materialization such relief. If example Changchun warrants generalization, the various garrisons are busily engaged in digging themselves in deeper in very centers towns, to which they have withdrawn for safety rather than with idea using strong points as bases for flexible military action designed to strike at enemy's weak points. Communists threatened nowhere, Nationalist[s] everywhere. In those circumstances, barring developments thus far unindicated, probabilities point to Communists achieving end of present drive.

Developments thus far show certain Communist pattern. There has been no waste of Communist energy in attacking heavily manned strong points, excepting insofar as necessary to reduce possible threats to Communist flanks. Action in east can be viewed as being for present mere holding operation. Main Communist force is in west where space and Nationalist inaction combine to give Communists nearly complete freedom of action. Movement of certain units eastward, however, shows design to widen corridor between garrisons located respectively in central and southern Manchuria. Ssuningkai is of course of primary importance for full achievement that aim. Presence heavy Communist force to south of Ssuningkai seems to show determination to block any move from south to interfere with reduction Ssuningkai and neighboring garrisons. If those garrisons are reduced, Nationalist position Manchuria effectively cut in half without there remaining any reason in logic to hope for subsequent timely relief central Manchuria garrisons. If that comes to pass, latter garrisons can be reduced at leisure, with combination food supply and morale factors rendering matter relatively easy. In fact, if local garrisons see hopeless situation, final turnover might be nearly bloodless due to disaffection of troops, with Changchun and Kirin falling

of their own weight when ripe. Position Mukden of course essentially same. It is hardly open to question that present Communist strategy designed for Manchuria as a whole and that ultimate aim is total conquest. Clubb."

Sent Department 1202; to Mukden by safe hand.

STUART

893.00/6-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 4, 1947—10 p. m.

[Received June 5—5:20 a. m.]

1210. Widespread and comprehensive action by Government was responsible in largely forestalling the projected development of June 2 general student strike. This action took form of numerous arrests, the imposition of martial law in many localities and concentration of force in areas where trouble was expected. Symptomatic of Government intentions was a meeting between Generalissimo and academic members of PPC, in which latter stated that they were doing all they could do to prevent demonstrations but that if they did take place they begged Government to avoid use of violence. Generalissimo replied that he had personally issued orders against demonstrations; that, therefore, there would be none, but that, if there were, any measures necessary would be taken to put them down. Generalissimo further stated that student movement was obviously Communist-led and inspired and, therefore, must be dealt with on those terms. The unfortunate coincidence, from student standpoint, that June 2d was date proclaimed last year by Communists as anti-civil war day was also responsible for causing many students to question advisability of carrying out their original plans on scheduled date. This argument was effectively used, particularly in Nanking, by faculty members in persuading students at least to delay.

Week-end action and developments were in brief as follows: In Shanghai martial law was imposed and student arrests reached the 200 mark. There was a rally on the campus of Chiatotung University but no violence. In Canton there was a fracas between students and unidentified elements resulting in several injuries. Nothing happened June 2. In Nanking there was a large and obvious increase of garrison strength, plans for June 2 were cancelled and a peaceful rally was held at National Central University on June 3. At Hankow, June 1, students clashed with the police, resulting in three deaths and many injuries among students. Following this, Hankow faculties went on strike. In Chungking there were some 1,500 arrests, includ-

ing approximately 20 reporters from independent papers. Tientsin was quiet. In Peiping communications were cut between city and Yenching and Tsinghua universities. Barbed wire barricades were erected around universities within the city confining students to campuses and, as far as is known, one was killed and several were injured trying to break out.

These somewhat anti-climactic developments and superficial success of Government in preventing widespread disorders should not be taken as indicating that impetus of student discontent has been diffused or destroyed. Evidence indicates that, if anything, students are more determined than ever to make their views known and to ensure that their rights and security shall in long run be secured. Educated opinion in Nanking is that Government will continue its repression, mostly through medium of arresting ringleaders, but that this in the end will prove ineffective because too many students are now aroused and in face of repression are becoming increasingly cohesive in drive for obtaining their objectives. This opinion believes that something has now been started which cannot be destroyed by force, especially as economic and military position of Government deteriorates during summer months. There is also evidence that increasingly faculty members sympathize with student aims.

STUART

893.00/6-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 4, 1947—11 p. m.

[Received June 5—3:45 a. m.]

1212. Upon query from Embassy, Peiping Consulate confirmed that Dr. Hu Shih³⁷ in May 19 statement to correspondent of Nanking *Hsin Min Pao* had branded as "very unfair" President Chiang's charge that current student demonstrations were engineered by Communists. Hu further stated that given two conditions, namely dissatisfaction with Government and absence of representative organs to express and implement dissatisfaction burden invariably falls on students to interfere and agitate for reforms. Cited example Chin, Han, Sung, Ming and Ching dynasties.

Department has doubtless seen report Dr. Hu interview with AP correspondent John Roderick which appeared a few days ago and which quoted Hu to same general effect.

STUART

³⁷ Chancellor of Peking National University (Peita), former Chinese Ambassador in the United States.

893.00/6-447

*The Ambassador in China (Stuart) to the Secretary of State*³⁸

No. 779

NANKING, June 4, 1947.

[Received June 11.]

SIR: I have the honor to report further developments in what seems to be an impending political crisis. The most significant feature would seem to be the obscurantist attitude of the Government. President Chiang and his associates explain away the student and other agitations as incited by Communists or by the Democratic League as their willing tool. There doubtless are Communist agents planted in the colleges and elsewhere who have been instigating disturbances and inflaming the grievances of students or other discontented elements of the populace. This is their well-attested policy and they can be counted on not to neglect the opportunity which the Kuomintang is providing for them. But if ever there could be an unmistakable manifestation of the people's will it is in the present widespread and swelling demand for peace. The tragedy of the situation is that President Chiang primarily and the more responsible men around him fail to understand this and are trusting to their own intelligence service, unable to sense the spontaneous note in the popular appeal. They tend, therefore, to rely on suppression by force which, of course, plays into the hands of the Communist Party. This policy stems chiefly from fear, almost from desperation. In crediting the Communist Party with unscrupulous infiltration everywhere, including Government offices, they entirely over-estimate the Communist ability to influence the people generally to accept their doctrines and methods. The vast majority are neither Communist Party nor Kuomintang but are merely Chinese, concerned with their livelihood. They prefer instinctively to support their National Government. Even the students and the intellectuals are radical or revolutionary chiefly because of bodily distress and spiritual disillusionment. To attribute all this to Communist machinations and to try to crush it out by brutal force is to intensify the growing disaffection.

Meanwhile, word is reaching me that the Communist Party is by no means so averse to resuming peace discussions as is generally assumed. While the Government is faring worse than they in the general deterioration, yet they are suffering also in the material as well as moral consequences. They have never seemed to me to want this Government to collapse in order that they might take over a task for which they know themselves to be at present ill-prepared. But

³⁸ On June 26 the Director of the Office of Far Eastern Affairs (Vincent) called the attention of the Secretary of State to "important and interesting observations on the situation in China" contained in this despatch.

they will make more stringent terms than in the earlier negotiations. The intimations are that American mediation would again be sought. Incidentally, there seems to have been no trace of anti-American sentiment in the recent student and other demonstrations.

The military situation in itself is at least no better for the Government than when I sent my previous despatch, and with the rapidly worsening economic trend and the psychological or emotional factor becoming more pronounced, these will soon have a more direct bearing on the fighting morale.

President Chiang has thus far been obdurate. He has had the dangers of the present course and the possibilities of another approach pointed out to him by more than one person whose opinion he respects. He knows quite well what my opinion is but seems averse to listening to me urge it on him further. I feel myself pitifully impotent in having failed to help him apply in this concrete issue the idealistic abstractions to which he has given his assent when the emergency was less apparent. I have also been almost too cautious perhaps in expressing myself for fear that he would be influenced by hopes of American aid. I have wanted him to act because it was right and wise in relation to his own people regardless of considerations of that nature.

Whenever he next gives me the chance I want, however, to make one more effort to enable him to perceive the futility and imminent disaster of continued warfare and the needlessness of fearing Communism if only he will identify himself with the people and their desires, take the lead on their behalf in an appeal to the Communist Party, and commit himself publicly and unreservedly to the democratic principles which he has frequently proclaimed but has thus far failed to put into effect. He could so easily rally his people to something of their old enthusiasm and confidence and in so doing neutralize the Communist Party encroachments which he now resents and dreads. This course is, however, becoming rapidly more difficult and he may have to learn in the hard way the truth of Abraham Lincoln's dictum that "no man is good enough to govern another without that other's consent".

There is almost universal gloom among all the more or less liberal, non-partisan groups and this is about equally true of Government employees, though less vocal. But I still have hope that Chinese common-sense will somehow assert itself before the crash comes that it is generally felt cannot be long delayed.

As a slight indication of these possibilities I am enclosing a free translation of the action just brought to me by Mr. Hu Lin, Chairman of the committee for formulating the various peace proposals within

the P. P. C. I have just learned that in the closing session of the P. P. C. this resolution was passed with minor changes.

Respectfully yours,

J. LEIGHTON STUART

[Enclosure—Translation]

COMMITTEE FOR FORMULATING THE VARIOUS PEACE PROPOSALS WITHIN
THE P. P. C.

Having listened to President Chiang's statement at the opening session on May 20 that the Government will use every available method for attaining peace, and Premier Chang's report to the same effect, we were greatly encouraged. Therefore members of the P. P. C. made about twenty proposals which though differing in form yet were one in their emphasis on the sufferings of the populace and their earnest desire for peace. The P. P. C. being the highest organ for representing the will of the people and therefore obligated to give expression to that will, it has consistently endeavored to fulfill this function, and now appeals alike to the Government and to the Communist Party to find a way to peace. If this is sincerely sought it should not be difficult to break the present deadlock. In view of the universal outcry for peace the P. P. C. should approve a composite summary of the various proposals as follows in the hope that this will lead to an early settlement.

1. That the Government solemnly proclaim once again both to its own people and to the world that it will attempt to find a political solution of the Communist problem.
2. That the Communist Party be requested to appoint representatives to come to the Capital without delay and renew the peace conferences with no preliminary conditions other than the original slogans of "Political Democratization" and "Military Nationalization".
3. That after the adjournment of the P. P. C., the Presidium and this special committee will continue these efforts in the spirit of the motions looking toward peace which had been passed.

893.00/6-547 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, June 5, 1947—10 a. m.

[Received June 5—4 a. m.]

86. Following is military situation based on information from source as indicated:

New section Kaiyuan occupied by Communists without fight night June 2. Old section city taken after heavy fighting at 5:00 a. m.,

June 3. High ranking National officers and families evacuated city even before heavy fighting began. Source: Eye witness Ung Chia-ling, former informant of Col. Cully, Executive Headquarters. General Liao Yueh-hsiang, former Commander, National New Sixth Army, now responsible for defense Mukden, and his Chief of Staff evacuated families several days ago. Liao issued order to all officers in his Command advising them to evacuate families. Communists advancing Mukden from east, north and west. Have reached Kai-yuan on north. Tiehling only one National strong point between Communists and Mukden on north. Communists as far as Ching-yuan on east. National Division at Meihoukou (mytel 139, June 3³⁹) annihilated by Communists. Source: Former confidential secretary of General Liao.

Sent Embassy 142; repeated Department, Changchun as 48.

WARD

893.00/6-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 5, 1947—1 p. m.

[Received June 5—3:20 a. m.]

1215. As supplementing Changchun's 232, May 29 to Embassy, repeated Department as 1202, June 4 and Mukden's 131, May 30, repeated Department as 78, there is quoted below the latest report from Lt. Col. Cowen,⁴⁰ Assistant Military Attaché at Changchun, which was received at Nanking June 4:

"Government 91st Division badly beaten at Kungchuling losing 2 battalions either captured, surrendered or destroyed, but whole division did not capitulate. Division commander was replaced. Government 88th Division suffered even heavier losses in fighting between Huaiteh and Kungchuling. Both divisions now reported at Ssuping-kai. Changchun now secure but Meihoukou almost sure to fall. Fear expressed for safety of Mukden.

Comment: Doubt if Reds will withdraw to original positions unless driven back which Government forces seem incapable of doing. Believe Government position much worse than at any other time and unless substantial help is received from China proper believe Manchuria must be lost through default."

STUART

³⁹ Transmitted to the Department by the Embassy in telegram No. 1231, June 7, 10 a. m., not printed.

⁴⁰ Lt. Col. Edward T. Cowen, Assistant Military Attaché in China.

893.00/6-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 5, 1947.

[Received June 5—4:00 a. m.]

1216. At the regular weekly press conference held at the Ministry of Information on June 4, Dr. Hollington Tong, Director of Chinese Government Information Office, replied to questions as follows:

Query: "Why did the Government attach so much importance to the demonstrations and strikes scheduled for June 2?" and "Were the measures taken for their prevention justified?"

Answer: "According to Government Intelligence, a well-laid and dangerous plot was afoot to start nation-wide student demonstrations, labor strikes and riots in the country on June 2 with the object of provoking incidents that would lead to violence and bloodshed. Prompt measures were clearly called for. Three factors were largely responsible for aversion of the crisis, namely, (1) the timely display of sagacity on the part of students, (2) interference of local authorities, PPC members, and of the legislative and other public bodies, and (3) the prompt action taken by local authorities in rounding up the Communist agents and those who worked with them, either knowingly or unknowingly."

Query: "What was the reaction to the allegation that Communists were behind the June 2 strike?"

Answer: "Communism thrives best where ideas are confused and where economic discontent is widespread. This has been especially true in countries which have been impoverished and weakened by the long and devastating war. The recent student demonstrations were strictly exploited by the Communists as a means for disturbing public order and undermining authority of the Government. June 2 was the day on which Chinese Communists launched their anti-civil war movement in Yenan last year."

Query: "Was the local authorities' policy of rounding up alleged Communist agents approved by the Executive Yuan?" and "Will the arrested students and reporters be given public trial?"

Answer: "Following the breakdown of Government-Communist negotiations, all Communists were ordered to return to Communist headquarters not later than March 5. Local authorities, therefore, do not have to seek the approval of the Executive Yuan for rounding up Communist agents. The 10 students and reporters arrested will be given fair hearings."

Query: "In what areas have most of the arrests taken place?"

Answer: "There have been arrests in widely separated areas in connection recent student activities. In Shanghai about 80 Com-

munists and Communist agents, students and reporters were rounded up as of this morning. However, in Hankow, more than 50 students arrested have been released.”

STUART

893.00/6-547

*Memorandum by the Director of the Office of Far Eastern Affairs
(Vincent) to the Secretary of State*

[WASHINGTON,] June 5, 1947.

The attached telegrams,⁴¹ from U. S. Navy and Marine sources in China, confirm other reports from U. S. officials in China of the deterioration of the National Government's military position, especially in Manchuria.

The Commanding Marine General at Tientsin says that the Communists are now capable of capturing any town in the Tientsin-Peiping area, except for the largest cities, although they could not hold it long. He also states Nationalist forces are in desperate need of ammunition for U. S. weapons, a need also stressed by Navy intelligence, which describes the need as crucial. Navy also reports that inept leadership and poor planning and tactics have resulted in costly Government defeats. The Naval Attaché at Nanking⁴² describes treatment and pay of Government troops as poor and their morale as generally below that of the Communists.

In this connection, the Consul General at Changchun reports that the current Communist drive in Manchuria seems aimed at the total conquest of that area and brings out the present impotence and ineffectualness of the National military in Manchuria. He says that the Communists, by taking the initiative and going on the offensive, are isolating or capturing Government garrison points, while the Government holes up in its garrison towns and allows the Communists to implement their plans without active interference. The Consul General at Mukden reports the deterioration of Nationalist morale at an accelerated rate during the past two months, with apathy, resentment and defeatism spreading and causing surrenders and desertions in Nationalist ranks. The Embassy feels that the gravest danger to the Government in the immediate future is from disaffection in the armies but that in spite of fairly steady deterioration in morale the Government can hold the loyalty of its best troops. The Embassy anticipates that Government efforts will be bent on supplying these troops adequately.

⁴¹ Not attached to file copy.

⁴² Capt. W. T. Kenny.

The recent action toward completing most of the 8½ CAF program, the transfer of ammunition under surplus arrangements and the granting of export licenses for shipment of munitions to China ⁴³ may serve to improve Nationalist morale and bolster its fighting strength, but it cannot alter the effects of poor leadership nor will it improve the treatment of Nationalist troops. There seems to be no action that the U. S. could take in the immediate future to correct these shortcomings except through more or less direct involvement in the civil war.

J[OHN] C[ARTER] V[INCENT]

893.00/6-547 . Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 5, 1947—6 p. m.

[Received June 6—2 p. m.]

1221. Following is Mukden's 132 of May 31, 4 p. m.:

"Central News Agency despatch dated May 29 states Nationalists and Communists fighting inside Meihokou. Communists occupy east half city and have thrown two more brigades into battle. Changchun, Kirin and Ssuping kai sectors quiet. *Ho Ping Jih* paper states Communist Fifth and Sixth Divisions penetrated Changtu area May 28 and indications are Communists going to launch all-out attack on Changtu. Fighting past [*last*] week FIC abated [*indicated*] Communists employing usual tactics of striking and moving thus keeping Nationalist troops constantly off balance (reContel 129 to Embassy repeated Department as 76, May 28 ⁴⁴). Appeared Communists were able to take Changchun if desired to pay cost. Rather than take cities, Communists hit where Nationalists weakest, disrupted communications, captured needed equipment and then when Nationalist reinforcements brought their strength to par with Communists, Communists broke off engagement and struck at another weak point.

While Communists' military accomplishments do not appear great during past 2 weeks, believed their offensive has seriously bothered Nationalists through loss of equipment, lowering of morale, heavy losses in men, disruption lines communications, which, because replacement material shortage constantly becomes more serious, tiring of Nationalist troops by causing them to be constantly shifted from one front to another and constant wear on American supplied trucks and planes.

⁴³ For correspondence on these subjects, see pp. 785 ff.

⁴⁴ Not printed.

Well-informed Chinese source states that primary current objective of Communists has been removal Nationalist grain stores and that their success in removing large stores along trunk lines south of Changchun (especially Kungchuling) has been serious loss for Nationalists, making that section deficit instead surplus area. We anticipate Communists will maintain present large scale harassing tactics until they feel they have great preponderance strength, then Communists will attempt take and hold specific localities. Although military sources through press dispatches have been minimizing Communists' accomplishments in the past several weeks, serious loss with which Nationalists view situation Manchuria actually very obvious. Substantiation this was arrival in Mukden Generalissimo May 30. Ward."

Sent Nanking, repeated Shanghai and Chungchun.

STUART

893.00/6-647

Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to Brigadier General Marshall S. Carter, Special Assistant to the Secretary of State

[WASHINGTON,] June 6, 1947.

There is such an abundance of discouragement floating about that I dislike adding to it, but I think the Secretary should read the attached telegram ⁴⁵ in full if he has not done so. And I think also he might have the contents in mind when Ambassador Koo next calls for possible use in telling Koo just how badly the situation is being handled in Manchuria.

J[OHN] C[ARTER] V[INCENT]

893.00/6-647

Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

[WASHINGTON,] June 6, 1947.

I believe you will find it worthwhile reading the attached brief ⁴⁶ of Ambassador Stuart's recent report ⁴⁷ on the situation in China. He makes no recommendations and indulges in no predictions other than to state in his final paragraph that "mob violence may break out" but that "apart from this there is not apt to be a collapse so much as disintegration". However, he does say that "our policy may have

⁴⁵ No. 85, June 3, 7 p. m., from the Consul General at Mukden, p. 156.

⁴⁶ Not attached to file copy.

⁴⁷ Despatch No. 706, May 8, p. 114.

a determining influence" by which he means, I gather, our policy with regard to aid. My own thought is that any aid which it would be practicable to give China now can at best have only a moderating influence.

We are moving forward now with a program for the "limited" type of military and financial aid in accordance with your instructions of last week.

J[OHN] C[ARTER] V[INCENT]

893.00/6-647 : Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 6, 1947.

[Received June 12—9:24 a. m.]

A-121. Reference the Embassy's telegram no. 1180, May 29, 8 p. m. and despatch no. 779, June 4, 1947. As further evidence of the progressive tightening and deteriorating situation in China, various items in the Chinese press during the last few days have reported complete or partial martial law in Changchun, Mukden, Peiping, Tientsin, Shanghai, Hankow, Chungking, Kaifeng, Foochow and Chengtu. A generally reliable source also reports that the garrison in Nanking has recently been increased to two divisions, constituting about 30,000 men.

STUART

893.00/6-647

*The Consul at Peiping (Freeman) to the Ambassador in China
(Stuart)*⁴⁸

No. 24

PEIPING, June 6, 1947.

SIR: I have the honor to transmit herewith three memoranda of conversation⁴⁹ dated May 21, May 23, and May 28, 1947, respectively, covering conversations held on those dates with three recent arrivals from Communist-held territory.

The first of these conversations was held with Mr. John Sun Chu, Jr., an American-Chinese who was forced down in Communist-held northern Hopei while piloting an airplane for the Chinese Air Force in a civilian capacity. The second conversation was with Dr. Daryl Parker (reference Consulate's telegram no. 158, May 17, 1947 to the

⁴⁸ Copy transmitted to the Department without covering despatch; received about June 26.

⁴⁹ None printed.

Department, repeated to the Embassy as no. 148⁵⁰), an American citizen who was in Ping Ting, Shansi, when that city was occupied by the Communists on April 26, 1947, and spent three weeks in returning to Nationalist territory. The third memorandum covers a conversation with Mr. Robert N. Tharp, a British missionary who was staying with his wife in Ling Yuan, Jehol, when the Communists made a well-prepared and beautifully executed raid on that city on April 27, 1947, departing 36 hours after they had entered.

It is interesting to note that, although these three reports cover conditions in widely separated Communist areas—Hopei, Shansi, and Jehol—and come from people whom one might expect to be fairly anti-Communist—a Chinese-American who fought with the Nationalist Air Force during the war, an American missionary doctor who has spent eight years in China, and a British missionary who was born in Jehol Province—they nevertheless reflect considerable admiration for certain phases of Communist military and civil activities. Points on which these three independent observers appear to agree are as follows: (1) the excellent discipline, good health, and high caliber of the Communist soldiers; (2) the precision and maneuverability exhibited in the Communist military operations; (3) the comparatively good treatment accorded both prisoners and foreigners (even Americans); (4) the consideration of the welfare of the common people in localities newly occupied by the Communists and the absence of sponging off the people; and (5) the earnestness and sincerity with which both civilians and military personnel in the Communist areas are prosecuting the Chinese Communist cause. Dr. Parker, for example, was convinced after his brief experience with the Communists that it would be almost impossible for the Nationalist Government to bring the Communist forces to their knees.

This conception of the military invincibility of the Communist forces is daily gaining more adherents among informed observers in north China, and together with it there is a growing feeling of futility over the attempts of both the Communists and the National Government to seek a military settlement of the outstanding issues. The recent student demonstrations demanding an end to the civil war, the favorable press comment on the overtures to peace made at the current PPC meetings, and the recent joint statements of university professors urging both sides to give up fighting and seek a peaceful solution to their differences are all examples of this trend. It is my opinion, however, that the increasingly apparent ability of the Communist forces to strike where they will and carry off what they require with a minimum expenditure of men and ammunition, plus the

⁵⁰ Not printed.

obvious incapability of the Nationalist Government to retrieve the confidence of the people by a thorough housecleaning, are indications that peace in China's civil war was never less [*more?*] remote.

Respectfully yours,

FULTON FREEMAN

893.00/6-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 7, 1947—4 p. m.

[Received June 8—9:26 p. m.]

1235. Embassy considers that Changchun's 232, May 29, repeated Department as 1202, June 4, together with Mukden's 131, May 30, repeated Department as 78, and 133, May 31, to Department as 79, contain an excellent summation of current deterioration Government military position in Manchuria. Subsequent messages from both posts indicate an acceleration of this deterioration.

Plans for the reinforcement of the northeast by an additional 100,000 troops have been announced following Gimo's visit to Mukden on May 30. Mukden reports that Nationalist 93rd Army, formerly in Tientsin area, is now at Chinchow on way to Mukden. Various unconfirmed press reports from Mukden state that from three to four divisions are being dispatched to Manchuria for the Mukden area and at least one of these divisions is stated to be from Formosa; in addition Nationalist Air Force units are being moved to Mukden area from Shantung.

Reinforcement of the northeast at this time raises difficult problems of transportation and supply for National Government. Government military situation in North China is less critical than that in Manchuria merely because it is less active. Embassy considers it highly unlikely that Government has the capability of reinforcing Manchuria sufficiently to effect any immediate improvements [of] Government military position there. Mukden reported on June 5 that Government military units had been withdrawn from Tiehling indicating that Government expects to employ perimeter defense tactics at Mukden extending not far from city limits.

Any effort to reinforce Manchuria at this time will place Government in position of robbing Peter to pay Paul because it is now apparent that Nationalist campaign in Shantung is completely bogged down and all field commanders in that area are asking for reinforcements and additional air support.

Assistant Military Attaché who returned from Shantung on June 4 reports that National Government suffered 45,000 casualties, including 10,000 killed, when 74th Nationalist Army was defeated in vicinity

of Mengyin in late May. He also reports that casualties are arriving at base hospitals at Hsuehchow at rate of 300 per day. This observer also reports Central Government forces at Hsuehchow are already outflanked by sizable Communist forces to the east and southeast and he was informed that it is not now planned to defend Hsuehchow in the event a Communist attack develops on that city. It is interesting to note that the AMA observed at least one battalion of American 155 mm guns and motor equipment moving south from Hsuehchow, declaring that their destination was Shanghai.

In other parts of North China, notably in Shansi and Shensi, the Communists appear to be in position to assume the initiative at will. In Hopei a National Government drive is developing to reduce Fowping Headquarters of the Shensi-Chahar-Hopei border region government which could well result in the same type of hollow victory as the capture of Yen-an. There is no area in which Government forces are making significant advances at this time but the situation in Manchuria is most critical inasmuch as the northeast troops are the best trained and equipped and large numbers of them are isolated in numerous garrison points such as Ssupingkai, Kirin, Changchun, Tehui and Nungan. These forces can not hold out indefinitely without adequate supplies and the Government's capability to supply them by air drop is definitely limited.

It therefore seems likely that Government efforts will in due course be directed toward the relief or withdrawal of at least a portion of the beleaguered troops before they are forced to capitulate. Relief or withdrawal will constitute difficult operations under constant Communist harassment and the resulting attrition added to that which has already occurred will further weaken the Government's military position. It is not believed that troops' morale has thus far deteriorated to a dangerous point, but it is a factor which is assuming greater importance as time passes. . . .

Nationalist commanders and officials are already evacuating their families and possessions from the northeast, making use of urgently needed transport aircraft for the purpose. Mukden reports that southbound freight and passenger traffic is so heavy that railway officials state that they have 6,000 unfilled passenger travel requests.

General Yu Ta-wei, Minister of Communications, intimated to Colonel Barclay of the Executive Office, when latter paid a farewell call on Minister on June 5, that it may be necessary to withdraw in Manchuria to a point from which the port of Hulutao would become the Government's main base for northeast. On June 7 Embassy was informed by an unimpeachable source that Admiral Kwei, Commander in Chief of the Chinese Navy, had proceeded to Hulutao for purpose of making plans for this eventuality.

It is obvious that Government faces in the northeast probability of a military debacle of large proportions. It has already withdrawn from substantial areas previously under Government control. Judging from ineptitude and incompetence thus far demonstrated by General Tu Li-ming, it is probable that Government's defeat may assume even larger proportions. It seems to lie within Communist's powers either to continue to bleed Government strength in Manchuria or to force further Government withdrawal.⁵¹

STUART

893.00/6-247: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 9, 1947—1 p. m.

682. Indicating he was acting under instructions his Govt member British Embassy staff Washington has orally informed Dept British Govt concerned over situation China, particularly Shanghai, and had authorized its Ambassador Nanking and Consul General Shanghai, with concurrence Admiralty, to appeal to Commander British Pacific Fleet for warships to be sent Chinese ports in event civil disturbances endangered British lives and property. Plans call for "rescue and protective action", at least at Shanghai. He asked what plan US Govt had under consideration for protection in similar circumstances and whether such plan included mutual assistance to British and US nationals.

Dept informed him our Embassy had given no indication serious concern over welfare US citizens in China and that we, while concerned over unrest, had not felt situation sufficiently alarming to warrant preparation such plan. Dept pointed out US military units now Tientsin, Tsingtao, Shanghai and Nanking, which would doubtless be made basis any program protection, and any plan for protection American lives in China would certainly include measures for cooperation with British.

Embassy's comments on foregoing would be appreciated.

MARSHALL

⁵¹ The Director of the Office of Far Eastern Affairs (Vincent) on June 10 called the attention of the Secretary of State to this telegram as indicating an acceleration of the deterioration of the Chinese Government's military situation in Manchuria.

893.00 Manchuria/6-947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 9, 1947—3 p. m.

[Received June 9—8:19 a. m.]

1241. In answer to Embassy's enquiry with regard to presence Korean units assisting Chinese Communists Manchuria, Changchun has replied as follows:

"Central News Agency reporting current propaganda blaming 'outside interference' for Nationalists' reverse in Manchuria. It is to be noted that Korean population of Manchuria in 1944 was recorded as being about 1,400,000. There exists logical possibility that there is traffic across North Korean boundary with Chientao region (where most of Manchurian Koreans reside) but I submit that concrete evidence that any Koreans found with Chinese Communist troops in Manchuria actually came from North Korea as suggested in some current publicity would probably be very difficult to obtain. I invite Embassy's attention to possibility that Manchurian Koreans in Chientao region may like Manchurian Mongols have been promised by Communists that they will enjoy certain autonomous rights under Communists' regime."

STUART

893.00 Manchuria/6-1047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

[Extract]

NANKING, June 10, 1947—5 p. m.

[Received June 10—9:30 a. m.]

1251. From Butterworth.⁵² Contrary to our practice in other cities visited, in Mukden Penfield⁵³ and I made formal calls on the appropriate local officials in order to draw attention to US interest in Manchurian situation. The Assistant MA⁵⁴ of that area accompanied us on calls on: General Hsiung Shih-hui, Director of President's Northeast Headquarters; Mr. Kuan Chi-yi, Acting Chairman, Northeast Economic Commission; General Cheng Tung-kuo, Vice Commander, Northeast Chinese Command.

The first named offered comment of bland confidence, the second admitted that all considered economic plans were abrogated in the face of the existing military situation, and the third freely described

⁵² W. Walton Butterworth, Minister-Counselor of Embassy in China.

⁵³ James K. Penfield, Deputy Director of the Office of Far Eastern Affairs, at this time on a tour of China posts for the Department.

⁵⁴ Assistant Military Attaché, Col. David D. Barrett.

the withdrawal and concentration of Government forces with the avowed purposes of frustrating Communist tactics in ferreting out weak spots and in order to be in a position to engage a main Communist force.

It was evident to the passing observer that Mukden was in a state of semi-panic with high army officers and officials, rich merchants and bankers evacuating their families and effects. This, together with Generalissimo's visit—whatever its effects may have been on high command—had augmented nervousness among non-Manchurian Chinese and served to create the leave-the-sinking-ship atmosphere. Well-placed Chinese as well as foreign officials and other residents expressed conviction that Communists would ultimately control Manchuria. The Communists apparently have means and ability to accelerate this development. My own instinct is that they will not change their tactics to force prematurely the issue and will be satisfied to see reinforcements come into Manchuria in the sure belief that these too will in due course be infected by the dry rot which now seems to pervade Nationalist forces under Tu Li-ming's wavering hand in order to bleed the National Government in the advantageous circumstances which Russia's hold on Dairen augments. There seems to be no doubt about the ineptitude with which the National Government has run its military affairs in particular and its civil affairs in general, and the provincialism of the Manchurians has been taking on, as a result of their experience of past 2 years, a decided anti-Government character. Allowing for the fact that the farther away army and civil officials are from Nanking the freer they talk, I was surprised at the lengths which General Sun Li-jen, who is on the shelf in the Yamato Hotel, and others did in fact go. This applies to General Li Tsung-jen⁵⁵ in Peiping as well. One has the sense that there is by no means a united National Army in Manchuria and that non-Whampoa group is distinctly critical.

Incidentally, I gave General Cheng an opportunity to talk about ammunition needs, and it was quite obvious that that was not one of his main preoccupations.

[BUTTERWORTH]
STUART

⁵⁵ Director of Generalissimo Chiang Kai-shek's Headquarters at Peiping.

893.00/6-1147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 11, 1947.

[Received June 11—4: 50 a. m.]

1258. At a memorial service held at the Central Kuomintang headquarters on June 9 President Chiang Kai-shek made the following statement on the way in which the Government had dealt with the recent student movement :

“At the beginning of the recent student movement, most schools, especially those in Shanghai, were in a state of study. The effect on social order was profound and far-reaching. In spite of the Government’s persuasion the movement went on unabated. In order to preserve the vitality of the nation and to enable most young men to continue their studies, the State Council promulgated emergency measures for the maintenance of social order. The Government is bound in duty to ensure social order and the safety of the people, and it has to take proper action wherever social order is disturbed and public safety is threatened. This is true of every modern government in the world. During the movement most students were innocent and unwilling to give up a chance to study.

Evidence has shown that it was only a small number of Communist schemers who exploited the situation. In spite of the promulgation of the emergency measures, the Government still tried to serve the interests of the young students and to refrain from taking police action. The school authorities were asked to enlighten the students and hand over Communist elements. This principle was followed consistently by the Government in dealing with the student movement.

The situation, however, was different in Shanghai, where the Communists tried to instigate not only the student strike but also a general strike of clerks and industrial workers. More than that, they tried even to incite the police and gendarmes to take part in their violence. To prevent such a plot from materializing, the Government empowered the Shanghai authorities to take drastic measures. In places where the situation was not so serious the measures adopted were moderate in nature, with the result that very few accidents happened. Owing to the supervision of the school authorities and the sagacity of the students, the Peiping and Tientsin schools soon resumed classes.

It was only in Wuhan University that casualties happened when the police and gendarmes went there to search for Communists. This was really an unlucky incident. I have had a great admiration for the discipline of the university. The Wuhan authorities exceeded

Government orders in sending armed forces to the university and the students killed were not Communist agitators. On the basis of the report of the Ministry of Education, the Government is of the opinion that the Wuhan garrison command should be held responsible. Among the punishments meted out to those concerned is the dismissal of garrison commander Peng Shan.

Most schools have now reverted to normal conditions. It is a great pity in the educational world that a few schools in Shanghai have not yet resumed classes and that even some teachers insist on continuing their strike. To respect the teacher has been our educational principle. The Government will grant the teachers' reasonable requests. But it is really shirking their responsibility for national education and the upbringing of young men for the teachers to go on strike. If schools do not resume classes, school discipline will go from bad to worse. What a great loss the nation will suffer! The Ministry of Education should take prompt action.

In a word, the principle followed by the Government in dealing with the student movement was to fulfill its duty and distinguish between right and wrong, so that the Communists might not incite young men and disturb social order in the name of democracy and liberty. The various local authorities, if they have performed their duties faithfully, will be protected, but those who exceed orders will be punished. It must be realized that the recent student movement has exhausted a great part of the nation's vitality. It is hoped that the educational authorities will immediately restore school order so that the students may continue their studies."

STUART

893.00/6-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 12, 1947—6 p. m.

[Received June 12—7: 45 a. m.]

1283. Peiping reports that joint statement issued by 585 professors, instructors and assistants in North China universities on May 28 opposing civil war and appealing for peace was signed by 150 Yenching personnel comprising almost entire teaching staff. Other [information indicates that] greater proportion of faculties of Peita, Tsinghua, and Nankai Universities joined in this appeal.

Statement read in part:

"We are convinced that the current disorders and disturbances have been fundamentally caused by economic chaos which in turn have been brought about by the protracted civil war. All the students' and

workers' strikes are merely natural products of the current circumstances. Politically or militarily, economically or culturally, China is on the very brink of a total bankruptcy. The catastrophe is quickly approaching. Should the Govt still choose to evade facts rather than take effective and thorough-going measures, the whole nation will soon be heading for destruction".

STUART

893.00/6-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 12, 1947.

[Received June 12—6:45 a. m.]

1285. At the regular weekly press conference at the Ministry of Information on June 11, the Director of the Chinese Government Information Office answered the following question in regard to the PPC peace plan:

Query: "What is the attitude of the Chinese Government regarding the peace plan drafted by the PPC?"

Answer: "The Government has never closed the door to peace negotiations and welcomes any practical plan. Unfortunately, the peace plan of the PPC has been rudely rejected by the Communists through their official news agency. On June 5 the Communist North China News Agency broadcast charged the whole body of the PPC as a group of reactionaries wholeheartedly supporting civil war. Among other things it said that all appeals for peace by the PPC were false."

STUART

893.00 Manchuria/6-1247

*The Consul General at Changchun (Clubb) to the Secretary of State*⁶⁰

No. 62

CHANGCHUN, June 12, 1947.

[Received June 25.]

SIR: I have the honor to refer to this office's current reports on military developments in central Manchuria, and to report briefly below on the nature of Nationalist military strategy in this area.

It is to be noted in the beginning that the Nationalist military strategy in face of the present Communist drive has been essentially defensive, with all initiative in the field left to the Communists. The Communists, implementing their strategy with boldness and executing their moves with speed and intelligence work which is evidently superior to that of the Nationalists, have moved over the countryside with-

⁶⁰ On July 11 the Chief of the Division of Chinese Affairs (Ringwalt) invited the attention of the Secretary of State to this despatch.

out any positive attempt on the part of the Nationalists to launch serious attacks against the Communist columns or otherwise exercise substantial pressure against the Communist drive. The Nationalists at every point have either pulled back in belated attempts to consolidate their over-extended forces, or have dug in where they stood in accordance with the dictates of a passive strategy of waiting inside Nationalist strong points for the Communists to attack or, preferably from the Nationalist point of view, to go away.

General Sun Li-jen, a former commander of the New First Army and presently Vice-Commander of the Northeast China Command, stated to me in recent conversations at both Changchun and Mukden that the strategy (which is that of NECC Commander Tu Yu-ming⁶¹) was wrongly conceived, and has been responsible for the useless sacrifice of good troops left in isolated positions without support, that the proper strategy would have been to use the available forces in counter-attacks against the Communists. General Sun advanced a proposition which under present circumstances appeared extremely unsound—that the Nationalists should launch a counter-attack against Harbin and Kiamussu—but it is nevertheless reasonably certain on the basis of past performance that measures which might have been undertaken by the Nationalist side had General Sun, instead of General Tu, been in command would probably have been more effective, if only because less costly, than has actually been the case. According to information obtained on June 8, 1947 by Assistant Military Attaché Cowen from a staff officer of the New First Army, the Nationalist forces in Manchuria have suffered the following losses in the present Communist drives:

<i>Unit</i>	<i>Lost</i>		<i>Damaged</i>	
New 1st Army	90thR	N30D	89thR	N30D
	112thR	N38D		
New 6th Army	65thR	N22D	150thR	N50D
		52nd Army		
71st Army	585thR	25D	584thR	195D
		195D		
60th Army	1 reg.	87D		
	1 reg.	91D		
13th Army	1 reg.	184D		
		T 21D		
	1 reg.	89D		
	1 reg.	54D		
	8 reg.	5 div.	3 reg.	1 div.

⁶¹ Also known as Tu Li-ming.

In those circumstances, even allowing for some salvage of broken units, it is fairly obvious that the Nationalist position in Manchuria cannot be restored without the dispatch of large numbers of reinforcements here from China proper. The regular reports of reinforcements arriving have thus far turned out to be fabrications of a propaganda system that is confronted by a drying up of its already scanty resources. Without reinforcements, it is probable that Nationalist morale in Manchuria will continue to deteriorate *pari passu* with deterioration of the military situation, and improbable that a Nationalist military man like General Sun would be prepared to come forward to take over charge from General Tu, and thus incur the blame which will attach to the nominal leader for any ultimate collapse, even if the command were offered to him.

The information available in Mukden appeared to indicate that the Nationalists were confronted with two fairly categorical alternatives—to reinforce heavily or to withdraw. It may be that, having their eye on the probable unfavorable effect of withdrawal on any possibilities that may remain of the National Government's obtaining the desired US \$500,000,000 loan, the National political leaders will choose a middle-of-the-road course and encourage the local military leaders to hold out as long as possible for political reasons. In that awkward position, they would fall between two stools, losing both Manchuria and the remainder of the good armies stationed there. It is moreover hardly probable that, in those circumstances where they faced heavy odds, the Nationalist forces in Manchuria would put up the utmost determined resistance: it appears more probable that many of them would surrender to the Communists, with resultant profit to the latter. Failure to withdraw if reinforcement is infeasible, in short, would indirectly contribute to the further strengthening of the Communist armies and thus advance the day when North China itself would be threatened with Communist conquest.

As showing graphically the different character of the Nationalist and Communist military actions, there is enclosed a set of pictures ⁶² showing the results of the two respective patterns of activity. The Communist activity thus portrayed occurred at various critical points in the countryside. The Nationalist activity here depicted is limited to the town of Changchun, where jerry-built barricades of wrecked cars and branches cut from park trees are added to brittle brick pill-boxes scattered everywhere throughout the modern part of Changchun, all enclosed by an outer moat for the construction of which a large proportion of the town's male population has been mobilized and is still at work, in an effort to compensate by defensive measures what

⁶² Not reproduced.

the Nationalist commanders and armies lack in offensive spirit. The failure of the Nationalist generals properly to use the American-equipped New First and New Sixty [*Sixth*] Armies is reaffirmation of the well-known fact that faulty generalship will often count more heavily than fire-power, and political morale more than planes, in respect to the final decision.

Respectfully yours,

O. EDMUND CLUBB

393.1115/6-1547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 15, 1947—10 a. m.

[Received June 15—1:35 a. m.]

1308. It is Embassy's understanding that Joint Chiefs of Staff have declared civilian evacuation from western Pacific areas in event emergency to be responsibility of CinCFE.⁶³ In case of China authority has been delegated from CinCFE to ComNavWesPac.⁶⁴ At present time Embassy is preparing for ComNavWesPac latest information with regard to location and number of American citizens in China. Current information shows approximately 5,900 American citizens including women and children in China including Hong Kong. Information not yet received from Hankow Consular district, but numbers there believed small. Excluding Hong Kong total, majority of whom are American citizens of Chinese race, there remains a balance of approximately 4,497 Americans. Of this balance 3,451 are concentrated in major coastal centers such as Shanghai, Canton, Tsingtao and Tientsin or smaller coastal and river ports where accessibility by surface craft is feasible. Thus there are approximately 1,046 Americans at interior points, 461 of whom are at Peiping. The remaining 585 are widely spread throughout the interior of China but with some considerable concentration in the lower Yangtze Valley provinces. These figures, of course, do not include the dependents of American military personnel in China who are concentrated in Nanking, Shanghai and Tsingtao.

From foregoing it can be seen there exists a troublesome but comparatively simple problem of evacuation in the case of majority of American citizens. In spite of current accelerated deterioration of overall situation in China, Embassy does not consider that at present time there is immediate need for suggesting that American citizens prepare for withdrawal. In any event Embassy does not consider that situation will develop in such a manner that at any given moment

⁶³ Commander in Chief, Far East (MacArthur).

⁶⁴ Commander, U. S. Naval Forces, Western Pacific (Cooke).

wholesale evacuation will become necessary. It is more likely that the need for evacuation will arise in specific areas from time to time as hostilities develop. For example, it may become necessary within near future to effect evacuation of some or all of American citizens from south Manchuria. Embassy and Consulates, particularly Consulates in North China, have consistently cautioned American citizens against proceeding to interior points for either residence or travel. Dept will, of course, recall past experience in China when it has been most difficult to influence Americans at interior points, particularly missionaries, to withdraw during troubled time. It is very likely that this pattern will repeat itself and that certain American citizens will elect to remain at their places of residence until such time as it may prove too late to effect evacuation.

Embassy is not aware of the number of British subjects residing in China or their locations. It is a reasonably safe assumption, however, that their distribution follows much the same pattern as that of Americans. Embassy perceives no reason for presence of warships of British Pacific Fleet in China waters specifically for "rescue and protective action" inasmuch as for the time being there is no real indication of a serious breakdown of Governmental authority in centers where concentration of foreign nationals is greatest. Embassy assumes that it should be our course at this time to continue to place the burden of responsibility for protection of American life and property on the regularly constituted civil authorities rather than risk undermining that authority by creating false panic among foreign residents by advocating or permitting the indiscriminate stationing of naval vessels along the coast of China until real need therefor arises. In certain circumstances, of course, the rescue of Americans or other nationals would be both necessary and advisable, but for the present sight cannot be lost of the fact that in the same areas where American citizens reside there are also large number of newly created Soviet citizens and "protective action" on part of either British or American fleets could well lead to undesirable Soviet intervention.

Embassy assumes that in event wholesale civilian evacuation from China becomes necessary, thought has been given to destination of evacuees, having in mind fact that Philippine Islands as a haven for evacuees is in different status than in the past. Furthermore, Embassy would appreciate receiving the guidance of Dept with regard to whether responsibility for decision as to when evacuation is advisable rests with CinCFE, ComNavWesPac for [*or*] this Embassy.

STUART

893.00/6-1647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 16, 1947.

[Received June 16—11:22 p. m.]

1312. The following is release published in *Chung Yang Jih Pao*, Nanking, June 15, 1947:

“President Chiang analyzed the present situation at a dinner party given in honor of 14 high-ranking Government officials at his official residence last night. He spoke about the military and economic situation and the general election as follows:

‘Militarily in spite of the Communist policy to ruin the country, the Government is in a position to crush the rebellion and carry out national unification. Economically, the Government is also capable of alleviating the people’s sufferings, balancing the budget, and stepping up reconstruction. And as to the forthcoming general election, the Government is busy making preparations so as to bring about without delay the constitutional government which is so coveted by the nation.’ ”

STUART

893.00/6-1847 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, June 18, 1947—9 a. m.

[Received June 18—6:56 a. m.]

98. Tempo fighting Ssupingkai has subsided. Nationals not only control city but have made small counterdrives outside city, recapturing airport which has changed hands several times past few days. Source NECC to Consulate interpreter. Very noticeable air of optimism among Chinese over military situation in distinct contrast to obvious depressed attitude 10 days ago. Majority Chinese contacted feel outcome engagements Ssupingkai will largely determine course of events this area next 6 months. National reinforcements have arrived in Manchuria. Ninety-second Army, formerly Hopei province, landed at Chinwangtao. Source NECC to Consulate interpreter.

Sent Embassy as 174, repeated Dept as 8 [98], Changchun as 74.

WARD

893.00/6-1847 : Telegram

*The Consul General at Mukden (Ward) to the Secretary of State*MUKDEN, June 18, 1947—5 p. m.
[Received June 21—10: 50 p. m.]

100. Communist recent offensive appears to have passed its peak as far as active combat concerned. Communists should be gratified by accomplishments. Offensive, while differing slightly in tactics employed, followed usual Communist patterns, namely, occupying large areas but allowing Nationalists to hold cities therein. Noteworthy that with all reports of Communist success affecting Mukden and Changchun, Communists actually only hold one city, Kungchuling, which has [no?] immediate effect on Mukden, although they have quite an effective blockade around Mukden and Changchun. One of most interesting points of Communist offensive was similarity of Communist tactics to those employed by Soviets when driving down rail line against Japs. Communists as in past do not appear either ready or desirous of taking or holding cities. Only places taken were localities which could be occupied without too great loss. After city taken, only skeleton Communist force left therein to enforce acts Communist civil officials. When Nationalists counterattack Communists seem to prefer letting Nationalists into city and then stage own counterattack. One indication Communists not interested taking Mukden is they still give no evidence of desiring to fight defensive warfare which they would have to do if they took Mukden. Notwithstanding persistent rumors of Soviet equipping Communists with artillery and heavy weapons, such rumors have not been substantiated by appearance of such ordnance in field in noticeable quantities. Morale and numbers of Communists seem definitely superior to Nationalists but nevertheless Nationalists are still by far superior force insofar as training and ground and air [equipment concerned.] Communist accomplishments in month of offensive warfare listed in order of importance are:

(1). Economic: Communists control large share of food producing areas and have taken considerable quantities of stored surplus food. Even though Nationalists able retake areas, Communists depreciated value of food stores by effectively destroying lines communication. Will suffer more from this than Manchuria because other surpluses which could have been exported will now have to be used in Manchuria. Offensive also considerably weakened already shaky economy in that prices immediately soared because of possibility of future shortages before any actual shortage existed. Communist successes caused flight from Manchurian currency and frantic buying of gold bars. It will be very difficult to stem this inflation because average Chinese merchant seems more dominated by avarice than by patriotism.

(2). Psychological: Manchurians formerly [skeptical of southern Kuomintang Chinese have become openly hostile. Morale of people and troops lowered greatly by incompetency, greed and lack of public spirit of Kuomintang public officials and military officers. This attitude becoming more apparent each day. Many Chinese, in discussing conditions, make no attempt to conceal their contempt for the Kuomintang controlled government. This attitude, however, has not yet reached rebellion stages,]⁶⁵ and even though Nationalist troop morale has deteriorated considerably and thereby lowered their combat efficiency, they still appear capable of putting down any open rebellion. However, as time passes and discontent increases, movement will grow stronger and although these dissatisfied persons probably will not actively cooperate with the Communists, their passivity will materially aid Communist cause.

(3). Deteriorating American equipment: Wasting of Nationalists' advantage of American-supplied weapons, ammunition, transportation and aircraft strong Communist accomplishment. Communists forced terrific expenditure of movement. American equipment, particularly vehicles and planes, constantly deteriorating and there appears no likelihood of immediate replacement.

(4). Loss of equipment: Communists appear to have captured considerable quantities of Nationalist military equipment, particularly in heavy weapon class. This is type of equipment which Communists need most and which to date has given Nationalists decided advantage.

(5). Loss of men: Appears Nationalist losses in men have been heavy. Although manpower is cheap, trained soldiers are not. Replacements are coming from North China but northern soldiers and southern officers are not compatible.

Recent reports indicate Communist immediate tactics will be to delay Nationalist re-entry into areas captured, although not anticipated Communists will set up strong defense. Communists have achieved important objective in that they have weakened Nationalist strength [to] extent that next offensive should be even easier. Nationalist reinforcements arriving place Nationalists in position to launch counteroffensive, but by time they are actually ready to move, Communists will have time to withdraw sufficiently so that Nationalist military accomplishments, per se, will be negligible.

Sent Embassy 172, repeated Dept 100, Changchun 76.

WARD

893.00/6-1847

The Ambassador in China (Stuart) to the Secretary of State

No. 809

NANKING, JUNE 18, 1947.

[Received June 24.]

SIR: I have the honor to report on developments especially as they concern President Chiang K'ai-shek. The situation in general con-

⁶⁵ Bracketed insertion made on the basis of another copy of telegram filed under Lot F-79, 800 Kmt-CCP 1947.

tinues to deteriorate alike in its military, economic and psychological aspects. These are, of course, all interrelated. The growing discontent with or even hostility toward the Government has been stimulated among intellectuals by the extremely harsh measures against students and among the unthinking masses by the mounting costs of livelihood. In its simplest terms the complaints center around freedom and food.

President Chiang believes that he had conclusive evidence of a Communist plot to create widespread disorders on June 2 and is no less convinced that the measures taken thwarted this. He unquestionably overestimated the Communist influence in the recent student demonstrations and probably realizes this now himself. There were divergencies in what occurred in the principal cities. The tragic death of three students in Wuhan University and the serious wounding of three others, together with a number of minor casualties were on the initiative of the Hankow garrison commander, who has been summarily dismissed.

The PPC peace resolutions (see my despatch no. 779 of June 4, 1947) have been presented through the Standing Committee of that body to the State Council, which approved them in principle but has asked that they be made more concrete for final action at the next meeting of the State Council. Meanwhile, the Communist Party has contemptuously rejected this approach as another evidence of the Government's insincerity.

President Chiang has been thinking very earnestly both over the situation as he is compelled to recognize its realities and over advice given him which, so far as I can gather, has all been very much to the same effect. In general, this is that the demand for peace is widespread and insistent, and the Government should be able either to persuade the Communists to stop fighting and resume peace discussions or to place the responsibility for continuing the civil war upon them, and furthermore that the Government should win back popular confidence by at once proving by deeds its capacity for reform and by official statements calculated to keep the people much better informed than they have been hitherto of the problems and intentions of the Government. In my personal conversations with President Chiang I have been as frank as seemed permissible and have been cheered especially during the latest interview by what seemed to be on his part something more than a general assent in principle.

In contrast with almost all the other higher officials President Chiang is maintaining his calm self-control and a somewhat sobered confidence. There is a general feeling of frustration among the others due primarily to the objective facts with which they are all

familiar but intensified by the nervous fear of the Communists. Actually much of the apparent strength of Chinese Communism is due chiefly to the inefficiency and corruption of the Kuomintang, and—with an alarming acceleration—to popular loss of faith in the Government. One can be reasonably certain that with sufficient evidence of competent statesmanship and determined moral reforms the Government could recover its hold alike on the intellectuals and the masses.

It requires a certain temerity to attempt any forecasts, but it would seem that one of three possible consequences will follow without much delay from the present critical conditions:

1. President Chiang will assert himself as the leader of an attempt to settle the Communist issue either by securing their assent to renew negotiations or by demonstrating that they are in effect an armed rebellion and as such opposed to the national welfare. I have been hoping that he would be able to do this in a dramatic, revolutionary way that would catch the imagination of his people. This is probably expecting too much, but he has gone so far in discarding his earlier preconceptions and adopting progressive ideas that I believe he can be influenced to further advance. This will perhaps be slower and much less satisfactory than a more spectacular procedure but it has real possibilities and is perhaps by all odds the most hopeful solution.

2. With the threatening catastrophe drawing closer it is quite possible that a nucleus of enlightened, non-partisan leaders may emerge who will attract the more liberal elements from within the Kuomintang, be supported by the politically conscious public and come to terms with the Communists. President Chiang would presumably disappear from the scene, Premier Chang Chun, T. V. Soong, or some other outstanding figure might assume leadership, and an ad interim coalition government be established. Among the disadvantages would be the inexperience of the new group and the inability, especially conspicuous among Chinese, of a loosely formed body to cooperate effectively.

3. There will be complete disintegration of the present Central Government with the Communists in control of their own territory, which they would use every effort to extend. Sectional governments would be established under the strongest man or group in the area with all the evils of such chaotic and unstable conditions.

Respectfully yours,

J. LEIGHTON STUART

893.00/6-1847

The Ambassador in China (Stuart) to the Secretary of State

No. 816

NANKING, June 18, 1947.

[Received June 24.]

SIR: I have the honor to report that on the afternoon of June 14 the Minister of Foreign Affairs, Dr. Wang Shih-chieh, asked me to

call. He opened the conversation by describing the events which have recently occurred in Sinkiang,⁶⁶ the invasion by Outer Mongolian cavalry, who combined with Uighur troops against anti-Soviet Cossacks, driving them toward Chinese Government troops. The latter have been ordered to avoid all provocation but not to yield. The airplanes assisting in this operation seemed to have Soviet markings but these may have been Outer Mongolian. The latter in any case would not act without approval from Moscow. The Moscow broadcast is reported to have denied Soviet participation in the incident. The Chinese Government feels that, whatever the explanation may finally be, it should meanwhile give full publicity to the reports it receives. Dr. Wang took occasion to add that there was indubitable evidence of Outer Mongolian aid to Chinese Communists operating in Manchuria, although there was no reliable information as to the extent of this.

Dr. Wang then referred to recent conversations I have had with President Chiang K'ai-shek and indicated that suggestions of mine were being given careful consideration but that President Chiang was forced by conditions now prevailing to plan very carefully to avoid further aggravation of the already extremely serious military, economic and other factors. He himself felt that the most urgently needed reforms could be roughly grouped under three headings: (a) military reduction and reorganization; (b) improved provincial and local administration; (c) economic rehabilitation, communications, industry, agriculture. We discussed each of these in some detail.

I then told him how glad I was to repeat to him the substance of my recent conversations with President Chiang, which really contained nothing new except a certain note of urgency. Stress had been laid on the people's desire for peace as genuine—including the student demonstrations—and on the desirability of either persuading the Communists to renew peace discussions or convincing the leaders of opinion that the Communists were responsible for the failure and for the continuance of the civil war. The Government should recover the support of its own people through its handling of the popular demand for peace, the proclamation and protection of civil liberties and other evidences of democratic and socialized tendencies. All such progressive developments would be heartily welcomed in Washington.

I pointed out again some of the practical difficulties in American financial aid to China,⁶⁷ entirely apart from Chinese internal affairs, such as the regulations governing Export-Import Bank loans, the early adjournment of Congress, etc.

⁶⁶ For correspondence concerning Sinkiang, see pp. 546 ff.

⁶⁷ For correspondence on this subject, see pp. 1030 ff.

Dr. Wang described some of the tactical problems President Chiang was thinking of, such as the present troop dispositions, before he could make any statement as to limiting the Government to purely defensive military action. But he assured me that the matter was being thought of in concrete terms, and that these would be presented to the meeting of the State Council on June 20.

Respectfully yours,

J. LEIGHTON STUART

893.00/6-1947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 19, 1947—9 a. m.

[Received June 19—4:50 a. m.]

1335. Han Li-wu, Vice Minister of Education, who was charged by the Government with attempting to reach some settlement of the Hankow incident that resulted in the death of 3 students of Wuhan University, told an Embassy officer in confidence that he has been attempting to persuade the Generalissimo of 3 points in connection with recent student disturbances:

(1) That reports reaching the Generalissimo of Communist leadership and domination of the student movement are in the main inaccurate, though it is unquestionably true that some students are Communists and have been attempting to exploit the situation for their own ends; and, further that reports reaching the Gimo of police and military activities vis-à-vis disorders are also inaccurate since the military has been a great deal more brutal and oppressive than the reports would indicate;

(2) That Government policy, as exemplified by the decrees forbidding mass demonstrations, results only in persuading students that the Government is their enemy rather than a sympathetic friend and consequently will fail;

(3) That the military should under no circumstances be allowed to have any participation in the solution of the student problem because this will only further antagonize academic groups.

Dr. Han said he had so far been unsuccessful in his persuasion, except to the extent of having secured replacement of two generals in Hankow. He added that he is now working on a plan whereby the Government would agree that student offenders against proper law and order would be remanded to their parents or guardians who would be responsible for their behavior and activities and that in cases where this failed, students could be prosecuted through usual civil channels. The military would stay out of the picture. In return students would agree to abandon the use of strikes and of disorderly demonstrations and confine their activities to normal political channels and methods

of expression. Dr. Han also said he felt there was too much supervision and control over education in the ministry and that better results might be obtained if greater responsibilities were laid on the individual universities.

With reference to the outbreak of disturbances early in May, Dr. Han said that rivalry between Chu Chia-hua, Minister of Education, and Chen Li-fu, which found expression in a quarrel over the location of various universities in the province of Chekiang, was the spark that set off the disorders, but that the general social and economic situation existed, needing only something to give it a push, and that it almost immediately became something much larger than a quarrel between two factions.

Dr. Han also said that one of the great difficulties in finding the solution to the whole student problem is that the issues are still somewhat confused. He feels that if the Government will make a clear-cut, unequivocal and generous peace offer to the Communists, thereby clearly laying on them the onus for continuing the civil war, it would be much easier to solve the student problem as well as others. He stated that he personally favored this course and that there is a growing body of sentiment which thinks in the same terms. In summary, Dr. Han believes his program offers a possibility for solution of the student question, but that continuation of present Government policy will in time result only in an intensification of student activities and disorders.

STUART

893.00/6-1247 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 19, 1947—8 p. m.

749. Coverage by Embassy in its recent telegrams over-all situation China, Manchuria, student unrest and Sinkiang has been great assistance to Dept in following developments. Dept wishes commend Embassy for high calibre its reporting, particularly telegrams nos. 1100 May 20, 1134 May 24,⁶⁹ 1180 May 29, 1235 June 7 and 1284 June 12.⁷⁰ Changchun and Mukden also to be commended for reporting Manchurian situation.

In this connection Dept would welcome Embassy's analysis (proposed in Embassy's 1180 May 29) course of action open to US in light probable developments.

⁶⁹ Telegram No. 1134 not printed.

⁷⁰ *Post*, p. 559.

893.00 Manchuria/6-1947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 19, 1947—11 p. m.

[Received June 19—2:45 p. m.]

1345. President Chiang asked me to call on him late this afternoon. He began by stating that the Manchurian situation was extremely serious. It would be impossible to maintain it much longer. The Communists, aided by Russia, had been growing stronger. The fighting at Ssupingchieh had been especially bloody. The fall of that city which he anticipated would mean the loss of Changchun and Kirin. He said that because of your assistance in transporting troops to Manchuria and in many other matters he felt profoundly grateful and felt that this problem should be reported to you at once. He also sought your advice as to future policy. He had hesitated to distress me by admitting this danger and indeed had hoped that it might be averted. He himself had only fully realized its gravity 3 days earlier. A decision as to all of Manchuria must be made in a very few days. The loss of the cities mentioned would involve that of Mukden, and others. It has been impossible to reach an understanding with Russia over Dairen. Russia has insisted that the municipal officers sent there must cooperate with the puppet regime already established there, and refuses to permit national troops to be landed there—all in violation of the Sino-Soviet treaty.⁷¹

The only way to gain Chinese rights there would be by armed force. The Communists are constantly gaining in numbers and equipment. Their losses in manpower are quickly replaced. Chinese losses cannot be filled and equipment has been steadily reduced. Their tactics bear a striking resemblance to those used by Russia against Germany. The loss of Manchuria would threaten North China and the danger would spread all over the country. He wished to have all of this reported as promptly as possible to you, and requested that he be informed as soon as a reply is received. At the conclusion of his statement he asked for my opinion. I replied that it might be that the time had come for him to take emergency measures such as organizing a small but carefully selected group to work with himself, men respected by all and able to take responsibility as well as to form a team; to reduce expenditures by at least temporarily discontinuing all measures not needed for the emergency period; to make an announcement to the people that if the Communist Party finally refused the latest peace proposals the people of the country should hold them responsible; if they wished to preserve the democratic way of life as to be effected soon

⁷¹ Signed at Moscow, August 14, 1945; for text, see United Nations Treaty Series, vol. 10, p. 300.

under constitutional government they should all work together to save the nation from the threatened danger; to this end all should work for the common purpose and contribute what they could of service or wealth; the Govt should, respecting civic liberties, carry out the most immediate reforms with the courage and ruthless impartiality required by the crisis and in all such ways win back popular support or ask to be relieved of the task; that I had always believed that such a revolutionary program would attract the thinking people, especially students and other supposed Leftists; that he should allocate responsibility (for instance military affairs) with a minimum of red tape, and himself tour the country making speeches and arousing the populace to rally to the new movement; that with the people behind him he need not fear the Communist military strength nor their other activities, and should continue to keep the door wide open for a resumption of peace negotiations; that hopelessness and defeatism were paralyzing those who wanted to do something for the nation but under some such determined, progressive leadership they could be inspired to new hope and effort; and finally that I felt sure such a program would win abundant sympathy in America and elsewhere over the world. At the end, he said that he had been thinking along very much the same lines.

STUART

893.00 Manchuria/6-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 20, 1947—9 p. m.

[Received June 20—10:40 a. m.]

1356. In view of Generalissimo's statement of his alleged intentions regarding Manchuria (Embtel 1345, June 19, 11 p. m.) Embassy submits following estimate of situation.

Fundamental weakness Govt military position Manchuria stems from (1) over-extended initial deployment and (2) incompetency of High Command, centered in General Tu Li-ming. Previous southward drives by Communist forces were contained by American-trained New First Army commanded by its wartime leader General Sun Li-jen. Presence of New First Army along Sungari River and American-trained New Sixth Army to its east offset for a time handicaps of faulty deployment and bungling leadership.

General Sun's removal from command New First Army by General Tu Li-ming, however, followed by several military defeats, has materially decreased morale and fighting qualities these troops. This, in turn, is now reflected in entire command and is manifested most

strikingly by familiar Chinese defeatist strategy of holding isolated towns behind walls and ditches.

Present dispersion Govt forces, which are now largely defense-minded, plays into hands of Communist strategy of isolating urban from rural areas. Furthermore, continuing interdiction or destruction of communications by Communists accelerates present overall economic deterioration.

In order to arrest, or at least slow down, present trend of affairs Manchuria, a decision for withdrawal of forces in central Manchuria for regrouping in Mukden area seems mandatory. General Tu Li-ming is believed incapable of conducting such a withdrawal and consequently it would seem necessary to replace him simultaneously with the taking of a decision to effect such a withdrawal.

The Generalissimo may be forced eventually to withdraw from all of Manchuria but Embassy believes that such action under present circumstances would be premature and highly undesirable. In the light of our position in southern Korea, the thus far unsuccessful Chinese efforts to reach agreement with the Russians vis-à-vis Dairen, and the manifest undesirability of unopposed Communist control in Manchuria, which will have repercussions throughout Asia, it is a matter of urgency that the Central Govt maintain a strong salient in southern Manchuria including at least the Mukden-Fushun area and the Fushun and Peiping [*Penhsi?*] collieries with the necessary rail communications thereto, at least from the port of Hulutao.

As indicated above, steps could be taken, under intelligent and aggressive leadership, to alleviate present situation. Hazards of partial withdrawal for regrouping on Mukden are considerable and it may be expected that all Peace Preservation Corps units and possibly half regular units would be lost. This would appear better course of action, however, than eventual total loss if present trend events continues unchecked. There is no guarantee that even south Manchuria salient can be held but immediate consolidation there is desirable even as a preliminary to total abandonment Manchuria.

It seems to Embassy as unlikely that Generalissimo has not considered that withdrawal from Kirin and Changchun is condition precedent to further withdrawal as it is that he only became aware of seriousness of Manchuria situation 3 days ago.

Although for the moment the spotlight is on Manchuria, general Govt military situation in north China is also precarious and stems to the same degree from the same cause, namely ineptitude of High Command.

STUART

893.00/6-2047

The Ambassador in China (Stuart) to the Secretary of State

No. 823

NANKING, June 20, 1947.

[Received June 30.]

SIR: I have the honor to enclose a copy of a memorandum of conversation ⁷² between an officer of the Embassy and Dr. Lo Lung-chi of the Democratic League on June 13, 1947.

It will be noted that in Dr. Lo's opinion the present Government is completely lacking in prestige or popular support and that there is a large and growing body of opinion in China which is in favor of political settlement even on Communist-dictated terms. It is also interesting to note that Dr. Lo holds that at the present time there is much Army opinion in favor of immediate compromise with the Communists, and that even the Whampoa Clique of the Army is divided with regard to the question of compromise.

It is also pointed out in the memorandum that Dr. Lo, and presumably the Democratic League, now fears Communist victory because of the uncertainty of the position of the League in any Communist-dominated regime.

Dr. Lo believes that, although there is increasing opinion in the Army that the Communist problem can not be settled by military means and that an immediate political solution must be sought, no solution can be found as long as the Generalissimo remains in power. He therefore holds that if the Generalissimo is not prepared to enter voluntary retirement a military coup will oust him from office. In this connection Dr. Lo mentions the possibility that General Ho Ying-ch'in,⁷³ upon his return from the United States, might well turn out to be the leader of such a coup.

Dr. Lo makes much of the recent protest of more than five hundred university professors against the methods employed by the Government to suppress student unrest. He points out that this is the first time in Chinese history that such a large group of the leading intellectuals of the country have so vociferously protested against the policies of the Government, and that the group is largely made up of American or British returned students.

The Department will perceive upon close reading of the full memorandum that in this instance, as in the past, the remarks of Lo Lung-

⁷² Not printed.

⁷³ Until May, 1946, commander in chief of the Chinese armies, subsequently Chief of the Chinese Military Mission to the United States and concurrently chief Chinese delegate to the United Nations Military Staff Committee.

chi contain much that reflects a liberal's shrewd analysis and much that savors of a fellow-traveller.

Respectfully yours,

For the Ambassador:
W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

893.00/6-2147 : Telegram

The Consul General at Changchun (Clubb) to the Secretary of State

CHANGCHUN, June 21, 1947—11 a. m.

[Received June 24—7:05 a. m.]

Unnumbered. Battle for Ssuning obviously reaching final stage with capture by Communists imminent. Relief patently too distant to reach in time defending force of 16,000 of 87th and temporary 20th Divisions. National column advancing from north probably New 38th Division withdrawn from Kirin just before cutting of rail line. If Ssuning falls, 38th Division will not only be unable to be of assistance but will itself be in danger annihilation unless (1) it retreats Changchun or (2) is joined by New First Army units now here.

Re Contel May 29, 4 p. m.,⁷⁴ sent Nanking, repeated Mukden, Peiping. Significance battle Ssuning aptly indicated by Central News Agency (Contel 113, 19th⁷⁵) which, however, fallacious second premise that Nationals would win. Capture Ssuning by Communists will give them following benefits: (1) Consolidation hold on broad corridor separating Nationals in Changchun and Kirin from Mukden area; (2) further shattering morale Government forces who will be shown once more they can expect little or no support when under attack and (3) gain of important stocks, munitions and foodstuffs now at Ssuning.

Effects such hypothetical event can be foreseen with reasonable degree of clarity. Garrison next in size and therefore probably next to be marked for annihilation is at Kirin where there now remains second-rate 182d and temporary 21st Divisions and some PPC troops. Kirin already cut off from Changchun on railway west of Kirin. Fall Ssuning will release ample Communist forces to pin down Changchun garrison and dispatch of relief force from Mukden if considered infeasible for Ssuning would hardly be attempted for Kirin. Changchun outer defenses strengthened considerably recently and town if far from impregnable fortress would nevertheless offer its garrison of about 5 divisions (still counting 38th) good position to meet attack.

⁷⁴ See telegram No. 1202, June 4, 9 a. m., from the Ambassador in China, p. 157.

⁷⁵ Not printed; it reported a press review of the military situation (893.00/6-1947).

That attack would be improbable before reduction Kirin and even then Communists might choose weaken town by preliminary economic blockade. New First Army morale relatively good. Fall Ssuping will no doubt be severe shock even to that morale but believe that if Nationals remain inside Changchun defenses, this garrison could probably hold out 1 month under attack in absence of preliminary economic softening up. National attempt defend city without promise prompt arrival relief would in any event be hopeless last-ditch stand. If garrison, however, is evacuated in belated attempt reach Mukden overland after loss Ssuping, I venture opinion that most would be lost.

Significance current events central Manchuria for overall picture obvious: Complete destruction National position Manchuria threatened.

CLUBB

 893.00/6-2247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 22, 1947—3 p. m.

[Received June 22—6: 50 a. m.]

1371. Aide to Sun Li-jen states that Sun has returned to Mukden with orders from Generalissimo to effect withdrawal one and one-half divisions from Changchun to Mukden, leaving one and one-half regular divisions plus two divisions Peace Preservation Corps troops Changchun.

Previous reliable information available to Embassy indicated only two divisions less two regiments regular troops at Changchun. Although figures do not coincide it seems apparent that at least partial withdrawal from Changchun is under way or will be undertaken shortly.

STUART

 893.48/6-2247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 22, 1947—5 p. m.

[Received June 23—5: 35 a. m.]

1373. Before returning to Shanghai June 22 yesterday, Governor of Central Bank ⁷⁶ called on Minister-Counselor and discussed in general terms Chinese post-UNRRA relief and silver proposals. (Embtels 1301 ⁷⁷ and 1302, ^{77a} June 14, noon and 1 p. m.)

⁷⁶ Chang Kia-ngau.

⁷⁷ *Post*, p. 1134.

^{77a} Not printed.

In the course of conversation he volunteered the fact that in the last few days he had two long and frank talks with the Generalissimo; during such he had indicated that situation called for decisive help [*action*] and greater delegation of authority by Generalissimo. He said he had proposed that for administrative purposes south of the Yangtze should be regarded as area for reconstruction, that military governors should be withdrawn from there and able civilian administrators appointed, and plans made and put into effect for long range as well as immediate developments. The area north of the Yangtze could be considered as area of hostilities and, therefore, military influence would naturally predominate and temporary expedients be applied to meet situations as they developed. Furthermore, army should be regarded as falling into two categories, namely, combat troops who should be better paid and cared for; and defensive or garrison troops who would receive secondary consideration and the provision for whom would fall largely on the provincial authorities. For this as well as other reasons, a much clearer line should be drawn between the revenue raising rights of the Central Govt and the provinces and the tax system itself should be overhauled to produce larger revenue, particularly from the wealthier classes, and expenses cut as drastically as possible.

Dr. Chang Kia-ngau said that in making his recommendations he had pointed out the necessity of Generalissimo using realistically the probability of a long period of hostilities with the Communists. For the first time in any conversation with an Embassy official he was overtly critical of the Generalissimo, for example, both as regards the ability and character of many of his appointed officials and the manner in which he tied them down administratively and bound them directly in loyalty to him personally. Li Ming⁷⁸ was similarly, though reluctantly, critical to an Embassy officer, saying that if the Generalissimo did not change his ways soon he would lose out. This type of comment, which has sprung up in the past few weeks among high officials, officers (see Embtel 1251, June 10, 5 p. m., third paragraph), and others who were customarily predisposed to praise, is a noteworthy development but it has not reached proportions indicative of decided decline in Generalissimo's authority. However, growing dissatisfaction of this nature would be a condition precedent to reformatory change.

STUART

⁷⁸ Chinese banker.

893.00/6-2347 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, June 23, 1947—1 p. m.
[Received June 24—10:30 p. m.]

136. Chinese military here have just informed Marine Headquarters that Communist forces opened general attack yesterday evening 7 p. m. on Tientsin-Pukow Railway between Chinghai (20 miles south of Tientsin in direct line; 30 miles by rail) and Tsanghsien, 76 miles south of Tientsin where railway and Nationalist control end. Simultaneous attacks made on a number of points on railway including Chenkuantun, Tangkuantun, Chinghsien, Machang and Hsingchi; most serious attack at Tsanghsien. Railway inoperative today. Chinese military say they have as yet no information on the subject described below, but Tsanghsien radio is out. Chinese military seem perturbed over situation, and say Communist forces number 50,000; number no doubt exaggerated.

Communists damaged three small bridges on Peiping-Mukden Railway last night near Yangtsun 18 miles from Tientsin. Traffic still out noon today but expect restoration late this afternoon.

Communists cut railway to Chinwangtao last night by mines at three places between Kuyeh and Lanhsien; one locomotive derailed. Also damaged railway between Changli and Peitaiho junction where repair crews reported attacked by Communists. Traffic to Chinwangtao restored before noon today.

Sent to Embassy as 123, repeated to the Department as 136 and to Peiping.

SMYTH

893.00/6-2547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 25, 1947—9 a. m.
[Received June 25—3:35 a. m.]

1392. The following is Changchun's 263, June 23 to Embassy:
"Commander New First Army informed ESD on 21st that 53rd Army had arrived Manchuria as reinforcement and that there are 9 divisions in Tiehling area. Other units have been added to 38th Division moving southward and that column is said to total 20,000 troops (reference Consulate's telegram June 21, 11 a. m.).

Police official informed me last night that relief column from north has already passed Kungchuling, that relief forces from south arrived at outskirts Ssuning and Generalissimo arrived Mukden. Sun Li-jen,

vice commander NECC, by press report, arrived Changchun yesterday.

In these circumstances, where it appeared to me 'obvious' on Saturday that fall Ssiping imminent, would now revise estimate to be that town apparently been saved by arrival relief. Trend morning press supports beliefs situation Ssiping eased. Though uncertain whether any large Communist force could be caught, thereby relieving columns, even defensive victory would contribute substantial change to present military situation. Arrival Nationalist reinforcement in Manchuria is, of course, of prime importance. If cited official information correct, it would appear that Central News might in fact prove right about final Nationalist victory at Ssiping. Clubb".

STUART

893.00/6-2547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 25, 1947.

[Received June 25—10:55 a. m.]

1400. In response to query regarding situation in Ssipingkai area, Director of Chinese Government information office at Ministry of Information press conference June 25 made following statement:

"Since June 12 more than 60,000 Communist troops have been attacking Ssipingkai under cover of sustained heavy artillery fire. Commanded by General Chen Min-jen, defending Government forces have put up stiff resistance and beaten back the Communists repeatedly with heavy losses. The 2d Division of the First Communist Army and the 5th Division of the Second Communist Army were completely wiped out by General Chen's troops. According to tabulations not yet completed, the total Communist casualties are close to 30,000. In the areas west of the railway, most of the Government positions have been destroyed by Communist gun fire. Fighting is now raging along the railway station. Government reinforcements heading northward from Chungku have by-passed Changtu and are threatening the Communists around Ssipingkai. Other detachments of Government forces sent down from Changchun have reached the vicinity of Kungchuling. The siege of Ssipingkai is expected to be lifted in the near future. In a word, the present Communist attack on Ssipingkai is going to be a costly military failure."

When asked if any Koreans or Japanese have been taken prisoner by Government forces in Manchuria, the director replied in the affirmative and stated that more information on this subject would be supplied at next week's conference.

STUART

893.00/6-2547

The Ambassador in China (Stuart) to the Secretary of State

No. 833

NANKING, June 25, 1947.

[Received July 3.]

SIR: I have the honor to enclose a memorandum of conversation between the Ambassador and General Pai Chung-hsi, Minister of National Defense, on June 18, 1947. Mr. Philip Fugh, a Chinese friend of the Ambassador's, was also present during the conversation.

It is interesting to note from the conversation General Pai's veiled criticism of the Generalissimo which has become more apparent recently from senior officials of the National Government and prominent private individuals; for example, see the Embassy's telegram no. 1373 of June 22, 1947, 5:00 p. m., with regard to certain remarks of Chang Chia-ngau, Governor of the Central Bank of China, and Li Ming, an influential private banker.

It is also apparent from the conversation that General Pai is still convinced that there can be no political settlement with the Chinese Communist Party and that settlement must continue to be sought by military means. The measures suggested by General Pai to the Generalissimo are in themselves laudable if somewhat unrealistic in light of the current deterioration of China's overall economic position.

Very truly yours,

For the Ambassador:

W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

[Enclosure]

Memorandum of Conversation by the Ambassador in China (Stuart)

NANKING, June 18, 1947.

General Pai Chung-hsi asked me to his home on June 18 for a consultation about national problems which he felt had become extremely serious. The substance of his point of view is set forth below.

General Pai began by speaking of the critical nature of the situation and the necessity for drastic changes. I told him that I had just learned that Chen Li-fu had been dismissed from his position as head of the Party Board of Organization. He showed his surprise and pleasure but said that the dismissal of this one man was not nearly enough. He then described his own discontent in that the Ministry of National Defense had been reorganized by the American Army Advisory Group in what was supposed to be the American structure but that actually any proposals of his had to go to the Executive Yuan before reaching President Chiang, whereas the Chief of Staff had

direct access to the President and full authority over the field commanders. He felt that his position was therefore quite untenable in seeming to have responsibilities but without authority to carry them out. He let drop remarks to the effect that there was much dissatisfaction among the military officers over the single-handed control vested in General Ch'en Ch'eng. General Pai was quite emphatic in the opinion that President Chiang should be retained in his present position. He knew of attempts from various quarters—apart from the Communists—to have him displaced, but felt that there was no one comparable to him in meeting the country's needs.

He went on to report an interview with President Chiang, who asked for his opinion on the current situation but in replying to General Pai's inquiry as to how much time he might have said, "about fifteen minutes". General Pai then asked for at least an hour in which to express his views fully. This was arranged for in an interview about a week ago. At that time General Pai told President Chiang that it seemed to him to be a mistake to be holding out hopes of peace with the Communist Party, that this perplexed the field commanders and weakened the morale of the fighting forces. He said that it ought to be entirely clear by now that the Communist Party had no intention of making peace. It had repudiated the National Assembly and the Constitution; it had officially announced that it would not regard as valid any existing treaties between other countries and the present Chinese Government; it had utilized the long period of American mediatory negotiations to increase its own strength; and it had arrogantly announced that it was not interested in peace talks with the present leaders of the Government. All this seemed to prove that it was determined to overthrow this Government. President Chiang should, therefore, determine on a new and almost revolutionary policy on the assumption that it would take at least two or three years to secure a real and lasting peace. He should cease to rely on foreign aid and to make concessions in the hope of securing American help. If they were able to have this, so much the better, but they should try to resist Communism with the weapons which Communism itself employed so that the Government and the people would be at one in regarding the Communists as a subversive influence detrimental to the national welfare. The Government should, therefore, very much reduce its own organized activities, retaining only those units as were essential in a time of war with a minimum of staff. The best men possible should be selected as provincial governors and then given a large measure of discretionary authority and held responsible for maintaining efficient administration. All imports not needed in a time of war should be ruled out and every effort made to increase

exports such as tung oil, tea, etc. The people should be required to live simply, using native goods wherever possible. He pointed to the suit made of foreign material he himself was wearing at the time as being unpatriotic. He referred to the example of England in its practice of postwar self-denial. Wherever possible local officials should be employed.

He said that he was basing all of these comments upon his own actual experience in the province of Kwangsi. It was further demonstrated by the ability of the Communists to spread and increase their efficiency, relying almost entirely on local resources. In short, the Government should regain the vigor and heroic devotion which it had in the Northern Expedition in 1926 in which the two of them had worked so closely together. He recalled that they had then altogether about 25,000 guns against over a million possessed by the Pei Yang Party and the irregulars more or less associated with them. Such procedure ought to win the support of the people of the country and with this they could hold the respect of other countries. At the conclusion of this statement President Chiang expressed himself as grateful for its frankness and he asked that it be written out so that he could go over this with the consideration which it deserved. Two days later the manuscript was delivered.

General Pai impressed me as being sincerely concerned over the national danger and anxious to cooperate in an unselfish and constructive program.

893.00/6-2747 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 26, 1947—4 p. m.

781. Dept desires preliminary telegraphic report any info available to Embassy regarding existing and potential factional alignments Communist China.

Fully recognizing party discipline and extent solidarity Communist China under present circumstances, Dept nevertheless desires analysis existing and potential cleavages, however slight, between (1) old line Communist military and military absorbed during and since war, (2) civil and military leaders of CCP, (3) so-called nationalist and "comintern" CCP members, and (4) CCP and fellow travelers as well as report on any other manifestations of factionalism regarding which Embassy may have pertinent information.

Dept would also be interested in names any leaders Communist China, whether Communist or not, who might be inclined either assume uncompromising nationalist position in possible showdown

over Soviet influence and control or "betray the revolution" as Gimo did in 1927.

In addition telegraphic analysis on basis present info, Dept desires Embassy undertake intensive study this subject and submit earliest possible basic despatch setting forth its estimate and conclusions. It is suggested Clubb be asked his views and that apostate Communists and Trotskyites Hong Kong as well as China not be overlooked as sources information.⁷⁹

MARSHALL

893.00/6-2647 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, June 26, 1947—6 p. m.
[Received June 26—12:30 a. m.]

110. Nationalist northward drive to relieve Ssuningkai progressing. About 20,000 Nationalist combat troops involved. Commonly believed drive will be successful.

Unless Communists change recent tactics it is believed they will permit northbound Nationalists' column to extend itself without much resistance until column approaches Ssuningkai, where resistance will probably be stiffened sufficiently to cause Northeast Chinese Command to send reinforcements from Mukden area. If this materializes it can then be expected Communists will institute feint or actual drive on Fushun.

Absence any damage by Communists to industrial plants during recent occupation Penhsi probably indicates their confidence early permanent reoccupation. No known damage by Communists to plants Antung, which still in their hands. Rail traffic restored Mukden-Yingkow.

WARD

761.93/6-2747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 27, 1947—2 p. m.
[Received June 27—4:20 a. m.]

1409. Department will have noted series of recent press statements by Dr. Sun Fo⁸⁰ with regard to Soviet support of Chinese Communists and China's need for immediate American assistance; contents

⁷⁹ The Ambassador in China on July 9 transmitted the substance of this telegram to the Consuls General at Tientsin (Smyth), Mukden (Ward), and Changchun (Clubb), and the Consul at Peiping (Freeman).

⁸⁰ President of the Chinese Legislative Yuan.

of Embtel 1345, June 19, 11 p. m.; Chinese magnification of recent Sinkiang border clash; Chief of Staff's statements with regard to Soviet-trained Korean military units in Manchuria; Chinese reports to Embassy, not yet confirmed to Embassy's satisfaction, of removal of Chen Li-fu from office and of declaration of independence of Kwangtung and Kwangsi, also unconfirmed (reEmbtel's 1364, June 21 and 1406, June 26 ⁸¹). In same vein, Chen Chi-tien, Minister of Economic Affairs, in interview with Durdin ⁸² on June 26 stated on record that without outside assistance military and economic collapse is imminent and that Government military units in Shantung and Shansi are already in open revolt.

These and a variety of other minor occurrences, statements and magnifications within recent weeks lead Embassy to belief that key officials of Chinese Government, recognizing that US has adopted in Europe and Middle East a firm stand against Soviet political expansionism, are constrained to take steps amounting to diplomatic offensive in effort to encourage adoption similar American attitude in China vis-à-vis the Chinese Communists and Soviet Russia.

It is regrettable, but it is nevertheless a fact, that this constitutes the only discernible current action being undertaken in the face of prevalent and increasing atmosphere of defeatism.

STUART

893.00/6-2747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 27, 1947—6 p. m.
[Received June 27—12:33 p. m.]

1412. Following is Shanghai's 1144 of June 26, 5 p. m. just received:

"Mayor K. C. Wu, during dinner conversation 25th with visiting American publishers of *Round World Flight*, stated that China now has conclusive proof that Chinese Communists using several divisions of Korean troops trained in North Korea and six divisions of Communist forces trained by Russians in Russia. Mayor stated Chinese had confessions of captured soldiers to prove these facts and that there was no doubt China was fighting third world war on behalf of US. He asked if it would take second Pearl Harbor to arouse Americans to their danger.

All publishers at table—Mrs. Ogden Reid, Mrs. Oveta Hobby, Gardner Cowles, Marshall Field and Roy Howard—disagreed Mayor's last statement. Cowles asked Mayor why American correspondents knew nothing of the Russian and Korean-trained forces fighting with the Communists. Mayor only reiterated that Chinese had proof and

⁸¹ Neither printed.

⁸² Correspondent of the *New York Times*.

suggested publishers talk to Colonel Yeaton⁸³ (former Assistant MA, Shanghai, and former Commander, Yen-an observer group) who Mayor said, also had proof of Russian connection with Chinese Communists.

Mayor stated only US could bring this to attention of world but Cowles, Field and Mrs. Reid said it was matter for UN to act on. Mayor then said UN should send Investigating Commission immediately to China but declared China, remembering her experience with League of Nations would not take matter to UN unless assured US willing to back Chinese request for Investigating Commission. Mayor suggested to publishers that Secretary Marshall take up this subject with Chinese through diplomatic channels.

Mayor insisted repeatedly that Russia was beginning third world war in China. Mayor said only way for Chinese to bring this fact to attention of world would be by dramatic withdrawal to line along Yellow River, letting iron curtain fall over Peiping, Tientsin and Manchuria, shutting out exports and business as well as all contract [*contact*] with points north of the line.

Publishers disagreed with Mayor's proposal and Howard asked why Mayor favored this withdrawal rather than withdrawal to traditional line of the Great Wall. Conversation turned to other points without Mayor answering.

Mayor Wu stated there were 2,000 Chinese Communist agents in Shanghai but all were known and under surveillance, but since China was democratic country, sufficient evidence had to be secured before these agents could be arrested even though state of war existed. Mayor said if he was war lord, he would just issue orders to shoot down 50 of them on the streets—and I know which 50—and then there would be no further trouble in this city.

Turning to the Marshall Mission, Mayor stated that General Marshall came to China after success and when he met defeat in the Kuomintang-Chinese Communist negotiations he left Chinese very bitter toward the Government. Mayor said his statement showed he blamed the Chinese Communists for the defeat but felt the Government also was to blame. "But, as you well know, it is impossible to get Communists and Democrats together. Look at the US and Russia." Mayor said he knew Marshall could only meet with failure because he represented Generalissimo during Hurley⁸⁴ attempt to get the two groups together. At this point, Howard chimed in to say that the Marshall Mission was a duplicate of the Hurley Mission and foredoomed to failure from the start, and that the only difference was that Marshall was a more able and balanced negotiator than Hurley. Others disagreed and said Marshall clearly put blame where it belonged in his statement.⁸⁵

In discussion of United Nations, Mayor felt UN was merely sounding-board and would not be able to do much toward cause of peace.

⁸³ Ivan D. Yeaton, U. S. A.

⁸⁴ Maj. Gen. Patrick J. Hurley, Special Representative of President Roosevelt in China in 1944 and subsequently Ambassador in China until November 1945.

⁸⁵ January 7; for text, see Department of State *Bulletin*, January 19, 1947, p. 83; *United States Relations With China* (Washington, Government Printing Office, 1949), p. 686.

Howard agreed with Mayor, but Mrs. Reid and others defended UN and said it was up to members to get behind it and make it work, not just sit back hopefully wishing it would work, for world peace.

On 24th publishers made brief visit to Nanking where Generalissimo and Madame Chiang received them. Generalissimo expressed Chinese faith in United Nations in answer to question. Generalissimo said Manchuria was critical spot in world and world's future peace would be determined by course of events there. Publishers had expected to have long off-record conference with Generalissimo and appeared disappointed over outcome.

Party departed for Tokyo 26th. Embassy repeat to Department in its discretion. Davis."

Following are Embassy's comments:

(1) Inasmuch as PanAm plane was delayed in reaching Shanghai and editors had to change planes and return for afternoon reception Shanghai, their stay here was limited to short and unnoteworthy call upon Generalissimo and Madame Chiang.

(2) Reference is made to Embtel 1409, June 27, 2 p. m. In this connection, Minister-Counselor informally called Vice-Minister George Yeh's attention to categorical statements now being made by highly-placed Chinese officials, including Mayor Wu, and asked whether it was Foreign Office's intention to make public the cited evidence of direct Soviet assistance to Chinese Communists. Yeh indicated that he was now in process of sifting such evidence as had been given Foreign Office by Minister National Defense and he hoped to be able to produce something in a few days. Speaking personally and confidentially, he expressed opinion that such statements should never have been made in the way they were made and indicated that he was having a very difficult time selecting the real from the bogus and that he was concerned lest the Chinese Govt make a public statement which, upon inspection, would prove to be insufficient.

Sent Shanghai, repeated Department.

STUART

393.1115/6-1547 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 27, 1947—7 p. m.

796. Picture given by Embassy of evacuation problem in China appreciated and Dept agrees with Embassy assumptions in penultimate paragraph regarding desirability continuing place burden responsibility protection American life and property on Chinese civil authorities rather than risk undermining such authority through unnecessary stationing naval vessels along China coast prior to actual need therefor (Embtel 1308 June 15).

War Dept states no facilities exist on US-occupied Pacific islands such as Okinawa and Guam except through use tents, which

would be advisable only on strictly emergency and very temporary basis. Same situation exists in Philippines with respect to US facilities and Dept does not consider desirable evacuation large numbers Americans to Philippines. Only possible destination for civilian evacuees in Pacific is Hawaii, where War Dept says only limited emergency accommodations probably involving segregation sexes could be provided in unconverted mobilization barracks. Housing of type used by army dependents is not available. Dept feels, however, it would be preferable in event wholesale evacuation to return evacuees to US where housing and food problems would cease be responsibility US Govt and any plan for such action should include US as final destination.

Decision for evacuation from specific areas to points of safety in China should rest, as heretofore, with Embassy and Consulates concerned.

If situation deteriorates to point where wholesale evacuation becomes distinct possibility, Embassy should discuss matter with Army and Navy representatives in China. If agreement for wholesale evacuation reached after such discussions, appropriate action should be taken by Embassy and Consulates in conjunction with Army and Navy representatives and Dept informed accordingly. If no agreement on necessity for such evacuation, Embassy should forward its recommendations to Dept, together with Army and Navy views, for final decision here.

Suggest Embassy initiate in Executive Office necessary preliminary planning to ensure coordination with appropriate Army and Navy commands in event local as well as wholesale evacuation.

MARSHALL

761.93/6-2847 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, June 28, 1947—11 a. m.
[Received June 30—12: 47 a. m.]

111. Sun Fo's address concerning Soviet activities in China to correspondents receiving considerable press attention Mukden. Only paper not printing full text was *Chung Su Jih Pao*, which is primarily devoted to strengthening Sino-Soviet relations. For first time papers, in commenting on outside [aid?] to Communists, have openly stated "Soviet" or "Russian" instead of "certain country" or "certain parties". Prior Sun speech, press did not openly link Soviets with Chinese Communists but statements since indicate local papers assume

such restraint no longer exists. (Mytel 190, June 24⁸⁶). *Hsiung Shih Pao* in commenting on Sun's speech states that Chinese will never permit another puppet regime to appear, and that Chinese will never allow Communists, who are trying to partition the country in collusion with a foreign influence, to exist. Mukden People's Provisional Political Council in public statement issued June 24 charges the Soviet Union is fostering puppet regime in northeast.

Sent Embassy as 197, repeated Department as 111, Changchun as 92.

WARD

893.00/6-3047 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, June 30, 1947.

[Received June 30—5:45 a. m.]

121. Special press release, June 30, states Nationalist troops moving northwards from Mukden reached Ssuningkai at 9 a. m. today and joined forces with besieged garrison in southwestern suburb of city.

Sent Nanking as 207, repeated Department as 121 and Changchun as 101.

WARD

893.00/6-3047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 30, 1947—9 a. m.

[Received 10:50 p. m.]

1431. Following is Changchun's 270 to Embassy June 25:

"Mayor Chao stated in small gathering last night that there was no intention to withdraw from Manchuria, that such withdrawal had been in fact one of several alternative plans put forward by Nanking strategists but had not been adopted (reContel June 24, 9 a. m., repeated Dept as Embtel 1420, June 28, 1 p. m.⁸⁷). He stated further that director Gimo's northeast headquarters, Hsiung Shih-hui, had proposed withdrawal from Kirin but proposal was rejected, that similar proposal (by inference by another than Hsiung) to withdraw from Changchun had made Gimo 'very angry'.

Chao opined that relief forces from south would arrive at Ssuningkai in 1 week (see Contel June 23, 9 a. m. to Dept⁸⁸). Police chief, (who was not informant quoted Conreftel, June 23) also present, estimated 4 days.

⁸⁶ Repeated to the Department as No. 106, June 24, 5 p. m.; it was a report of Soviet commercial activities in Mukden (661.9331/6-2447).

⁸⁷ Not printed.

⁸⁸ Telegram No. 116, not printed; it reported a press review of the military situation (893.00/6-2347).

Mayor told me few days back that any Nationalist counteroffensive would probably depend on orders from Gimo. He and Sun Li-jen seem now to take position, perhaps unsound, that Communist force in field is actually weak and can be readily overcome with Nationalist forces at hand. Chao last night said he thought Communists were now withdrawing north inferentially beyond Sungari. This remains to be proved. ESD pilot yesterday observed extensive fires in west part Ssupingkai presumably held by Communists. Clubb."

Sent Nanking, repeated Mukden, Peiping.

STUART

893.00/6-3047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 30, 1947—8 p. m.

[Received 11:09 p. m.]

Unnumbered. Following from Shanghai to Nanking, 1141, June 26, 3 p. m.:

From statements made privately to members staff by various Chinese (including important officials and businessmen) and from other indications, it is evident that general spirit of defeatism and hopelessness has developed rapidly here in last 2 weeks. Feeling evidenced is that Manchuria and very likely North China areas good as lost (some quarters even tending to opinion that they should be abandoned without a fight); that Communists cannot be defeated; that present regime cannot cope with economic and political crisis or create conditions needed for American aid. While expressions of this feeling are probably in some cases related to intense efforts to obtain American loan by June 30 deadline which have been reflected in press editorials depicting China as bastion for global anti-Communist front, it is believed that feeling of despair is no less genuine and that current agitation for American help probably reflects general conviction that with situation deteriorating so rapidly American aid may become less likely if it is not obtained now.

STUART

893.00/7-147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 1, 1947—3 p. m.

[Received July 1—10:20 a. m.]

1435. Following is Mukden's 189 of June 23 to Embassy which due to cryptographic difficulties at Mukden has just been deciphered here:

"Communist military successes, shrinkage railway mileage in Nationalist hands, depreciation and depletion of Nationalist equipment

and supplies, increasing friction between southern military forces and civil administrators on one hand and northern troops and local civil population on other, reports of projected withdrawal Nationalist forces to intramural China and abandonment Manchuria to Communists, rumors of early return Marshal Chang Hsueh-liang to Manchuria and expanding economic stagnation suggest following observations.

Recent Communist drive has met little Nationalist resistance. NECC sources and military observers admit many Nationalist withdrawals premature and without military necessity. Words 'strategic retreat' have lost all significance. Result Communists possess almost complete initiative and able maneuver practically at will. If Ssuningkai with its 17,000 garrison falls, Communists should be able to proceed successfully against by-passed Changchun and Kirin and thereupon gain unimpaired control over 90 percent Manchuria. Fall of Yingkow would leave only ports on west coast Liaotung Gulf in Nationalist hands. Only railway any appreciable mileage in Nationalist hands is Peiping-Liaotung main line. Communist drive eastward through Jehol is threatening even these meager holdings and should this drive be successful and contact between these forces and those now vicinity Yingkow be established Manchuria will be effectively cut off from land and water communication with China and Mukden itself will be virtually in state of siege. Nationalist military intelligence has been outstandingly deficient. NECC seemingly in almost complete ignorance of Communist plans and therefore being constantly outwitted. NECC headquarters officers admit they had no intelligence of recent Communist drive on Changchun and then southwards even though it is now known that such plans therefor had been formulated 3 months prior to opening drive.

Rivalry (if not enmity) between General Hsiung Shih-hui, Generalissimo's representative, and General Tu Li-ming, Commanding NECC, is openly discussed and absence closely integrated military and economic planning Manchuria attributed to it.

By holding initiative Communists able keep Nationalists scurrying over countryside thereby causing depreciation Nationalist motorized mobile equipment and depletion sorely needed supplies. Communist transport on other hand consists almost wholly draft animals. Persons in direct contact with Nationalist troops in rural areas state there are insufficient small arms and ammunition to arm all combatant troops now in field. These reports so consistent some, though not necessarily full, credence must be given them. Communists also under-armed, but by guerrilla tactics and surprise night attacks they are able to cause greater loss weapons and expenditure ammunition by Nationalists than by selves.

Nationalist southern military forces and civil administrators conduct themselves in Manchuria as conquerors, not as fellow countrymen, and have imposed 'carpet-bag' regime of unbridled exploitation on areas under control. If military and civil authorities of local origin were in control, they too would probably exploit populace but experience has shown that Chinese authorities of local origin, in general, never quite strangle goose laying golden eggs and, furthermore, it is human trait to be less resentful toward exploitation by one's own

than toward that by outsiders. Result this is that countryside so antagonistic toward outsiders as to affect morale of non-Manchurian troops and at same time arouse vindictiveness in southern military officers and civil administrators.

Nationalist withdrawals toward Mukden have progressively cut off Nationalist-held areas from great food producing regions Manchuria thereby causing potential Nationalist food shortage which already apparent in extensive grain hoarding and speculation. Puerile efforts have been made toward price control and to combat hoarding, but, in general, results these efforts have been largely to enforce requisitioning of grain at bayonet point for controlled prices and enable resale requisitioned grain at black market prices for benefit pockets rapacious military and civil officials. Common man being crushed between rising cost living and depreciating currency (cost living index May, 160 percent compared 100 percent April). Local currency pegged to CNC and has not only fallen with CNC but also because of wholesale exodus families Nationalist officials and resulting flight from local currency incidental to frenzied buying CNC and gold bars. Black market value US dollar at Mukden now TP dollars 3,300 against TP dollars 1,000 March 1.

Little goods move between Mukden and its hinterland. Business rapidly approaching standstill, exports from Manchuria have practically disappeared and imports reduced to trickle of normal. Almost all capital has been expended in long range investment since Nationalists took over Manchuria and no such capital, Government or private, being invested today. All commodity markets purely speculative.

Evidence growing daily that people Manchuria not only prepared for but keenly desirous of change in government. But what change? Most are undecided even though voluble in discontent of present way of living and trend of events. It is safe to state overwhelming majority in nation are as [*sic*] dissatisfied with, dislike and would welcome freedom from present Nationalist regime. Like majority fear and would therefore not welcome Communist regime. Many talk 'revolution' even aloud in public places, but few are able to define their conception revolution other than as change from present way of living and even fewer envisage revolution involving armed resistance. There seems no likelihood that armed uprising would be more than abortive, at least until national morale and military might has suffered devastating deterioration. One platform on which Manchus seem almost unanimous is 'out with Heilien (outside) Chinese and Manchuria for the Manchus'. The return of Ma Chan-shan (Consulate General despatch No. 4, May 23) lent heart to those who look to restoration of Manchu rule under a 'native son', but his relegation to figurehead status in position of impotence has dampened their hopes. Eyes are today turned toward possibility return Young Marshal⁸⁹ to power in Manchuria. His vices, weaknesses and 'playboy' tendencies are known but he is nevertheless associated in minds of people with prosperity and progress which Manchuria enjoyed under Chang Tso-lin⁹⁰ regime. He or some other pre-Manchu leader could serve as

⁸⁹ Chang Hsueh-liang.

⁹⁰ Marshal Chang Tso-lin, father of Marshal Chang Hsueh-liang.

central figure for rallying Manchu people. Such change would in all likelihood herald return warlordism to Manchuria but even so Manchuria would remain Chinese with nominal allegiance at least to China and not 'Manchu people's republic' as it may become if Communists succeed in sweeping Nationalists back into intramural China.

There is every reason to believe that punitive military action against the Communists unless succeeded by overwhelming military occupation will not save Manchuria to China. It is high time for Nanking be realistic and replace its present impotent disliked regime in Manchuria with one which will be supported by local population and would thereby serve to weaken Communist movement. It may be, and some think that it is, too late to accomplish this purpose. Without some such effective measure there [are] many indications that it will be only a matter of some months, perhaps 6 to 9, before Manchuria will be lost. Ward."

Embassy is in accord with Mukden's analysis, although there have been some recent indications that pressure of current Communist offensive is being relaxed due to weather and Communist supply difficulties. It is possible that partial Communist withdrawal may be in train. This, however, does not indicate any major change overall situation and it is very probable that as soon as weather and Communist supply situation permit further Communist offensive will be launched against Government forces which will be in weaker position than at time current offensive was launched during first week in May.

Sent Embassy, repeated Changchun and Tientsin.

STUART

893.00/7-247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 2, 1947—1 p. m.
[Received July 2—11:05 a. m.]

1442. On June 30 Kuomintang's Central Executive Committee and its standing committee held an extraordinary and previously unannounced session to discuss general party policy. It has been reported to the Embassy that the meeting discussed a wide variety of subjects mostly on general terms but at no time was there any reference to the US.

Having labored for 5 hours, the meeting brought forth 3 resolutions: (1) to continue and expand the "punitive action against the Communists", (2) draw up and put into effect plans for rapidly turning over leadership of the party to the Youth Corps, and (3) set in motion preparations for holding elections this fall. The most interesting resolution is the second one since the Youth Corps is largely dominated by the CC clique.

STUART

893.00/7-347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 3, 1947.

[Received July 3—4: 12 a. m.]

1453. In reply to question regarding present status of Government and Chinese Communist forces re Yellow River dike project, Director of Chinese Government Information Office at weekly press conference July 2 replied:

“Government is anxious to see this work completed before the fall season and wishes to cooperate with UNRRA in this task. On behalf of the Government, General Ch'en Ch'eng, Chief of Staff, on July 1st replied to that effect to director of UNRRA, China office. General Ch'en Ch'eng reaffirmed that the Government is ready to issue a cease fire order provided the Communists will faithfully undertake to stop military activities within the same designated time and area. General Ch'en further added that the Government is also prepared to offer protection to those engaged purely in dike repair work.”

STUART

893.00 Manchuria/6-1947 : Telegram

*The Secretary of State to the Ambassador in China (Stuart)*⁹¹

WASHINGTON, July 3, 1947—noon.

821. Please tell the Gimo orally that we have been following closely the situation in China and are perturbed over economic deterioration resulting from spread of hostilities (Embtel 1345 June 19). We are keenly aware of China's needs and the Gimo is thoroughly familiar with the general tenor of my ideas. I cannot presume in my position to offer advice as to how he should deal with the specific military situation in Manchuria. In all frankness I must point out that he was forewarned of most of the present serious difficulties and advised regarding preventive measures.

In the final analysis fundamental and lasting solution of China's problems must come from the Chinese themselves. The US cannot initiate and carry out solution of those problems and can only assist as conditions develop which give some assurance that the assistance will have practical beneficial results. Please assure the Gimo of my continued deep personal concern over events in China and of my earnest desire to find ways of being helpful.

MARSHALL

⁹¹ Drafted by the Director of the Office of Far Eastern Affairs (Vincent) and the Assistant Chief of the Division of Chinese Affairs (Sprouse).

S93.00/7-347

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] July 3, 1947.

In the light of recent Chinese public charges that the USSR is giving military aid to the Chinese Communists and that large numbers of Korean troops from Soviet-controlled north Korea have fought with the Chinese Communists in Manchuria, CA has made a summary of recent reports on this subject from American official sources as follows:

*Changchun's telegram of January 23:*⁹² General Sun Li-jen states that practically all arms captured from Chinese Communists are Japanese and that no equipment of Soviet origin had been captured. He further states that in general the Communist forces in Manchuria were supplied from extensive supply dumps left intact by Japanese Kwantung Army, that the arms might have come to the Communists by other than direct delivery from Soviets and that the Communists in Manchuria probably possessed important supplies of Japanese arms and ammunition.

*Nanking's telegram of April 17:*⁹³ The Embassy has thus far received no dependable evidence of physical Soviet assistance of a military character to the Chinese Communists.

*Report by Major Rigg*⁹⁴ *based on observation during his detention by the Communists:* "No evidence to support the Nationalist claims that Sino-Reds have Soviet arms and equipment. With line units it was impossible for us to even find a Russian-speaking Chinese soldier or officer. Explosives, ammunition and other supply boxes were all labelled in Chinese."

*Changchun's telegram of June 9:*⁹⁵ Korean population of Manchuria in 1944 was about 1,400,000. There exists the logical possibility that there is traffic across the north Korean boundary with the area in Manchuria where most Koreans reside, but concrete evidence that Koreans with Chinese Communist troops in Manchuria actually came from north Korea would probably be very difficult to obtain.

*Report from the Assistant Military Attaché at Changchun of June 14:*⁹⁴ Korean units identified are two mixed Chinese-Korean divisions apparently transport troops and another division northeast of Mukden, neither prominent in the fighting.

⁹² Not printed.

⁹³ Telegram No. 828, April 17, 3 p. m., p. 99.

⁹⁴ Not found in Department files.

⁹⁵ Transmitted to the Department by the Ambassador in China in telegram No. 1241, June 9, 3 p. m., p. 174.

*Mukden's telegram of June 18:*⁹⁶ Notwithstanding persistent rumors of Soviet equipping Communists with artillery and heavy weapons, such rumors have not been substantiated by appearance of such ordnance in field in noticeable quantities. The Communists appear to have captured considerable quantities of Nationalist military equipment, particularly in heavy weapon class. This is type of equipment which Communists need most and which to date has given Nationalists decided advantage.

*Message from ComNavWesPac to the Naval Attaché at Nanking on June 30:*⁹⁷ There are no proven facts available to this command to support allegations of overt Soviet aid to the Chinese Communists. Reports from many individuals other than US observers have continuously stressed Soviet material support to the Chinese Communists. These reports, insofar as available to this command, have not thus far been upheld by incontrovertible evidence.

In summary, there appear to be no reports from American official observers which would prove that the Soviets have furnished military equipment to the Chinese Communists except for the Japanese arms and equipment obtained by the Communists during the Soviet occupation of Manchuria.⁹⁸

A[RTHUR] R. R[INGWALT]

893.00/7-347 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, July 3, 1947—4 p. m.
[Received July 5—12:25 a. m.]

127. Vice Consul Fred Hubbard (my telegram 207 June 30⁹⁹) visited Ssupingkai July 1. Following his observations:

Railway tracks between Kaiyuan and Ssuping considerably damaged. Minimum 15 bridges need replacing. Long sections rail and ties removed. Very large bridge at Ssuping completely destroyed. Chinese press reports violent fighting Ssuping airport false. No evidence such fighting. Estimated 85% old and new cities completely destroyed, bulk of destruction being done by Nationalist air force. Nationalist air force also killed large number Nationalist troops and Chinese civilians in city. Canadian Catholic Commission [*mission?*] church completely destroyed by Nationalist bombing. Priests esti-

⁹⁶ No. 100, June 18, 5 p. m., p. 184.

⁹⁷ Not found in Department files.

⁹⁸ Notation by Brig. Gen. Marshall S. Carter, Special Assistant to the Secretary of State, regarding the last paragraph: "Sec'y informed orally."

⁹⁹ See telegram No. 121, June 30, p. 208.

mate mission loss US \$100,000. All priests and nuns unharmed. No evidence Communist use gas (Changchun telegram 268, June 26 [24] to Nanking²). Soybean stocks destroyed by fire, origin unknown, and gases from burning beans may have been mistaken for gas. Nationalists defended city with 25,000 men including 87th and 88th Divisions of 71st Army and 54th Division of 13th Army. Nationalist casualties high. Eighty-eighth Division Commander advised only two battalions his division remain. Chief Staff 71st Army stated 87th Division composed mainly new troops who at time of victory had only 1 week's training. My estimate based on various comments casualties Nationalists lost 15,000 men. Nationalist sources state attack directed by Lin Piao³ contradicting their former reports his death, and by Saito (my telegram 162, June 13; 169, June 16 and 175, June 18⁴). Impractical determine morale Nationalist defenders because impossible retreat even if desired. Nationalists unanimous praising high morale and bravery Communists. Catholic priests advise Catholic Nationalist soldiers informed them Communists fought as if "devil inspired". Nationalists stated Soviets, Koreans and Japs used by Communists. Evidently have propagandized even common soldier that they are now not only fighting Chinese Communists but Soviet and Korean Communists as well. When queried regarding Soviet assistance in campaign, after stating flatly Soviet assisted, Nationalists hedged by stating Soviets only used in high echelon positions. When pressed, Nationalists made no claims of capturing or seeing Soviets. Claim to have captured from 200 to 400 Japs and Koreans. Finally allowed me talk to three captives, one Korean and two Japs, who had apparently been carefully chosen and possibly only three captured. Chinese-speaking Korean, 23 years age, had lived in Mukden 21 years. Taken by Communists several years ago. Fighting with Communists but had no Soviet training. Japs also residents Manchuria but impossible interrogate them because my inability speak Japanese. Nationalist[s] claimed to have captured three Soviet machine guns but when pressed failed to produce guns. Indications were Communists had little desire take city although bent on destruction and annihilation and then withdrew rather than try to hold positions. Nationalist reinforcement columns proceeding from south did not bottle Communists (my telegram 207, June 30^{4a}). Communists effected withdrawal entire forces to northeast and northwest. Nationalist forces advancing southward from Changchun still have not reached Ssuning area.

² Not printed; it suggested that reports that the Chinese Communists had used poison gas at Ssuningkai were not true (800 Kmt-China).

³ Chinese Communist general commanding in Manchuria.

⁴ Telegrams Nos. 162 and 175, not printed; No. 169 not found in Department files.

^{4a} Same as telegram No. 121, June 30, p. 208.

Dead still unburied. Water system completely disrupted. Flies very bad. Several cases cholera and epidemic expected in city but Nationalists taking steps to prevent.

Sent Nanking as 214, repeated Department as 127, Changchun as 109, Dairen 24.

WARD

V. GOVERNMENT MOBILIZATION TO SUPPRESS COMMUNIST REBELLION; CHANGES IN THE COMMAND OF GOVERNMENT FORCES IN MANCHURIA; APPOINTMENT OF T. V. SOONG AS GOVERNOR OF KWANGTUNG PROVINCE; FOURTH PLENARY SESSION OF THE CENTRAL EXECUTIVE COMMITTEE OF THE KUOMINTANG (JULY 4-OCTOBER 2)

893.00/7-547

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 5, 1947.

[Received July 14.]

SIR: I have the honor to enclose for the information of the Department the ozalid copy of Peiping's despatch no. 25 of July 1, 1947 with regard to a movement among non-Whampoa generals in the Chinese Army looking toward the establishment of a third party in China.

The Embassy has been aware for some time, and has so reported to the Department, that there is evidence of growing dissatisfaction within the Chinese Army arising from the current accelerated deterioration of the military and economic situation of the Central Government. The Embassy does not consider, however, that the state of morale of the Chinese Army has yet reached a point where large-scale organized disaffection is an immediate danger. Furthermore, the Embassy does not share the confidence placed by the Consul at Peiping in the second source mentioned in the first paragraph of the despatch. Information available to the Embassy reveals that this source is regarded by certain responsible American officials as an unreliable person of dubious character.

The despatch is nonetheless of considerable interest as indicative of growing deterioration of Chinese Army morale and decline in support for the Generalissimo, which is becoming apparent not only in military, but also in political, economic, and financial circles.

The Consul at Peiping appears to place more faith in the ability of the purported organization of dissatisfied generals to head a democratic movement than the background of these generals would *ipso facto* justify.

Respectfully yours,

For the Ambassador:
W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

[Enclosure]

*The Consul at Peiping (Freeman) to the Ambassador in China
(Stuart)*

No. 25

PEIPING, July 1, 1947.

SIR: I have the honor to refer to recent reports, which have undoubtedly come to the Embassy's attention, of the movement to form a Third Party in China, and to report concerning developments of this movement in Peiping. The two principal sources of these reports are both highly placed Government officials—one a civilian in charge of the Planning Board of the Paoting Pacification Headquarters and the other a Regular Army Colonel who is head of the Foreign Affairs Bureau of the same headquarters—and I firmly believe them to be of the highest integrity. The Embassy is, however, in a far better position to assess these reports and to judge the extent to which this movement has advanced than is the Consulate.

Since the end of the Second World War, and particularly within the last few months, the disaffection of the non-Whampoa generals (the Tsa P'ai) has increased markedly even to the point that many of them, it is reported, are anxious to be rid of the Generalissimo⁵ in order that civil war may be brought to an end and a coalition government in reality established. The practices of the Generalissimo of transferring these generals away from the troops which they have commanded and whose loyalty they hold; of reducing their commands from an army to a division and from a division to a regiment; and of throwing them in as expendable in the most difficult assignments, have apparently alienated them from the Generalissimo beyond any hope of reconciliation. They are now waiting only for his downfall, and some rather impatiently. Principal among these generals are the following: Fu Tso-yi, Sun Lien-chung, Li Tsung-jen, Ma Hung-kuei, Ma Pu-fang, Yen Hsi-shan, Pai Chung-hsi, Chang Fa-kuei, Liu Ju-ming, Feng Chih-an, and Hsia Wei. Some of the above-named will play ball with Chiang Kai-shek until his removal is an accomplished fact; others may be instrumental in bringing about its accomplishment. They all are reported to be sympathetic with the Third Party movement and are lending their moral support to it. Moreover, they all are expected to unite under the leadership of one man, General Feng Yu-hsiang.

Feng is apparently the one person who combines the necessary qualifications to lead a Third Party movement. First and most important for the present, Feng holds the loyalty of sufficient generals and groups to give the proposed party the necessary military backing, it is stated.

⁵ Generalissimo Chiang Kai-shek.

It is claimed, for example, that the following generals with the forces indicated would be prepared to back Feng as the leader of the new party: Yen Hsi-shan, 15 divisions; Fu Tso-yi, 6 divisions; Liu Ju-ming, 3 divisions; Feng Chih-an, 3 divisions; Hsia Wei, 4 divisions; Chang Fa-kuei, 1 division; a total of 32 divisions. (Sun Lien-chung is not included in this list as he has under his command hardly enough loyal troops to matter; his influence, however, is counted on to draw others into the movement.) Secondly, and scarcely of less importance, Feng, although by no means pro-Communist in recent years, would probably not be unacceptable to the Communists as a person in whom they could trust and with whom they would be prepared to negotiate. And thirdly, Feng is quite well and favorably known to the foreign world as "the Christian General", and as such might be expected to mitigate the resentment which would undoubtedly be felt among foreign missionary-influenced groups on the overthrow or resignation of the Generalissimo.

For it is freely and rather openly stated among those who are planning the movement that a third party with any real power would be impossible as long as the Generalissimo and his satraps are in the saddle. They also admit that it would be equally impossible in a Communist-dominated China. Not only would the Generalissimo have to be eliminated but also the Tai Li remnants, the CC Clique,⁶ the Soongs, and the Kungs. This thoroughgoing housecleaning of the Kuomintang, they state, will be accomplished on the collapse of the present Government by the young, energetic Whampoa commanders of the rank of Major General and below who are almost equally disgusted with the present regime and will form the nucleus for a new Kuomintang—one that would be willing to negotiate with the Third Party group and the Communists to form a coalition government under the mutually acceptable 3-3-3 representation basis.

Working hand in glove with Feng in leading the new Third Party will be that inveterate insurgent, Li Chi-shen, who is now on the brink of being expelled from the Kuomintang for the second time and is living in "retirement" in Hong Kong. Li, it is planned, will assume the political leadership of the Party while Feng will be the military leader. Li is also considered as a possible successor to the Generalissimo, and it is reported that Feng Yu-hsiang and his followers would accede to such a move. Feng, it should be remembered, was associated with Li in the abortive "People's Government" of Foochow in 1933-34, of which Li was Chairman and in which Feng had his representatives. Between the two of them, they will have considerable influence among

⁶ Powerful right-wing group in the Kuomintang, headed by the two brothers, Chen Li-fu and Chen Kuo-fu.

the Tsa P'ai generals: Feng will have direct influence over Sun Lien-chung, Liu Ju-ming, and Feng Chih-an, all of whom are his old subordinates; he is expected to have influence over Yen Hsi-shan by virtue of their former association against the Generalissimo and over Fu Tso-yi through Yen; Li Chi-shen can be expected to rally the support of Li Tsung-jen and Chang Fa-kuei when the time is ripe.

It is understood that tenuous channels of communication between the persons organizing the new Third Party and the Communists have already been established and that a request has already gone forward for the Communists to send a delegate to Peiping for direct parleys. It is the intention of the persons concerned to keep the Communists informed of general plans for the Third Party movement so that they may be forewarned and prepared to cooperate when those plans are realized. These same sources state that they have the assurance of the Communists that the latter are far from prepared to take over the administration of China on the inevitable collapse of Chiang Kai-shek and the Central Government as trained, experienced personnel are in far too short supply. On the contrary, they state that the Communists would much prefer to participate on a 3-3-3 basis with a liberal third party and a re-vitalized Kuomintang.

The Democratic League, it is expected, would become an integral part of the proposed Third Party, membership in which would be open to all liberals and progressives.

When asked exactly what procedure might be expected in effecting the removal of the Generalissimo, one source stated that in his opinion it might be brought about in any one of the following three ways: (1) A declaration of independence from the Central Government by one of the above-named generals with sufficient troops to support his action. This would be the "first bombshell" which would be followed successively by similar action on the part of other generals. Fu Tso-yi might conceivably be the first to take this step. Under these conditions the Generalissimo's resignation and probable withdrawal from China would, it was felt, be inevitable. (2) A second "Double Twelfth". This, of course, alludes to a repetition of the Sian incident in 1937.⁷ The object this time, however, would not be to convince the Generalissimo to take any particular course of action other than to depart from the country peaceably. Precisely who might be in a position to carry out such a plan was not disclosed. (3) Strong attacks by Communist forces on the Shanghai-Nanking railroad and defense sector which might seriously threaten the capital itself. It was felt that in the face of such an eventuality the Generalissimo would vol-

⁷ For forcible detention of Generalissimo Chiang Kai-shek at Sian on December 12, 1936, see *Foreign Relations*, 1936, vol. iv, pp. 414-455, *passim*.

untarily withdraw for reasons of safety and thus give the signal for the return to China of General Feng and Li Chi-shen. The source further stated that he personally favored the first of these three procedures and thought that it was the most likely to occur. With regard to the time factor, it was felt that the overthrow of the Generalissimo would take place sometime before the end of the year at the outside, but that such factors as additional Communist victories might considerably shorten that period.

It should be pointed out that the overtures which led to several thorough discussions of this matter were made entirely by the Chinese officials concerned, with the reported concurrence (or at least tacit consent) of their superiors in what would appear to be a bid for approval by the American Government of their plans. Their stated desires of our Government were three in number: first, moral support for their aims, even though such moral support were in the form only of secret, verbal assurances to the concerned parties that the United States Government was in sympathy with their declared objectives; second, the withholding of all military and financial aid to the Central Government, the granting of which might postpone action to form the Third Party as well as serve as a temporary prop to a regime which is destined to fall; and third, forthright and public assurances of support by our Government on the actual emergence of the Third Party.

It is my opinion that the Third Party movement as outlined above offers the first gleam of hope in a perilously dark situation. If it actually has the support (both positive and passive) which its advocates claim, it is believed that it would offer the one course of action which would receive the wholehearted acclamation of the American people and provide the basis for a China which might in reality assume its place as one of the "Big Five" as well as bolster the democratic form of government throughout the world. The realization of such a movement would also provide our Government with a workable and mutually beneficial solution to the present dilemma—that is, by indicating a course to be steered between the extremes of withholding assistance from the Central Government and allowing China to fall prey to the Communists or of supporting a corrupt, intransigent, fascist-type government which makes a practice of suppressing the very liberties for which the Second World War was fought.

As was suggested in the opening paragraph of this despatch, it is almost impossible for the Consulate locally to corroborate the statements made with regard to the extent to which the Third Party movement has progressed. It is strongly recommended, however, if the Embassy finds that the movement has actually advanced to the point

indicated and that there exists a real possibility of fruition, that immediate and serious consideration be given to the question of extending some form of official encouragement to those concerned in the movement. For if, as it would appear, this movement carries with it the promise of the establishment in China of the type of democratic government which we have long been advocating, it would be criminal if it should fail for want of the blessing of the American Government.

Respectfully yours,

FULTON FREEMAN

893.00/8-147

*Memorandum Prepared in the Embassy in China for the Minister-Counselor of Embassy (Butterworth)*⁸

NANKING, July 5, 1947.

In face of continuing civil war and the current accelerated deterioration of the political, economic, and military position of the Central Government, it would seem that an examination of possible courses of American action vis-à-vis China is in order.

In any re-assessment of our position in China it would be unwise to ignore past American experience in dealing with the Chinese Government, particularly our experience during the war years. Furthermore, we must be prepared to accept the fact that the dominant political party, the Kuomintang, once an organization representative of the will of forward-looking Chinese to develop a stable and united nation capable of meeting its responsibilities in the modern world, has lost much of its original vitality. In the words of one well-known Chinese professor, the Kuomintang has become "a political mechanism for the preservation of vested interests". It has now neither a dynamic program nor a wide popular base with which to meet the threat of militant communism, and its mainstay is largely the wasting asset of China's social inertia.

Within the past twenty years the leadership of the Kuomintang has shown little, if any, fundamental change in personnel. In retrospect it seems clear that the dominant leaders of the Kuomintang have never been dissuaded from the conviction that internal political problems could be settled by military means without consideration of concomitant social and economic problems. Currently there is much to indicate that their actions are still governed by the same conviction and that it is reinforced by their interpretation of the current international situation, in spite of the increasing dissatisfaction with its

⁸ Copy transmitted to the Department by the Ambassador in China in his despatch No. 908, August 1; received August 11. Mr. Butterworth was about to return to Washington for duty in the Department.

leadership among groups traditionally supporting it. Perhaps one of the few encouraging features of the Chinese situation is that these groups, realizing that Kuomintang leadership is approaching bankruptcy, are seeking an alternative to both extremes of right and left and are hoping for American encouragement.

It can not be gainsaid that there exists in China an important and growing Communist problem. It is not necessary to establish proof that there is direct connection and liaison between the Chinese Communist Party and the Soviet Union. The ideological affinity between the Chinese Communists and their brethren of the Soviet Union is in itself sufficient to create a probable menace to the internal security of China. Judged by historical background and social structure, Chinese society is less likely than any society to accept Marxist tenets provided that the burden of economic and social depression is alleviated even in minor degree. It is unfortunate that during the past two decades the National Government of China has shown little aptitude for meeting political opposition other than by force of arms and at the present time the Government, in addition to suffering serious military reverses and the sustained attrition of hyperinflation, is losing the confidence of all classes who are reluctantly being pushed to the left. If present trends continue unchecked it seems inevitable that a dynamic Communist program will eventually submerge the static defeatism of the present Government.

If left entirely to its own devices, there would appear to be two broad alternative contingencies facing the Central Government: (1) the Government at some stage of its disintegration will recognize its weakness and decide upon compromise with the Communists; any such "compromise" will be on Communist terms resulting in the immediate emergence of the Communists as the dominant group in China; or (2) the Government will entertain no such settlement, in which case the Communists will become practical masters of Manchuria and important areas of north China while the area of Central Government control in central and south China will gradually contract through the development of autonomous areas under local "strong men" who will each in turn fall victim to the progressive spread of Communist control. In both cases the end result will be the same even though the process and timing by which the Communists emerge as the dominant group will not be identical. This end result is clearly opposed to American short and long-term interests and objectives in the Far East.

Aside from the question of financial cost to the United States, our own state of military preparedness and the state of American public opinion would probably preclude our using actual military force against the Chinese Communists within the foreseeable future. Fur-

thermore, all-out aid to the present Government at this time would present the following major disadvantages: it would (1) critically heighten friction between the United States and Russia in the Far East; (2) gravely compromise our current political objectives in western Europe; (3) completely destroy the confidence of Asiatic peoples in American integrity and political objectives; (4) antagonize large sections of non-Communist Chinese opinion; (5) freeze the manifestly unpopular government in office; (6) set the stage for a situation similar to Spain of 1937,⁹ but on a far larger scale. On the other hand, all-out assistance to the present Government at this time would have the advantage of preventing, for a time at any rate, the probable loss to the Communists of Manchuria and important parts of north China.

Complete cessation of aid to the Central Government at this time and withdrawal from China of official American organizations except the regular Foreign Service establishment would have the disadvantages of: (1) insuring the early if not immediate collapse of the present Government and thus enhancing the probability of early Communist victory emerging from the ensuing chaos; (2) bolstering in other areas of Asia, especially in Korea and southeast Asia, the chances of Communist expansion; (3) removing an important obstacle to Soviet political expansionism in Asia. Conversely, our complete withdrawal at this time would have the advantages of cutting our losses, clarifying an admittedly awkward position for the United States, and permitting, if necessary, concentration upon a line of defense against Soviet expansionism removed from the complexities of the China scene.

China for the foreseeable future can not be a positive asset to the United States; the range of American choice is confined to whether it will be a minor or a major liability. The most important question is whether China would be a greater liability to us if we commit ourselves to the reduction of the Communist problem to tractable dimensions, no matter what the implications of such commitment, or whether China would be a greater liability if the Communists within the near future become the dominant group in China. This question can be answered only in terms of the rate of disintegration of the present Government.

Assuming that the process of Central Government disintegration will continue to be a gradual one, we can expect that at worst there will be a long period of disturbance verging on chaos during which period and for a long time thereafter China would be but an insignificant asset to Russia, while at best a middle group might be able to restore

⁹ See *Foreign Relations*, 1937, vol. I, pp. 215 ff.

a modicum of stability in China. Even though the latter may appear to be a fairly remote possibility viewed in the light of recent events, it can not be dismissed and offers for the United States a constructive middle course between the extremes of all-out aid to the present Government and cessation of all aid thereto.

Judged in the light of Chinese Government experience in the last two decades and the continued existence of a social and economic system which offers fertile ground for the growth of Communism, it is highly improbable that Communism can be eliminated as a major factor in China even with substantial assistance to the Government in the form of military matériel, economic aid or a combination of the two. By a reasoned and coordinated program of conditional aid, however, an effort could be made to foster the emergence of a regime with an inclination to move along lines satisfactory to American political concepts and which would thus offer a reasonable risk for larger scale public and private financial and economic aid while at the same time engaging in a holding operation against the progressive spread of indigenous communism and its corollary, Soviet political expansionism.

Such a course of conditional assistance would offer the following advantages; (1) immediately bolster the prestige of the Government; (2) maintain our position and influence while encouraging middle groups in and out of the Government to embark on a program of national self-help; (3) demonstrate our willingness and ability to carry forward with specific and feasible reconstruction projects of mutual benefit to the United States and China; (4) preserve the rationale of our present policy in southeast Asia. Conversely, such a course could hardly be expected to be popular with the present Government, wherein there are already tendencies to blame the United States for the ills of China, and the delicacy of the operation offers considerable chance of failure in the event that Government deterioration moves at a faster pace than is now evident.

For the time being real political and economic stability in China is unattainable and the most to be expected is retarding the rate of disintegration of the National Government and propping it up for the time being. This objective can be attained at this juncture by the effective use of relatively limited means perhaps better than by large-scale assistance in view of past experience of the ability of China effectively to absorb American loans and UNRRA¹⁰ aid. Undoubtedly the over-all situation is much worse than in February. At the same time, it does not give signs of collapsing of and by itself; further serious military reverses would of course accentuate political and economic

¹⁰ United Nations Relief and Rehabilitation Administration.

disintegration, but any American program must be based upon a Chinese willingness to achieve at least relative stabilization of military fronts by changes in command and regrouping of forces. Granting such stabilization, it is premature to expect early collapse on the economic front. The Government's foreign exchange position is still adequate to meet basic requirements for about nine to twelve months and it appears that the 1947 crop will be tolerable.

At this time it would be unrealistic to continue to impose a negative character upon any American program. We are an important force in the internal politics of China and no government can survive in China without American assistance. Substantial Communist victory in China during the next year would have far-reaching effects throughout Asia and constitute a serious blow to American principles among all Asiatic peoples. In the past the United States has brought pressure to bear upon the Central Government in efforts to effect reform, but in all cases the pressure has not been sufficiently maintained until our objectives were obtained.

Currently the overall situation in China is governed predominately by military factors with the Communists enjoying substantial military success in Manchuria, in Shantung and Shansi. Given the ineptitude and incompetence of command which have been characteristic of recent operations, it is doubtful that we can hope to halt this situation merely by military aid. On an economic level we could probably prolong the life of the existing regime by periodic infusions of capital or commodities but unless there is improvement from within American support can not be expected materially to retard its final demise. Therefore any program of conditional American assistance to the existing regime must be predicated upon governmental change from within China and on the assumption that the expansion or eventual withdrawal of the former depends upon the progress of the latter.

In approaching the problem we should realize that the Kuomintang under its present leadership is a stagnant party, but containing within its ranks many capable individuals who would welcome removal of the stultifying leadership now prevailing in China. We should understand that the leaders of the Kuomintang, including the Generalissimo, have practical control over the political situation through the machinery of the CC Clique. Therefore, in view of their previous records and present position, there is no strong reason to suppose that pressure on them will immediately bring about any fundamental change in their basic philosophy, especially as they are firmly convinced that in the present international situation unconditional assistance from the United States will be forthcoming. We must therefore cease to consider them as indispensable to our objectives in China.

The United States possesses no effective means of bringing pressure to bear upon the Chinese Communists except indirectly by fostering the emergence of a regime in China that can rally enough popular support in non-Communist areas to afford a check to further expansion of Communist control. Judging from our past experience in China we can not hope for the emergence of such a regime while the present leaders control the situation and continue to stymie the development of any loyal opposition to their policies.

A limited program of aid to commence immediately could include the following: (1) extension of small or moderate feasible project loans, such as for rehabilitation of the Canton-Hankow Railway or other lines removed from the area of active hostilities; the Shanghai Power Company project; the development of coal resources at points removed from combat areas; (2) extension of a moderate cotton loan to cover at least part, preferably a substantial part, of China's cotton requirements for the second half of 1947; (3) extension of \$60 million for post-UNRRA relief almost entirely in the form of rice, wheat and flour. The amount of cereals thus made available would go far to meet the needs of the larger coastal cities and serve the double purpose of preventing unrest in these cities and of relieving the pressure on food-deficient areas of the interior; (4) sympathetic consideration to Chinese proposals such as to utilize export subsidies or a differential exchange rate for exports, which would contribute to the maintenance of a minimal flow of exports and thus relieve partly the pressure on China's foreign exchange assets.

Such a limited program would have similar effects to a larger scale economic program in that it would clearly indicate our continued support of a National Government in China, but at the same time it would indicate that the present National Government must show some initiative in its own handling of the economic situation and that it can not continue to expect blank-check or unlimited assistance from the United States if such assistance is to be to a great extent dissipated as has been the case in the past. Furthermore, aid on a moderate scale would preserve our initiative both in China and the Far East at the same time as it brought help to China at the points at which pressure is greatest and where aid can be effectively utilized immediately.

We should be prepared to face up to the fact, however, that no program of aid to China can be successful in the long run unless it is carried on in conjunction with a program of strong and coordinated pressure upon the existing regime for measures of reform to bring into being a government that can offer an effective bloc to Communist expansion. For example, we should single out a variety

of key individuals in and out of the Government such as Chang Ch'un,¹¹ Wang Shih-chieh,¹² Chang Chih-chung,¹³ Li Tsung-jen,¹⁴ Chang Fa-kwei,¹⁵ Li Chi-shen,¹⁶ Hu Shih¹⁷ and make it clear to them that we can not long continue to support a government whose leadership functions as a stimulus to the progressive development of Communism, a situation which we can no longer regard with equanimity; that the effort to suppress the Communists by force having failed the Government must be prepared to meet the challenge by other means, in which case the continued support of the United States may be expected; that the United States is prepared to support extremism neither of the right nor the left, but believes that the best defense against either is broader participation in government by all classes and an energetic attack against social and economic evils.

Needless to say, in carrying forward such a coordinated program of conditional assistance, the USIS¹⁸ program would need to be strengthened and brought to full use in China. In making it clear that we are in active opposition to narrow rightist control as represented by the Kuomintang, and hence the Government, we would be making an appeal to enlightened Chinese of all political colorations and offering them a firm rallying point which has thus far failed to materialize from the United States and has thus made it difficult to realize upon the vast storehouse of good will for the United States which is still largely extant in China.

893.00/7-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 7, 1947—6 p. m.

[Received July 7—7:58 a.m.]

1471. Late Sunday night, July 6, Ambassador delivered message from Secretary (reDeptel 821, July 3) to Generalissimo. There follows a summary of meeting prepared by Embassy from recounting made by the Ambassador just prior to his departure for Peiping at 9 a. m., July 7:

The Ambassador informed Generalissimo that he had a message for him from the Secretary and pointed out that he had been expecting

¹¹ President of the Chinese Executive Yuan.

¹² Chinese Minister for Foreign Affairs.

¹³ Governor of Sinkiang Province.

¹⁴ Director of Generalissimo Chiang Kai-shek's Headquarters at Peiping.

¹⁵ Director of Generalissimo Chiang's Headquarters at Canton.

¹⁶ Residing in Hong Kong.

¹⁷ President of Peking National (Peita) University at Peiping, formerly Chinese Ambassador in the United States.

¹⁸ United States Information Service.

such a message for some time. He said delay was accountable to many factors, including the Secretary's concern with critical global as well as regional and local situations. The Ambassador stressed his confidence that the US wishes to assist and strengthen China as a free nation, but that it was most difficult task to decide upon an effective kind of aid and method by which it might be rendered. The Ambassador stressed that military aid alone would not lead toward the type of development in China which the US holds essential for China's own good. With this the message was handed to the Generalissimo; Secretary Shen¹⁹ translated it at once.

The Generalissimo then stated that he thoroughly understood the meaning of the message and that he had heard these points from General Marshall when he was in China. He further asked that his gratitude be conveyed to General Marshall for this renewed expression.

The Generalissimo then inquired of the Ambassador what his interpretation of the message was. The Ambassador responded that he had many times outlined to the Generalissimo the type of adjustments which were considered prerequisites to a more positive policy and assistance on the part of the US. The type of change which the Ambassador said he had in mind centered around basic reform through constitutional institutions within the body of the Govt, including the delegation of more authority, the establishment and visible maintenance and protection of civil liberties, and the actual development of a more intimate working relationship between Govt and people.

The Ambassador indicated that the general mobilization resolution recently put forth (Embtel 1465, July 5)²⁰ had in some of its parts certain of the ideas for reform which his Govt thought were so necessary, but that there was no assurance that this new order would mean more than many which had come before. The Ambassador again stressed the need for drastic overall reform. The Generalissimo responded that he understood what was meant and that he would undertake to do something along these lines as soon as possible. He asked again that his thanks be conveyed to the Secretary, and the interview ended.

STUART

¹⁹ Presumably Gen. Shen Chang-huan, private secretary to Generalissimo Chiang.

²⁰ The mobilization resolution was passed by the State Council, July 4; for text as contained in telegram No. 1465 of July 5 from the Ambassador in China, see Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 746.

893.00/7-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 8, 1947.

[Received July 7—11 : 19 p. m.]

1474. Following was published in Central News Agency Bulletin dated July 6 :

"In a 6,000 word address to the nation²¹ on the eve of the Double-Seventh, commemorating the Lukouchiao incident,²² President Chiang Kai-shek summoned the nation to crush the Communist open rebellion in order to achieve national construction and march on the road to unity and democracy.

"Painstakingly, the President in his address, which was broadcast to the people on a national hook-up, explained how patient the Government had been in dealing with the Communist rebels, hoping against hope that they might see the folly of their evil doings.

"The President said the Government does not object to Communism as an ideology. The Government simply hopes, he said, that the Communist Party in China, as the Communist Party in the United States and Britain, takes its legitimate place as a political party and achieves its political aims through legal or constitutional means.

"But at this juncture, when all hope is abandoned that the Communists might cease their rebellious activities, only two alternatives are left to the people, the President said. The people may either adopt an indifferent attitude toward the rebellion, allowing the entire nation and its 450,000,000 people to sink into the Communist quagmire, or fully realize the dangers confronting the nation and rise like one man to crush the Communist rebellion as a means for self-preservation and for the salvation of the nation.

"To follow the first alternative, the President said, is to permit the Communist rebellion to spread, allowing our own homes and villages to be pillaged and robbed, our own folks humiliated, our children and brothers forced to become tools of traitors and the very life line of our nation extinguished.

"The President said he fully appreciated the profound sufferings the people of the nation are undergoing in this postwar period when we have not yet been able to complete our work of rehabilitation. This is particularly so in the rural areas and among our peasants.

²¹ For full text of broadcast, see *United States Relations With China*, p. 749. For appeal by General Chang Chun, President of the Chinese Executive Yuan, in statement to Central News Agency, July 5, see *ibid.*, p. 748. For outline for the implementation of mobilization, as reported by the Ambassador in China in telegram No. 1555, July 21, see *ibid.*, p. 756.

²² Outbreak of hostilities at Marco Polo Bridge, July 7, 1937, between Japanese and Chinese troops.

"Yet, however bitter the experience of the people in Government-controlled areas may be, compared to the sufferings of the people in the Communist ravaged regions, their sufferings are certainly not of the same intensity.

"In the Communist ravaged regions the people's very movement, whether mentally or physically, suffer the bitterness of complete deprivation. Hence, the President said, to crush the Communist rebellion is tantamount to adopting measures for self-preservation and self-protection.

"Recalling the total mobilization measures adopted and proclaimed by the Government on July 4, the President pointed out to the people on this august occasion of the war anniversary the necessity of carrying out the following two lines of action :

"(1) The people must with all their might and main complete their work of national reconstruction. They must make all-out efforts to crush the Communist rebellion and realize national unity.

"(2) Simultaneously, we must exert all-out efforts in effecting national reforms and improvements. While we are suppressing the Communist brigands with military means, the nation must also at the same time effect internal reforms. The President admitted that the Government in itself is not perfect while in the body of the Chinese society also are found many weak points, made all the weaker by the 8 years of the war followed by the Communist rebellion. But however difficult it may be for the nation to accomplish its goal, reforms and improvements must be effected."

STUART

893.00/7-947 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 9, 1947—4 p. m.

840. In light reports separatist movement Kwangtung [and] Kwangsi, suggest Emb follow this subject closely, instructing all consular offices quietly investigate possibility similar movements their districts and keep Emb currently informed. Emb requested submit periodic reports developments along these lines.

MARSHALL

893.00/7-147 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 10, 1947—7 p. m.

850. Following precedent set in your conversation with Generalissimo re conditions in Formosa,²³ suggest you communicate orally to

²³ See telegram No. 689, March 29, 5 p. m., from the Ambassador in China, p. 89.

Generalissimo observations made in Mukden's 189 June 23²⁴ (beginning para 5 "Nationalist southern military" and ending para 8 "into intramural China"). Without associating yourself with views expressed, you may say that info comes to you from responsible confidential observers in Manchuria.

MARSHALL

893.00/7-1047

The Consul General at Mukden (Ward) to the Secretary of State

[Extract]

No. 28

MUKDEN, July 10, 1947.

[Received August 1.]

SIR: I have the honor to inform the Department that yesterday the private secretary of General Ma Chan-shan²⁵ approached me and requested, in behalf of the General, an appointment for the purpose of paying his respects. I have met the General recently at several social functions and on each instance he has stated that he intended to call on me, therefore the above-mentioned request was in conformity with his previous oral statements.

The General called yesterday afternoon. He was accompanied by his private secretary, who acted as interpreter (Chinese-French). Our conversation fell short of being satisfactory, at least insofar as I was concerned, for the reason that the secretary's knowledge of French is far from adequate, and I was unable to avail myself of the services of one of the Consulate General's competent interpreters for the reason that the General's secretary had stated specifically that in the absence of an American interpreter the General desired that he (the secretary) serve as interpreter.

Our conversation turned to affairs in Manchuria. The General forthwith deplored the present state of these affairs, placing the blame therefor on Soviet support of the Chinese communists and the failure of Nationalist officials to carry out the directives and uphold the ideals of the Generalissimo. He was warm (if not perhaps too effusive) in his tributes to the Generalissimo. He was unrestrained in his condemnation of the professional ability of the Nationalist military command in the Northeast Provinces and of the rapacity with which the Nationalist non-Manchurian military and civil officials in Manchuria have been exploiting the Northeast. He prophesied that, unless corrective measures are taken, Manchuria will soon be lost to China and will become a puppet of the Soviet Union. He stated

²⁴ See telegram No. 1435, July 1, 3 p. m., from the Ambassador in China, p. 209.

²⁵ General Ma had returned to Manchuria as Deputy Commander of the Northeast China Command.

that the only effective way to save Manchuria to China is to replace the present Nationalist regime in the Northeastern Provinces with one made up of native Northerners (the General being a native son), and to support such new regime with sufficient funds and munitions to enable it to cast out the communists and to establish itself firmly.

The General handed me a cover bearing an address in Chinese, and requested that I send it to The Honorable George C. Marshall, Secretary of State. He expressed his admiration of General Marshall. I gathered from the secretary's remarks that the General enjoys the acquaintance of General Marshall. The cover and its enclosure, together with an English translation of the latter, are transmitted herewith.

Respectfully yours,

A. WARD

[Enclosure—Translation]

General Ma Chan-shan to the Secretary of State

[MUKDEN,] July 9, 1947.

MY DEAR GENERAL MARSHALL: The continuous expansion of Communism has brought the world to the brink of a crisis. It now requires that peace-loving countries and possessors of righteousness join together and take careful and effective preventive measures. United States support to the Chinese Government comes, therefore, not only as help in saving the Chinese people from the depths of a whirlpool of red terrorism, but as a step necessary to the maintenance of order in the Far East and peace in the world. It is a great pity that after one year's civil strife nothing concrete has been achieved militarily by the Chinese Government, while, on the contrary, the influence of the Communist army is daily expanding and is not [*now?*] taking an active, instead of a passive, role. The process of change is, of course, a complicated one but the main reason is due to a few stubborn elements on the Government side failing to grasp the general situation and coordinate military activities with politics. They can only pin their hopes on the limited army they have and fail to mobilize the great mass of the people, thus leaving the Communists a wonderful opportunity for expansion, which has resulted in the present critical situation.

The National Government is the only legal Government of China and Generalissimo Chiang Kai-shek the only wise leader, without whom China will lose her central leadership, sink into confusion, and

the communists can hope to succeed, which will prove a great misfortune not only to China but to the people of the whole world. We must give him complete support for the completion of the herculean task of national reconstruction. We also need real help from your Government. This need not necessarily be in the form of materials, but may be in the form of an effective measure to rid the Chinese Government of its erroneous, narrowminded policy. To settle her internal strife, the Government of China must place confidence in its people, and the people must be armed to cooperate with the Government forces. Otherwise, your economic help, if not strictly designated, will tend to isolate the Government and will bear no fruit, as has been proved by the events of the past year. (It is suggested that two-thirds of the appropriations for military use should go to equip the Government, while one-third should go to the people's militia.)

Three months have elapsed since my arrival in the Northeast, and, viewing from different angles, I feel the present situation is extremely dangerous. The number of Government troops here is small. The locally recruited troops are unwilling to fight, due to discriminatory treatment. This explains why the communists have taken many cities with comparative ease. We enjoy peace temporarily with the siege of Ssupingkai lifted at great sacrifice, but when the farm crops grow high in August and September it is almost certain that the communists will inaugurate another offensive on a much larger scale. At that time, if our military and political authorities have no better means of meeting the situation, it is feared that they will have to give up the Northeast, as they planned during the early stages of the recent military operations when the situation turned against their favor. However, in view of the geographic importance of the Northeast, we can not afford to see this piece of land lost, for this will endanger not only the whole of China but will affect world security. The Government forces here in the Northeast possess at this stage insufficient strength to cope single-handedly with the situation. It is therefore imperative and urgent that the people be organized and armed to assist the national troops. Two-thirds of the Northeast are now in the hands of the communists, while Government troops hold only one-third. Although the areas held by the Government are comparatively rich and more densely populated, the future is fraught with danger if timely efforts are not made.

The Manchurians were for the Government, but they have gained extremely bad impressions from the actions of the occupying officials during the past year. This, coupled with the people's traditional regional prejudices, is the root of misunderstanding and the cause for change of psychology. Manchuria is my native country, and I can-

not afford to see the Government continue its policy of procrastination. Furthermore, I am unwilling to hear the severe criticisms and denunciations levelled against the Government, as this will merely create loopholes for the communists.

With my past record and reputation, I hope to rally the people around the Government to improve the situation in the Northeast, but with my present "empty" title and position, how can I exercise the power which I used to have? Therefore, I sincerely hope that you, as a great and faithful friend of China, will command a clear view of the problems of the Northeast, which have great bearing on international relationships, and render us effective help while the opportunity is still present.

If you can designate for the people part of the money and arms supplied to China by your Government, I can organize a powerful people's militia of two or three hundred thousand men and deal a decisive blow to the communists. And if a third world war should be unavoidable, I believe that I could recruit another two million Manchurian youths to form the first line of defense against the communist attack. I am a person of action, not of lip service. For the welfare of the country and of the people, as well as for the protection of world peace, I wish to offer my entire self.

It is high time to make a decision. The United States Government's policy toward China must be pushed vigorously, but is [*it*] should not follow the old pattern of giving everything to the Chinese Government without even questioning the manner in which such aid was used. The correct method would be to make, under strict limitations, a reasonable distribution between the Government and the people and to enable the Central Government to have confidence in its people so as to form one solid body in the struggle for final victory.

This, and this only, will expedite the unification of China, enhance security in the Far East and lay a firm foundation for world peace.

This will be the highest success of human wisdom, and I am confident that only you, sagacious and superior, can bear this great task of historic significance, and may my humble opinion be accepted.

The entire people in distress of the Northeast are eagerly looking forward to you for help. We hold fast to you.

With all best wishes [etc.]

(SEAL) MA CHAN-SHAN

893.00/7-1147 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, July 11, 1947—7 p. m.

[Received 10:45 p. m.]

1681. Wang Yun-sheng, editor-in-chief *Ta Kung Pao*, in course of general conversation with Chase²⁶ yesterday which touched on Manchuria, said that his paper's Mukden representative recently visited Ssuningkai and made special efforts to check basis for allegation of Russian and Russian-organized-Korean aid to Communist armies in northeast. After careful investigations and interviewing of captured Communists the representative could find no evidence that Russians had participated in Communist operations (in technical capacities) or otherwise assisted them, "though he did find abundant proof that Communists had captured from Nationalists and effectively employed much American equipment". He found Koreans and Japs among prisoners, but only few and found no grounds for concluding that they were organized, trained or equipped by Russians.

Wang said that paper's representative did establish one positive fact, namely that firepower used by Communists in attacking Ssuningkai was greater than ever employed by them elsewhere in China. Wang felt, however, that this could not be taken as proof of [overt] Soviet aid and may well merely mean that Communists were using large supplies accumulated from other sources (abandoned by Japs and captured from Nationalists).

Sent Nanking as 1229, repeated Dept as 1681, Mukden as 102, Dairen as 27, Changchun as 53, and Moscow as 7.

DAVIS

893.00/7-1147

The Ambassador in China (Stuart) to the Secretary of State

No. 874

NANKING, July 11, 1947.

[Received July 17.]

SIR: I have the honor to refer to the Embassy's telegram no. 1409 of June 27, 1947, 2:00 p. m., with regard to recent occurrences in China and statements by key Chinese officials which have led the Embassy to believe that the Chinese Government is endeavoring to foster the adoption of a more positive American attitude vis-à-vis the Chinese Communists and the Soviet Union in the Far East. In this connection there is set forth below certain information with regard to recent private conversations of Dr. Sun Fo, Vice President

²⁶ Augustus S. Chase, Consul at Shanghai.

of the National Government, and there are enclosed ²⁷ accounts of a series of public statements made by Dr. Sun within recent weeks.

Enclosure no. 1 is a report of an interview between Dr. Sun and Mr. Harold Milks, of the Associated Press, on June 11. The report of this interview was not published in English language dailies in China because at the time of the interview the Associated Press had ceased for a time to service these papers. The Embassy assumes, however, that the story was published in the United States. Mr. Milks called upon Dr. Sun at his residence merely to ask the Vice President's opinion as to whether general elections would be postponed and whether the inauguration of the Constitution would be delayed. Dr. Sun dismissed the subject by stating that there was no formal movement in the Government either to postpone the elections or the date of placing in effect the new Constitution. Mr. Milks then engaged in a general conversation with Dr. Sun, who made no stipulation that any of his remarks were "off the record".

It will be noted from the first enclosure that Sun Fo conceded that there was little difference between the former Government and the present "reorganized" Government in which representatives of the Youth Party and the Social Democratic Party are participating, and that the Government was still dominated by the Kuomintang. Of greater interest, however, is Dr. Sun's assertion that China missed a great opportunity for unity and progress at the time of the end of the Pacific War inasmuch as at that time all factions—whether Kuomintang, Communist or others—were in favor of a strong and united China and people of all classes were prepared to work hard to achieve this end. It is also interesting to note Dr. Sun's statement that an American loan was not in itself a cure for the ills which at present beset China, particularly the inflationary situation now prevailing.

A few days after the interview with Harold Milks, Dr. Sun received Miss Dorothy Borg, a research analyst of the Institute of Pacific Relations. Miss Borg was familiar with the tone of the Milks interview and was somewhat surprised to find that in conversation with her Dr. Sun was adamant in stating that an American loan was immediately necessary in order to stabilize the economy of China and to effect needed reconstruction, but most important of all to combat Communistic influence which, according to Dr. Sun, was being actively fostered by the Soviet Union. To Miss Borg Dr. Sun praised the present Government, stating that it was the best government possible under the circumstances and was worthy of American support.

On June 18, several days after the Borg interview, which was not for publication, Dr. Sun received Dr. Lo Lung-chi, of the Democratic

²⁷ Enclosures not printed.

League, and in conversation with Dr. Lo stated that no solution of China's problems could be achieved without a fundamental settlement between the Soviet Union and the United States. Dr. Lo talked with an officer of the Embassy on June 19 and expressed himself as having been shocked by the impression he had received from Dr. Sun to the effect that Dr. Sun felt that "fundamental solution" between the Soviet Union and the United States presupposed war between the two nations. Dr. Lo stated that it was the first time in his long acquaintance with Dr. Sun that he had heard him talk in a manner which Dr. Lo considered to be provocative and irresponsible.

Commencing on June 20 in an interview with Mr. Miles W. Vaughn, Far Eastern Manager of the United Press Association, Dr. Sun launched a series of public statements which have received wide publicity in China, and assumably abroad as well, to the general effect that the Soviet Union is responsible for the civil war in China, that discord between the United States and the Soviet Union was responsible for the breakdown of the American mediatory effort, that there is active Soviet intervention on behalf of the Chinese Communists, and that there has been open Russian violation of the Sino-Soviet Treaty of 1945.²⁸ Enclosure no. 3 contains a summary of these statements published by the Central News Agency English service on June 23, 1947 under the heading "Foreign Aid Needed to Avert World War III".

It is regrettable that at this time a Chinese official of the prominence of Dr. Sun Fo should make occasion to issue statements which, although in themselves founded in fact, seem obviously aimed at exacerbating uneasy American-Russian relations for Chinese purposes, as exemplified by Dr. Sun's marked change of tone between early and late June. In this same general connection, the Department will recall that on the occasion of the visit to Shanghai of a party of prominent American editors and publishers, Mayor K. C. Wu went so far as to remark that China was already fighting the opening phases of World War III on behalf of the United States. (See the Embassy's telegram no. 1412 of June 27, 6:00 p. m.)

It is interesting to note that the Foreign Minister in conversation with the Minister-Counselor on July 4th, indicated that he had not been consulted by Dr. Sun Fo regarding his recent press statements and that the Foreign Minister in fact disapproved of them and felt that the Chinese Government should not make difficulties for the

²⁸ Signed at Moscow, August 14, 1945; for text, see United Nations Treaty Series, vol. 10, p. 300.

Secretary of State's policy to reach a working arrangement with Russia. There is little doubt but that statements such as those made by Dr. Sun could not have been issued without the prior knowledge and approval of the Generalissimo.

Respectfully yours,

For the Ambassador:
WILLIAM T. TURNER
First Secretary of Embassy

893.00/7-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 12, 1947—10 a. m.

[Received July 12—9:25 a. m.]

1511. Sun Li-jen, Deputy Commander Northeast China Command, arrived Nanking for consultation in connection with situation Manchuria. General Sun stated in conversation with Embassy officer that for time being Communist pressure has been relaxed in Northeast but that their strength has not been materially affected and next 3 to 4 months will be critical period. According Sun, now is time for energetic regrouping and retraining of forces; unfortunately, however, there have been no replacements for units depleted by combat although some reinforcements have arrived in Northeast. In New First Army some replacements have been obtained by local recruiting.

Transportation remains difficult problem. Sun believes it would require at least 6 months to reestablish rail communications between Mukden and Changchun but at moment question is academic one because of almost complete lack of material.

Sun in reply to question stated that he constantly hears reports of Soviet advisors among Communists and Soviet nationals in combat with them but he personally cannot vouch for these reports. The general implication from his remarks was that he was not a believer of Central Govt releases to the effect that there has been large-scale Soviet intervention on a military level in the Northeast.

No mention of future position was made but Sun's aide implied that Sun would return once more to Northeast, and then assume new post in Headquarters Army Ground Forces. Sun himself states that he would not know his future plans until he has been received by Generalissimo within next few days.

STUART

893.00/7-1447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 14, 1947—noon.

[Received July 14—6:05 a. m.]

1521. Following is Changchun's 294 to Embassy, July 9, 11 a. m.:

“Against background of Nationalists' relief of Ssuningkai and Nanking's proclamation of all-out war against Communists, offer following brief analysis of present military situation Manchuria.

1. Only 1 year after Communists were ejected from Ssuningkai and Changchun, in defeat which NECC^{28a} commander Tu Yu-ming said would prevent them from ever rising again, Communist army which Gimo put at 300,000 troops and which probably comprised approximately half that number was able to mount drive which badly shook whole Nationalist position.

2. In that drive Communists wiped out important elements of Nationalist forces, effectively crippled communications between Changchun and Mukden for some time to come, and removed, destroyed, or distributed important stocks of foodstuffs.

3. Communists made serious effort capture Ssuningkai and lost heavily there; thoroughgoing character of destruction of railway lines south of Changchun nevertheless introduces doubt as to whether original plans were based on assumption that they would be able at this stage of campaign to establish effective control over east-west corridor between Changchun, Kirin, Mukden and reduce two first-named towns.

4. Communist advance was checked by arrival Nationalist reinforcements but it is problematical whether those limited reinforcements (5 divisions) constitute absolute strengthening of Nationalist position in view admitted losses; whether there has been relative improvement of Nationalist position vis-à-vis Communists depends on extent Communist losses; although Communist losses at Ssuningkai are still undetermined they are indubitably heaviest at that point; new First Army Chief of Staff informed American Military Attaché²⁹ and myself that reports Communist losses are exaggerated, that he believed Communist dead and wounded at Ssuningkai were about 20,000 with total for campaign 30,000; Nationalists failed to bag any large Communist force at Ssuningkai.

5. Communists can depend on their control of greater part Manchuria for replacements whereas Nationalist forces must transfer units from intramural China where such units still badly needed.

6. Nationalists are now committed to all-out campaign and their success at Ssuningkai, with consequent stimulus to badly sagging self-confidence, may again lead to over-extension of essentially weak Nationalist forces badly supported by wrecked communications system.

7. Communists instead of returning en masse north of Sungari will probably choose to maintain strong contingent south of that line perhaps deployed in main west of Changchun and east of Kirin-Mukden rail line in effort to develop their hold on corridor which they already

^{28a} Northeast China Command (Manchuria).

²⁹ Brig. Gen. Robert H. Soule.

have footing and to campaign over more of Manchuria than heretofore. Their ability to implement such strategy would depend on unknown factors of capacity to maintain supply and to regroup after strains of present campaign.

8. National Government has evidently already been spending most of its material substance on anti-Communist campaign, and implication of general mobilization order that present effort will be extended is therefore apparently based on assumption that increased material aid will be forthcoming from abroad, that is from USA. Open charges of Soviet aid to Communists, where before were only references to 'support from a certain country' if unaccompanied by evidence and without matters being brought before UNO,³⁰ would appear to reflect move more in nature political manipulation than legal action and may indicate advance of belief widely held in Kuomintang circles that war between USA and USSR is inevitable, with possible estimate in those circles that Manchuria is now potential point of international friction where embroilment two powers in question would (still in Kuomintang thinking) 'save situation for National Government'.

In sum National position in Northeast has notably deteriorated in past year and Communist position has considerably strengthened. In those circumstances return to *status quo ante* May 1 cannot be expected to result from limited Nationalist reinforcement and Nationalist defensive victory at Ssuningkai. Clubb."³¹

Sent Nanking, repeated Mukden, Peiping.

STUART

893.00/7-1747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 17, 1947—2 p. m.

[Received July 17—8:06 a. m.]

1541. President Chiang asked me to call on afternoon July 15 following my return from Peiping. After discussing General Wedemeyer's prospective arrival³² and expressing his pleasure, he asked my impressions of conditions in the north. I took occasion to follow suggestion contained in Deptel 850 of July 10, 7 p. m. and my reply in essence was as follows:

Independent Chinese and American reports from Manchuria agree that conditions are extremely serious not merely from military point of view but because of hostility of people alike toward Communists and Central Govt. Military officers of Central Govt of all ranks are exploiting the populace, enriching themselves and consequently there are stirrings of separatist feelings. I said that it was my strong

³⁰ United Nations Organization.

³¹ O. Edmund Clubb, Consul General at Changchun.

³² For correspondence on Lt. Gen. Albert C. Wedemeyer's mission, see pp. 635 ff.

opinion that reliance on trusted local leaders with a large measure of autonomy would strengthen Govt position and neutralize Communist success in using these same methods.

I said I found the north China people somewhat relieved because temporary Govt gains in Manchuria removed immediate threat, but discontent was almost as intense as in the northeast. This discontent seemed generally true throughout the country and was becoming rapidly intensified.

The Generalissimo remarked that economic conditions accounted largely for this, to which I replied that fiscal and economic deterioration was more a symptom and that it was the general feeling of hopelessness and impending disaster that led to increasing military graft, especially in Manchuria. In short, war weariness and increasing forebodings were paralyzing military efforts. I smilingly charged the Generalissimo with having used in his latest statement my own language about a new revolution but without my emphasis on reform and constitutional liberties, restricting his own statement in effect to one of fighting Communists. The Generalissimo agreed somewhat more heartily than usual with my statements and admitted that others could see developments sometimes more clearly than he and asked that I draft specific suggestions. In this latter connection I am taking no action for the time being.

STUART

893.00/7-1747 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 21, 1947—5 p. m.

897. I was glad that you had an opportunity to have such a talk as is reported in your 1541 July 17. I share your views that conditions prevailing in China require of the Generalissimo that he take effective measures to revitalize his regime. To this end a first step would seem to be that he divest himself of incompetent military and civil officials. However for the reasons implicit in my 821 July 3 noon I think it inappropriate for us make specific recommendations in writing.

I take it that you will show this correspondence to Gen. Wedemeyer whom I have of course assured that he will be kept currently informed of matters having a bearing on his mission.

MARSHALL

893.00/7-2447 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, July 24, 1947—10 a. m.
[Received July 27—12:10 a. m.]

167. Nationalists have failed to restore any semblance of order in New Kaiyuan recaptured from Communists 1 month ago (my telegram 172, July [June] 18³³). Source, student and son wealthy land owner Kaiyuan, states Nationalists won military battle in New Kaiyuan but Communists won political battle.

Communists entered city on July 3 and for next 20 days of occupation made no attempt to take away people's possessions. Communists removed only foodstuffs, medicines and cloth belonging to Nationalist Government. Request made for volunteers to carry stretchers but no attempt to coerce people into service. Only Communist destruction was to water, power plant and railroad station. Never more than 100 Communists in city.

People bitter towards Nationalists whose air force and artillery destroyed 90 per cent of homes occupied by common people even though no Communists in city. Former Nationalist magistrate of city re-entered town first with PPC³⁴ troops. Systematic looting followed. Hsiung's³⁵ headquarters advised of looting and investigating group sent but because magistrate had influential friends in Hsiung's headquarters nothing done. Units of Nationalists' New Sixth Army used pretext of searching houses for Communists to loot people of further foodstuffs. Many people killed in city but only by Nationalist bombing and artillery. No foreigners except Koreans seen with Communists. Source states within past year he has become disillusioned by Nationalist policies and activities in Manchuria.

WARD

893.00/7-2547 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, July 25, 1947—10 a. m.
[Received July 28—5:47 a. m.]

178. Cheng Tung-kuo, Acting Commander NECC, informed Colonel Barrett,³⁶ A[ssistant] Military Attaché, July 25:

³³ See telegram No. 100, June 18, 5 p. m., p. 184.

³⁴ Peace Preservation Corps.

³⁵ Gen. Hsiung Shih-hui, director of the Generalissimo's Headquarters in the Northeast.

³⁶ David D. Barrett.

(1) Nationals in Manchuria unable effect counteroffensive without reinforcements provided existing acute shortage ammunition and equipment relieved.

(2) No independent Korean units operating with Communists NE. Considerable numbers Korean with Communist armies but are integrated into regular Chinese units.

(3) Only few very old pieces equipment captured from Communists by Nationals. Does not believe Russia supplying Communists Soviet equipment which latter would give away Soviet policy to United States. Are supplying Communists Jap equipment only.

WARD

893.00/7-2747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 27, 1947—noon.

[Received July 27—3:51 a. m.]

1596. Following is Shanghai's 1299, July 23, 7 p. m. to Embassy.

“High Chinese army officer very close to Generalissimo today told Paul Meyer³⁸ (who has had long personal friendship with the officer) that military situation in Shantung ‘where Nationalists have been supervised by Generalissimo himself’ is extremely critical and may well develop in manner so disastrous as to endanger Chiang’s political position. If outcome of present engagement should be unfavorable informant believes Communists could capture Hsuehchow without difficulty. He is extremely pessimistic and personally considers military situation in Shantung hopeless. Signed Davis.”

Foregoing message is of interest largely as indicative of continued stifling of initiative of Government field commanders and growing pessimism and defeatism with regard to military situation. Embassy has no information that situation in Shantung is currently “extremely critical”. In southwestern Shantung Communist forces continue possess capability of cutting communications north of Hsuehchow but capture Hsuehchow itself would presuppose complete success of a major Communist offensive. It is impossible at this time to predict how situation will develop within next few weeks, but Government strength is largely intact and no major military disaster for Government appears imminent. Military Attaché concurs.

STUART

³⁸ Consul at Shanghai.

893.00 Manchuria/8-447 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, August 4, 1947—3 p. m.
[Received August 3—11:30 p. m.]

193. Colonel Barrett, American [Assistant] Military Attaché, interviewed 20 Japs and Koreans taken prisoner battle Ssuning (my telegram 304, July 31,³⁹ item 4) and was told they had joined Communist troops for economic reasons (unemployment, inadequate food, etc.) only, as did other Japs and Koreans who were captured. Also said Communists did not force them enter military service and that they had seen no evidence Soviet aid to Communists in Manchuria.

Sent Nanking 305, repeated Department 193, Changchun 185 and Dairen 80.

WARD

893.00/8-847

The First Secretary of Embassy in China (Turner) to the Political Adviser at Seoul, Korea (Langdon)⁴⁰

NANKING, August 6, 1947.

DEAR BILL: When Mr. Hendrick Van Oss⁴¹ passed through Seoul I understand that you expressed to him a desire to have from this Embassy whatever information was available with regard to the use of Korean units by Communist forces in Manchuria.

As you are aware, the Central Government in its propaganda efforts has constantly attempted to establish that Communist military successes in Manchuria were largely due to "outside interference". Lately Government statements have been more outspoken with regard to open Soviet assistance to the Chinese Communists in Manchuria and most recently the Government has made broad claims that there are large Korean units trained by Soviet occupation forces in north Korea actively engaged with the Chinese Communists. Aside from the large quantities of Japanese military matériel which the Chinese Communist forces in Manchuria received at the time of the Soviet withdrawal from Manchuria, the Embassy has received no credible evidence of active Soviet intervention in the area. With regard to the question of Korean units, the military intelligence division of the Ministry of National Defense has likewise put forth no credible proof that Russian-trained Korean units are active in the northeast.

³⁹ Not found in Department files.

⁴⁰ Copy transmitted to the Department by the Ambassador in China in his despatch No. 921, August 8; received August 19.

⁴¹ Foreign Service Officer, assigned to the Department of State

Naturally, this is a nebulous subject and information from our own sources does not prove that there has not been an ingress of Korean units from Soviet-occupied north Korea. However, such evidence as is available to the Embassy tends at this time to indicate that if such an ingress has occurred, it has been on a small scale and the weight of the evidence is to the effect that Koreans serving with the Communists are from among those Koreans who have been resident in Manchuria for many years.

In reply to a recent inquiry, the Consul General at Changchun noted that the Korean population of Manchuria in 1944 was reported as being about 1,450,000 and he pointed out that there existed the logical possibility that there is traffic across the north Korean border with the Chien Tao region where most of the Manchurian Koreans have traditionally resided, but the Consul General stated that concrete evidence that Koreans found with Communist troops in Manchuria had come recently from north Korea, as suggested in current Central Government publicity, would probably be very difficult to obtain.

The Consul General invited the Embassy's attention to the possibility that Manchurian Koreans in the Chien Tao region may, like Manchurian Mongols, have been promised by the Communists that they would enjoy certain autonomous rights under a Communist regime. As an example of recent Central Government publicity with regard to the participation of Korean nationals in Chinese Communist activities in Manchuria, there is enclosed for your information a copy of Changchun's despatch no. 61 of June 12, 1947 to the Department.⁴²

It has been suggested by American military observers and Foreign Service officers in Manchuria that there are three possibilities—(1) that there are complete Korean units operating with the Chinese Communist forces; (2) that there are Korean nationals recruited in Manchuria who are members of the Chinese Communist forces; and (3) that Koreans are used as line of supply troops by the Communists, that is, they act as guards for supply convoys and as drivers of supply carts or as labor troops.

According to the evidence currently available to the Embassy it would appear that the latter two possibilities are more nearly in accord with the facts of the situation. In a recent conversation with Colonel David D. Barrett, Assistant Military Attaché, General Cheng Tungkuo, Acting Commander of the Northeast China Command, stated categorically that there were no independent Korean units operating with the Communists, that there were considerable numbers of Koreans with Communist armies but that they were integrated into Communist

⁴² Not printed.

units. There have been very few opportunities to talk with Korean captives in Manchuria, but it has been pointed out in various reports from Manchuria that when such occasions have arisen, it was found that the captives put forth as Korean all spoke the Chinese language. Colonel Barrett recently interviewed 20 Japanese and Korean prisoners taken at the battle of Ssuping kai. He was told by them that they had joined the Communist forces for economic reasons alone, such as unemployment and inadequate food, and they stated that the Communists had not forced them to enter military service. Incidentally, they also stated that they had seen no evidence of Soviet aid to the Communists in the northeast. In this latter connection you may be interested to know that the Central Government, even though asked repeatedly for such evidence, has been unable to show direct Soviet assistance to the Chinese Communists in Manchuria. We feel here that this in itself is not as important as the ideological affinity existing between the Chinese Communists and the Soviet Union, and that the position of the Chinese Communists in Manchuria is such that overt Soviet assistance is not, for the time being, necessary. Central Government field commanders in Manchuria tend to be more realistic on this score than the propaganda handouts at Nanking. For example, General Cheng, the Acting Commander of the Northeast Chinese Command, recently expressed to Colonel Barrett the belief that the Soviets were not supplying the Chinese Communists with any Soviet equipment because the capture of any such equipment would tend to uncover ultimate Soviet intentions in the northeast. General Cheng did maintain, however, that the Soviets are continuing to supply the Chinese Communists with Japanese equipment.

I trust this information will be of interest to you and the Embassy would appreciate receiving any thoughts you may have on this subject. In future, the Embassy will arrange to forward to you any data received with regard to Korean activities in Manchuria.

Sincerely yours,

WILLIAM T. TURNER

893.00/8-747 : Telegram

The Consul at Shanghai (Meyer) to the Secretary of State

SHANGHAI, August 7, 1947.

[Received August 7—3: 50 a. m.]

1922. *Ta Kung Pao* August 5 issue gives following summary manifesto passed in closing session by First National Congress of Democratic Socialist Party which met Shanghai July 28 to August 4:

1. Regarding civil war: We members of Democratic Socialist Party dare remind Government and CP that "war is like fire; if not extin-

guished it will burn itself out". Instead of concentrating and wasting energies of the two parties in internal strife why not change picture altogether, lay down all arms, dissolve the armies and combine their efforts for building peaceful unified democratic China?

2. Enforcing system of democratic constitutional government: The basis of a democratic constitutional government is not a mere paper constitution. For its enforcement there are many requirements, such as sincerity of government. Kmt⁴³ must not rely on its numerical superiority to tamper with or revive constitution at will.

3. Participation in general election: Negotiations have already been complied [*completed?*] with Kmt whereby the three parties will participate harmoniously in election so to achieve justice and fairness.

4. Great political reforms: Kmt must relinquish its special privileges and return to status of ordinary party. Safety of state must not be jeopardized by political disputes. Emphasis should be laid on quality rather than quantity of troops and well educated civilians should be nominated to take charge of Ministry of National Defense. On the financial side, unnecessary expenditures should be curtailed, graft eliminated and revenues increased so as to check inflation. First revenues and expenditures should be balanced and then currency stabilized so as to restore economic activities to normal paths. Powers of Central Government and those of provincial and hsien governments should be strictly defined.

5. Rationed recreation [*National regeneration*] by country's own determined efforts: Prerequisite to regenerate is revival of moral principles, such as the placing of interests of state before those of party and welfare before private aims.

Sent Nanking as 1379, repeated Department.

MEYER

893.00 Manchuria/8-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 8, 1947—1 p. m.

[Received August 8—5:40 a. m.]

1674. Outstanding criticism of Central Government take-over of Manchuria has been duality of control as between Generalissimo's field headquarters for northeast and Northeast China Command resulting in wasteful duplication. Embassy has been informed by a source believed reliable that General Chen Cheng, present Chief of Staff, will shortly assume overall command Manchuria, thus eliminating present duality of control.

⁴³ Kuomintang.

This move, if carried out, will probably have good effect in Manchuria but will not of itself eliminate other major criticism of Government that Manchurian "native sons" are being ignored in Government administration of northeast, nor will it of itself solve immediate and pressing military problems. It is, however, a hopeful sign that Government is endeavoring to take constructive action Manchuria.

STUART

893.00/8-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 8, 1947—1 p. m.

[Received August 8—5:40 a. m.]

1675. Table of comparative strengths of Government and Communist forces in north China and Manchuria dated July 28, 1947 compiled by Ministry of National Defense is briefly as follows:

Manchuria: Communist forces, 390,000, including 100,000 Korean Communists, 35,000 Mongol troops and 15,000 former Jap prisoners. Government forces: 167,000.

North China: Government forces, 1,346,000; Communist forces, 510,000.

Translation of compilation being forwarded by airmail.⁴⁴

STUART

893.00/8-947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 9, 1947—8 a. m.

[Received 9:38 a. m.]

1677. There is quoted below Mukden's 312, August 4, 11 p. m.:

"From time to time during past month mention has been made orally and once in press of likelihood early Soviet coup in Manchuria similar 1931 Mukden incident. Inquiry and observation fail reveal sound reasons for such action within immediate foreseeable future.

For some weeks elaborate and effective precautions have been taken against Communist surprises in Nationalist-held area, particularly cities, and not unlikely some persons have misinterpreted precautions as directed against possible Soviet coup.

Ample indications Soviet Union aware almost complete disappearance popularity which it enjoyed in China prior V-J Day and which it almost lost originally through high-handed acts Red Army in Manchuria and later through acts Chinese Communists and refusal return former Kwantung Leased Territory to China, to exclude recent

⁴⁴ Not printed.

Mongolian aggression in Sinkiang.⁴⁵ Any overt act in Manchuria by Soviet Union at this time would create further Chinese resentment against Russians. Fear such resentment per se would probably prove insufficient deter Soviet Union should any overt act now be under consideration (at least unlikely would deter them any more than such fear deterred Japanese). Soviet Union gives little evidence holding opinion western powers in high esteem today but, should it be considering Manchurian coup, I believe consideration of western opinion would prove stronger deterrent than Chinese resentment. Should Central Government fail purge malodorous corrupt officialdom in northeast, whose carpetbag regime is probably more [most?] potent single factor in causing northeasterners to turn from Nanking to Communists and should it not change from passive (with 'strategic' retreats and paper 'victories') to active in military field, and should it not make such successful effort toward economic and financial rehabilitation of northeast, it is common belief that Manchuria *in toto* will soon pass into possession Communist units. Soviet Union probably equally aware this possibility, and, if so, is logical assume its willingness await developments and let time work in favor Communists.

Should active United States aid China follow visit Wedemeyer Mission and should such aid be paralleled in northeast by Nationalist house cleaning coupled with establishment local self-government and active (as against present passive) anti-Communist military activities, such turn events would seize present initiative from Communists and force them into defensive position. Such turn would create likelihood Manchuria slipping from grasp Communists and is not unlikely Soviet Union would then give active consideration to staging coup Manchuria, but until that time likelihood Soviet coup seems remote."

Embassy is in complete accord with the foregoing message. There have been recent indications at Nanking that the Government at the present time is endeavoring more energetically than in the past to establish that the problem of Manchuria is one caused solely by Soviet interference without relationship to manifest corruption and ineptitude on the part of Central Government administration there.

STUART

893.00/8-947 : Telegram

The Consul at Shanghai (Meyer) to the Secretary of State

SHANGHAI, August 9, 1947.

[Received August 10—1:35 a. m.]

1939. Reference Consulate's telegram 1379, August 7 (repeated Department as 1922). Following earlier press accounts of failure of attempts made at Democratic Socialist Congress to negotiate the return to party fold of opposition elements comprising "reform com-

⁴⁵ For correspondence on this subject, see pp. 546 ff.

mittee" and overseas group (former Democratic Constitutional Party), local press reports the "final split" occurred August 7th when these two elements issued joint statement.

As reported in press, statement says in brief that Carson Chang has mishandled party affairs and "refused honest advice": That as result thereof the effort[s] of Wu Hsien-tze (senior overseas representative and leader of opposition elements) to mediate peace and unification of party were frustrated and no voice in deliberations and decisions of recently held party congress was given to reformists and overseas member; that the two groups accordingly cannot be bound by such decisions; and that the two groups "now constitute three-fourths of the party influence and possess 8 out of 15 central committeemen, which means that members now directed by Carson Chang are mere minorities". Statement then continues (abbreviated):

"The majority group of this party cannot let a small gang of ambitious elements manipulate party as their tool. For sake of saving future of party we have decided to ask Wu Hsien-tze to be acting chairman and convoke real and legitimate congress in Shanghai August 15th, so as to rally will of all party members, decide political strategy, purge selfish elements from party, and strengthen party organization to meet future difficult situation, domestic and international. Moreover we would like to cooperate with all peace and freedom loving people in wider and sterner struggle for realization of peace, liberty and democracy in China."

According to *CC Shun Pao* August 7th issue, "an important member" of reform group in a further statement said: "As regards foreign relations, we advocate that China should take an impartial, neutral stand towards United States and USSR."

Shun Pao same issue reports that "regional" members of party (Carson Chang's) representing provinces and municipalities have accused "a minority" in party of selecting regional delegates who attended congress and thus preventing "legitimate" regional representatives from having proper voice in congress. Report intimates that this trouble is likely to result in further split and weakening of party.

Repeated Nanking 1388.

MEYER

893.00/8-1147

The Ambassador in China (Stuart) to the Secretary of State

No. 923

NANKING, August 11, 1947.

[Received August 19.]

SIR: I have the honor to report a visit with President Chiang last evening. This followed upon the most recent interview General Cheng

Kai-min⁴⁶ had with him. General Cheng and I have of late been frequently in consultation in our efforts to persuade President Chiang to commit himself wholeheartedly and without further delay to the democratic way. General Cheng had recently submitted to him a memorandum with various concrete suggestions of this nature (a translation of which has been given to General Wedemeyer).

After discussing a brief trip to Tsinan from which I had just returned, he opened the way for me to say what I had in mind. My comments could be summarized as follows:

(1) China should join the democratic group of nations in opposition to aggressive Communism.

(2) The United States has been consistently ready to aid China by such means as are proper and possible, provided only that the present Government can give convincing evidence of reforms in this direction and in doing so recover the support of its non-Communist people.

(3) The procedure might well include such measures as these:

(a) The *Kuomintang* should be completely dissociated from the Government and given the status of any other party in a democracy. (President Chiang had already asked General Cheng to secure an outline of the organization of the two principal American parties for him to study.)

(b) *Military affairs*. The reorganization of the army along the lines of the P. C. C. proposals⁴⁷ and with the help of the American Army Advisory Group might be begun on a basis that had due regard for the realities of the civil war. A small army, well trained and equipped, with adequate physical treatment and a new morale, would be far more effective and less costly than the present one. The problem of deactivating the surplus officers and men could not be neglected.

(c) *Administration*. The rampant venality and similar evils among civil officials could be improved at the outset by enlarging the powers of the Control Yuan and holding it accountable. The civil rights provided for in the Constitution might be declared as taking effect now, in advance of the date set for its enforcement (December 25). But what was more essential than any of these measures was a new revolutionary spirit, with fresh enthusiasm and a dynamic conviction as to the real meaning and value of democracy. This should be incarnated in him. He was too much the head of a Party when he should be the leader of the whole Nation.

There was little new, of course, in any of this, even in previous conversations of mine with him. He made occasional comments as I went along and when I had finished said that he had come to essentially these conclusions.

⁴⁶ Chinese Vice Minister of National Defense.

⁴⁷ January 31, 1946; see *United States Relations With China*, pp. 610-621.

He said that he had determined to increase the pay alike of civil and military employees of the Government and that this would bring a measure of relief.

As to the military reorganization, he reminded me of his request to you in my presence that you become Supreme Adviser with all the authority that he himself possessed. He said that he was ready to make the same offer to General Wedemeyer and earnestly hoped that this might be accepted.

He claimed that freedom of the press, for instance, was already in existence and cited the unrestrained publicity allowed in discussing the affairs of the two big companies in which members of the Soong and Kung families were involved. I replied that the newspaper editors were by no means aware that such freedom could be relied upon and that it would be in order to issue an unequivocal proclamation supported by a description of means for redress or protection.

He said in conclusion that he was giving this whole subject very careful thought—as is undoubtedly the case—and I remarked that when he was ready to make the rather radical changes involved it might be desirable to issue a very clear announcement.

He left this morning for Kuling where he plans to spend several days alone in order to think over the momentous decisions he must soon be making and some of the detailed issues involved.

Respectfully yours,

J. LEIGHTON STUART

893.00/8-1647

*The Consul at Shanghai (Meyer) to the Ambassador in China
(Stuart)*⁴⁸

No. 279

SHANGHAI, August 16, 1947.

SIR: I have the honor to report that two Chinese close to Marshal Feng Yu-hsiang recently approached the undersigned and another member of the staff of the Consulate General with what was evidently meant for a suggestion that the American Government should favor Marshal Feng Yu-hsiang "as the only man" capable of uniting and saving China and that it should persuade the Generalissimo to give Marshal Feng a free hand to accomplish that task.

The two Chinese in question asserted that a "Union" of 378 nationally organized associations of professional and occupational character is prepared to support Marshal Feng.

There is enclosed a copy of a memorandum⁴⁹ reporting the statements made by the two Chinese. They later stated that it was their

⁴⁸ Copy transmitted to the Department without covering despatch; received August 27.

⁴⁹ Not printed.

intention to write a letter to General Wedemeyer along the lines of their oral statements.

Comment. The Consulate General is not in a position to estimate to what extent the alleged popular support of Feng actually exists or could be marshaled through the national associations described by the two Chinese who made the allegations. However, the assertions derive additional interest in the light of current reports from various sources to the effect that some sort of a political understanding has been reached between General Li Chi-shen and other Chinese leaders, including Feng Yu-hsiang, Chang Fa-kuei, Li Tsung-jen and Fu Tso-yi. In this connection, it will be noted from the enclosure that the two Chinese informants asserted that Marshal Feng is assured of the support of Li Chi-shen.

Respectfully yours,

PAUL W. MEYER

893.00/8-1947

The Ambassador in China (Stuart) to the Secretary of State

No. 945

NANKING, August 19, 1947.

[Received August 27.]

SIR: I have the honor to make a few supplementary comments on the general problem of American aid to China.

As reported in my last despatch (No. 923, August 11, 1947) President Chiang requested that General Wedemeyer become Supreme Military Advisor to himself with the same promise he made to you of bestowing on him all the authority he himself possessed. General Wedemeyer felt unable to consider such an offer but at once mentioned two others either of whom might be a possibility. When I reported this to President Chiang he showed his disappointment and remarked that issues of Chinese national prestige would be embarrassing in such a situation but that in the case of General Wedemeyer (as in your own) he could delegate his own authority without going through any formal procedure, although there were no others whom he knew and trusted sufficiently well to do this. He expressed the wish that you might insist on such an appointment in view of the supreme importance of this matter.

The activities of the Wedemeyer Mission have of course aroused a great deal of Chinese comment ranging from vituperative Communist denunciation and the serious misgivings of the liberals who fear that it will play into the hands of reactionaries to the overconfident hopes of many in the Government. The reliance of these latter upon our country to solve their problems for them irritates or angers or at times is merely amusing. But there is a growing number both within

the Government and outside of it with whose opinions I must confess to a large measure of sympathy. They admit the logic of all that we argue about what Chinese should do to help themselves, get their own house in order first, etc., but feel utterly impotent in view of the conservatism, feudalistic ideas, selfishness, narrow prejudices and similar limitations prevalent among those who have the power to effect reforms, while the Communists are rapidly making gains. The best among these would not have chosen such a course nor do they intend to stand idly by while we attempt to do it all, but things being as they are in this country, they simply do not see any other way out. Nor do I. Where I perhaps differ from many of them is in being somewhat more hopeful of the moral and psychological influence upon the responsible leaders and the public generally once they all begin to see some hope ahead.

The signs of willingness and ability to institute progressive reforms are still sadly lacking but there are some. President Chiang recently summoned the Provincial Governors for a Conference and along with some vehement criticism and pertinent instruction promised certain benefits. From now on provincial revenues should be principally used for provincial needs. Officials from Central Government Ministries and other agencies should be under the provincial authority. He has since then argued with me that, while in theory these Governors should be civilians, yet until the Constitution is actually in force and the army reorganized, it would be very difficult for any civilian to hold out against military domination. He added that under existing conditions the best men could not be induced to accept such posts as he had learned from several such efforts. He is making definite plans to dissociate the Kuomintang from the Government at the coming meeting, September 9th, and compel it to accept a status somewhat analogous to our political parties. He has been studying memoranda on this subject. He is also working on the scheme for enlarging the powers of the local police and having them deal with such matters as civil liberties, rather than the military police (practically accountable to him alone), the secret service men, etc. I pointed out that when he is fully prepared to effect this change there should be civilian trials, prompt and public, and authoritative statements explaining the new policy and procedure. The reduplication in Central and local bureaux, in the ordinary officials and those representing him, in unnecessary employees, should be corrected both to reduce expenditure and for greater efficiency. Slight beginnings are being made. Much of this is due to the age-long suspicions by the Central Authority of those away from the Capital and the system of protective devices employed. President Chiang has practised to the full this method of

personalized control. In his case it is acutely aggravated by his fear of ubiquitous Communism which largely explains, if it does not excuse, the terroristic measures against the student strikes last May and similar repressive violations of civilian rights.

The hindrances President Chiang encounters in attempting to launch out on these progressive movements may be illustrated by some of his recent dealings with Dr. Chen Li-fu. The existence of such hindrances is of course largely due to his own past habits of thought and action in long association with comrades of this type. Some two or three months ago he sent an order to General Wu Tieh-cheng, as Secretary-General of the Kuomintang, dismissing Dr. Chen from the headship of the Party Bureau of Organization and instructing him and Premier Chang Ch'un to select a substitute. Since they are both members of a rival clique which often works with the C. C. Clique for a common objective, this put them in an awkward predicament. They finally suggested that Dr. Chen name his own successor to which he neatly replied that as he did not know in what respect he had himself proven unsatisfactory he could scarcely be expected to find the right successor. There the matter still stands. Some two weeks ago when President Chiang was intending to go to Kuling for a short period, he sent for Dr. Chen and after reprimanding him severely told him that during his own absence he was to stay inactive. He has, however, been extremely active of late and has been entrenching his clique in power by extending its economic control over government banks, industrial plants, etc. In all such machinations he has a sinister influence on Premier Chang, due in part no doubt to the joint political scheming of the two cliques, in part also to the Premier's tendency to compromise or yield in his extremely difficult position when President Chiang is always the final authority. This applies especially to any pressure from Dr. Chen in view of his well-known relations with President Chiang. Last week at the close of an interview with President Chiang I suggested that Dr. Chen be sent to the United States for the observation of our political parties, pointing out that his previous experience there had been in technical and labor matters. He laughed heartily and said that he had himself been thinking of having him make a trip to Europe but that for the immediate present he could not spare him in view of the approaching elections. It was especially because of these that I had hoped to have him out of the country. Since that occasion, however, General Cheng Chieh-min has told me that it might be possible to arrange for Dr. Chen's departure earlier.

It is generally agreed among those who are interested in some form of American aid to China that there be advisers closely associated

with each specific project. My personal preference has been that all such be selected and employed by our Government, with, of course, a procedure by which this was at the request of and the individuals approved by the Chinese Government. It goes without saying that such persons should be the very best we can supply. But it is being argued that the schedule of salaries our Government could offer would not be able to attract those most suitable for the purpose, whereas the Chinese Government would have no such limitations. I recognize the cogency of this argument and yet in view of the patriotic and humanitarian values involved am reluctant to admit that first-rate men could not be secured on our terms. Indeed the somewhat idealistic motive in accepting such appointment would be one of the best qualifications.

This is a lengthy and rambling despatch but it will at least be another evidence of my keen interest in the problem and of my desire to help despite the many perplexities in any positive course of action.

Respectfully yours,

J. LEIGHTON STUART

893.00 Manchuria/8-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 20, 1947—4 p. m.

[Received August 20—2:20 p. m.]

1760. Consensus of qualified observers, both Chinese and foreign, is that sixth Communist offensive is being mounted in Manchuria and will be launched shortly, possibly before end of August but probably not before early September. There are strong differences of opinion with regard to Communist targets in coming offensive but most likely possibilities appear to be:

(1) Capture of Ssuningkai and establishment east-west Communist corridor between Changchun-Kirin area and Mukden-Fushun area, (2) capture of Yingkow to deny its use to Government as supply port for Mukden area, (3) capture of Fushun which could make Government position at Mukden practically untenable, and (4) wholesale raiding against and destruction of Peiping railway north of Hulutao to eliminate only major Government supply line for troops in Manchuria.

Government-controlled areas in Manchuria have already been so constricted by previous five Communist offensives that they cannot adequately support Government forces or the civilian population. It is therefore likely that Communist offensive will ignore Changchun-Kirin area except for limited containing operations and concentrate force to further compress Government holdings in southern zone.

Combination of possibilities 2, 3 and 4 in preceding paragraph most likely development.

It is generally conceded that on-coming Communist offensive will be more powerful than any preceding offensive, but it is not likely that Communists will be immediately successful in achieving objective of driving Government completely from Manchuria, granting, of course, that there is no serious collapse of major Government forces which does not seem likely at this juncture.

Ch'en Ch'eng and Sun Li-jen returned on August 17th from an inspection trip in Changchun area. It has been well known previously to Embassy that Sun Li-jen favored withdrawal southward from Changchun in order to effect greater concentration of force in southern zone. It is possible that Ch'en Ch'eng is in agreement with Sun in this regard, but it must be borne in mind that Communist strike in immediate future will reap some benefit from confusion which is bound to result from current efforts to reorganize Government command situation in northeast (see Embtel 1674, August 8 and Embtel 1740, August 18⁵⁰).

Recent reports from northeast indicate that arrival of Ch'en Ch'eng has had excellent basic effect upon overall civil and military morale because of faith in his integrity as compared with Tu Li-ming and Hsiung Shih-hui but major reorganization remains to be achieved. Some new reinforcements have arrived in Mukden recently, but best information indicates that they are not in excess of 8,000 and only 6,000 of which are of combat quality. Replacement problem for units depleted in previous fighting has not been adequately solved even though there has been limited local recruitment. Furthermore, likely that on-coming Communist offensive Manchuria will be coordinated with Communist military activity North China to preclude the despatch of adequate replacements or reinforcements outside the Wall. A serious and a growing obstacle to adequate reinforcement northeast is reluctance on part of Government commanders such as Fu Tso-yi and Hu Tsung-nan to release troops from their commands in the face of uncertain political conditions North China.

Overall situation Manchuria militarily and economically is most gloomy, with early likelihood that Government position Mukden area will become as untenable as that at Changchun and Kirin. The outlook for winter months is even more gloomy inasmuch as coal supply situation is critical and in Manchurian climate neither civil nor military can exist without minimum heating facilities.

STUART

⁵⁰ Latter not printed.

893.2222/8-2147 : Telegram

The Consul at Shanghai (Meyer) to the Secretary of State

SHANGHAI, August 21, 1947—10 a. m.

[Received August 29—2:30 a. m.]

2030. Implementation in Shanghai and surrounding provinces of conscription program instituted under mobilization order is being marked by disgraceful incompetency and corruption on part of authorities and manifested dread of military service on part of people which augur ill for Government's all-out anti-Communist campaign. Conscripts from surrounding provinces are being brought to Shanghai to await despatch by sea to [northern] war areas. While waiting here they are kept in outlying sections: Kiangwan, Yangtzepoo and Woosung.

Obtainment conscript quotas evidently proving most difficult owing to draft evasion and graft. Thousands of draft dodgers are reported to have fled Shanghai from interior. Private recruiting rings have been organized which make high profit from sale recruits.

Little or no prior provision for handling conscripts here has been made. According to admissions made in press, local organizations formed some 6 weeks ago to handle problem have not even started construction proposed barracks or distribution "comfort funds", clothes, etc. Press reports recent forcible seizure of local school premises by transient Kweichow and Hupeh contingents and another contingent recently occupied British godown.

Wretched morale, mistreatment of recruits and attempted desertion are commonly reported. When marching through Shanghai recruits have to be roped together. There have been repeated incidents (two well-confirmed) where groups brought here attempted escape and were machinegunned by guards with resultant killings. Successful desertions often deplete quotas. In such cases some contingent commanders have forcibly seized local coolies to replace deserters. This practice has caused furore in Shanghai press and Mayor Wu has personally intervened to stop abuse.

Shanghai quota is 3000 (erroneously given as 30,000 in Consgram 39, July 24⁵¹). This disproportionately low figure was evidently so fixed in order avoid (1) disturbing wealthy classes concentrated at Shanghai and (2) recruiting city "bums" who make poorest soldiers. Despite smallness quota not yet reached and 80% of eligibles have applied for exemption.

Sent Nanking 1459, repeated Department.

MEYER

⁵¹ Not found in Department files.

893.00/8-2147

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to Brigadier General Marshall S. Carter, Special Assistant to the Secretary of State

[WASHINGTON,] August 21, 1947.

There is transmitted herewith, as of possible interest to the Secretary, a report⁵² prepared by the Division of Research for Far East entitled "Major Factors Controlling the Size of the Chinese Communist Armies". The gist of the report is as follows.

Expansion of Communist forces is limited chiefly by: (1) Availability of rifles; (2) Extent of disposable food surpluses; and (3) Ammunition supplies. The doubling of Communist armed forces between mid-1945 and mid-1946 to their present size of about 1,000,000 men was made possible principally by acquisition of Japanese weapons in Manchuria. Limited available food supplies are a factor tending to restrict the size of Communist forces in north China, but this situation would be radically altered were the Communists to gain control of principal transport routes linking Manchuria, a region of agricultural surpluses, with north China, an area of surplus manpower. Ammunition stringencies constitute a handicap which is not readily remedied, as the Communists cannot replace ammo for their predominantly Japanese-style weapons by captures from Nationalist troops—which now use few Japanese rifles with the original bore.

Under predictable circumstances it seems unlikely that Communist armies will expand to more than 1,500,000 men by mid-1948. However, the recent slower increase in their rate of expansion may have no material effect on the course of the civil war. Recent Communist successes have been due to (1) qualitative and quantitative decline in the Nationalist forces; and, (2) Communist superiority in the employment of their forces.

893.77/8-2247 : Telegram

The Consul General at Tsingtao (Spiker) to the Secretary of State

TSINGTAO, August 22, 1947—2 p. m.

[Received August 22—1:19 p. m.]

66. Entire Tsingtao-Tsinan railway line, 75% of mileage totally destroyed by Communists during 6 months occupation, now reoccupied by Government forces virtually without bloodshed. Important Poshan coal mines reportedly demolished. As Communists have not suffered any recent major defeat in Shantung, Government "offen-

⁵² Not printed.

sive" possibly was cautious occupation of positions abandoned by Communists, probably in accordance with strategic operations of latter. Despite press predictions of early reopening railway, shipment from Tsingtao to Pukow in recent weeks of rolling stock, equipment and personnel point to re-establishment highway rather than railway where destruction of practically all bridges poses a major problem.

No. 83 to Embassy, repeated 66 to Department.

SPIKER

893.2222/8-2347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 23, 1947—10 a. m.

[Received August 23—8:55 a. m.]

1778. Fragmentary reports reaching the Embassy from a variety of points as widely separated as Canton and Chengtu indicate that the situation described in Shanghai's 2030, August 21 to Department with regard to the administration of the conscription program is essentially the same throughout Government-controlled areas.

The Embassy has received no information that conscription is being carried out other than by the familiar press gang technique which has long been a characteristic of recruitment for the Chinese Army.

STUART

893.00/8-2547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 25, 1947—noon.

[Received August 24—4:15 a. m.]

1791. Government steps to control students and retaliate for disorders last spring have increased in August, with expulsions ordered and agitators labelled as Communists or Democratic League members. Shanghai press August 21 reports 437 students have been dismissed from 8 Shanghai universities and colleges. Reliable local university source states that Government and private universities in Nanking early in August received orders from Executive Yuan through Ministry of Education that under Articles 7 and 15 of mobilization order all civil institutions are to help maintain order, that student strikes last spring amounted to disorder, and that universities were to take advantage of summer vacation and fall enrollment to improve situation. This source states that Nanking University on August 19 received order from Nanking *gendarmerie* garrison headquarters

transmitted by Ministry of Education to expel for "active strike activity" 7 students described as "Communists or Democratic League party members" and to expel for "less active strike activity" 30 additional students also described as "Communists or Democratic League party members". Of these students only 1 is known by university to be a Communist or Democratic League member. However, all were known to be active in the strikes.

Vice Minister of Education Han Li-wu stated on August 22 that lists of students and expulsion orders prepared by garrison headquarters are going to most universities and colleges, that few orders are transmitted through Ministry of Education, that students ordered expelled from universities range from very few to more than a hundred per university, and that expulsions are for political activity or poor scholarship. He indicated that although his "personal policy" was to divorce universities from politics, garrison commanders under mobilization decrees could arrest students and faculty for political activity and that Ministry was powerless in situation. However, he stated that he advised president Nanking University to collect evidence that students listed had "repented their activities" and that University ignore expulsion order.

STUART

893.00/8-2547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 25, 1947—6 p. m.
[Received August 26—10:23 a. m.]

1798. British Military Attaché states he has been informed by source he considers reliable that primary reason for Generalissimo's visit to Yen-an in early August was to persuade Hu Tsung-nan to release a portion of his troops to reenforce Manchuria but Generalissimo's efforts were not successful.

Embassy considers that Hu Tsung-nan is faithful to Generalissimo and is likely to remain so even though general disaffection among other military leaders was to reach an acute stage which is not now apparent. However, there is good reason to believe that Hu Tsung-nan would be reluctant to become separated from any of his troops during the uncertain political situation currently prevailing in intramural China. The Embassy therefore believes that the information of the British Military Attaché is probably correct and that the same situation may well apply in the case of Fu Tso-yi.

In any event, the report is indicative of the difficulties facing the Government in attempting to save the Manchurian situation and

points up the continuing existence in China of a situation whereby movements of troops of senior commanders are still accomplished largely by negotiations rather than by the issuance of orders.

STUART

711.93/8-2847

The Consul General at Changchun (Clubb) to the Secretary of State
[Extracts]

No. 85

CHANGCHUN, August 28, 1947.

[Received September 15.]

SIR: I have the honor to refer to the Peiping Consulate's despatch No. 28 of August 4, 1947⁵³ forwarding copies of certain memoranda regarding the political situation in China as submitted to General Wedemeyer in connection with the briefing of his mission at Peiping on August 3, and in continuation of the surveys given in those memoranda to offer below an analysis of certain factors which appear to bear significance in respect to the matter of the formulation of current American policy in Eastern Asia. The matter in point is of course in many respects controversial as well as complicated, and this analysis pretends to be neither exhaustive nor definitive, but with those qualifications it is offered for what it is worth as representing one point of view.

Summary: The premises of the analysis are that war between the United States and the Soviet Union is a political possibility for which the United States must prepare; that one potential war front is in the Far East; that American preparations should be such as would serve the end in view; and that American actions should also if feasible serve as well traditional American policy, the principles of the Atlantic Charter⁵⁴ and of the United Nations, and the welfare of other peoples concerned. The proposition commonly mooted that a large measure of support should be given to the Chinese National Government to enable the latter to overcome the Chinese Communists, and the counter-proposition that China should be permitted to "stew in its own juice", are to be judged in the light of the peculiar facts of China. American actions in China have been guided by a general policy evolved in good part in the periods of stress of 1858-60, 1896-98 and 1900-01, with particular formulations of especial importance occurring in the form of Secretary Hay's Open Door Policy⁵⁵ and

⁵³ *Post*, p. 697.

⁵⁴ Joint declaration by President Roosevelt and British Prime Minister Churchill on August 14, 1941, *Foreign Relations*, 1941, vol. I, p. 367.

⁵⁵ For Secretary of State John Hay's Open-Door notes of 1899, see *ibid.*, 1899, pp. 128-143.

the Washington Conference agreements.⁵⁶ That policy has brought to the United States good relations and a growing trade in China and outstanding political prestige in Asia. The Soviet Union, on its side, is now patently antipathetic to the National Government and sympathetic to the cause of revolution in China, but it remains uncertain whether the Moscow leaders consider that the Chinese Communists now have the power to set up a regime which would represent any considerable advance along the road toward something approximating the Russian type of Communism. As for the National Government, it and the Chinese Communists have fought each other on all fronts since the 1927 split between the Kuomintang and the Chinese Communist Party, except for the uneasy truce of the Sino-Japanese war years, and it is logically to be expected that the contest will continue without either's being prepared to lay down its arms. The corruption and inefficiency of the Nationalist Government have apparently increased, instead of declining, since V-J Day, the while the nation's economic and social debilities have grown. Fundamental political and economic reforms, by the record, are hardly to be expected out of Nanking—even though it is generally recognized that only the institution of such basic reforms would give a chance of stemming the rising tide of revolution. The Nanking leaders still profess publicly and privately to believe that the only remedy for the revolution which confronts them is extirpation by the sword. In respect to international affairs Nanking's policy, by many indications, is based upon the expectation (in which there seems to be even a large element of hope) that war between the United States and the USSR will occur in time to save the situation, by hypothesis, for the National Government. In that war, experience has taught, there would probably be little fighting done by the Nationalist armies against the Soviets. Even if there were the will—which is open to doubt—the Nationalists are far from commanding a united nation. Should there be American military assistance to the National Government, the indications are that American objectives of containing Communism and building up a bulwark against the Soviet Union would not be served; and that, contrariwise, the rendering of such assistance would be attended by various undesirable political results.

There remains to be considered the question of the probable consequences of standing aside while the Communists and National Government fight it out. The problem of interest in the first instance to the United States is whether Chinese Communism, if wholly or partially victorious in China, with or without outside aid, would offer an important threat to the United States whether directly in Asia or

⁵⁶ See *Foreign Relations*, 1922, vol. I, pp. 1 ff.

indirectly by assistance rendered to the Soviet Union. The Chinese Communists are as pure Communists as any. The field of action, China, nevertheless requires adjustment of the ever-flexible Communist tactics to the problems at hand. The experience of the Chinese Communists heretofore has been limited primarily to the agricultural countryside, and they are now found without adequate training to deal with problems of urban administration, industrial management and engineering techniques. The Soviet Union, even if in an unusually generous mood, could hardly be expected to contribute to China material and technical resources which would make a substantial difference over so long a period as a generation. The Soviet effort would probably be concentrated in Manchuria, where the possible results of any investments of materials and technical skills can be gauged on the basis of historical precedents. That there might be Soviet advance in some sectors is not to be denied, but that advance would hardly affect the issue of a war between the United States and the USSR in this generation. Soviet interference or participation in Chinese affairs, however, would probably call forth even stronger antipathies from the Chinese side than has happened before in cases of "foreign interference", and the Soviets would stand fair to suffer a net loss from any adventure in China after the 1924-27 pattern. In the light of China's political and economic deficiencies, the logical conclusion must be that the Soviet Union, no more than the United States, would receive a commensurate military benefit from investment of national wealth in China with the aim of thus obtaining major assistance in the international arena.

Certain predictions can be made as to the probable course of events should China be left to its own devices. **Barring strong Nationalist reinforcement**, the Communists would probably soon win the struggle in Manchuria, whereupon the Nationalist position in North China would shortly afterwards come under threat. This would very possibly lead to changes in the Government at Nanking, for certain Kuomintang militarists reputedly already stand ready to desert the Generalissimo when the hour strikes. If a possible successor to the Generalissimo cannot now be designated any more than in any other dictatorship, one thing is certain, and that is that candidates for the leadership will not be found lacking. At best, some sort of a coalition might be formed at Nanking which could hold non-Communist China together and perhaps, with a reform program and some outside help, make faster progress along economic and political lines than the hypothetical Communist-controlled regime to the North. **At worst**, with failure to form a democratic coalition, the non-Communist part of the country would probably split up into different areas under the

rule of semi-independent warlords, with Nanking left to wither on the vine in its tangle of international obligations and domestic finances, and the Communist part of China would thus be found occupying the dominant position in the country. They would then be able eventually to occupy all of China, but it would seem inevitable that the farther they progressed the greater would be their difficulties and the more compromises they would have to make with the Chinese people as a whole on points of doctrine; in any event, long before China had been unified and become strong the present issues which dominate relations between the United States and the Soviet Union would in all probability already have been resolved. *End of Summary.*

. . . It is the critical nature of the times that makes that attempt to foresee imperative. In general, the basic demands of the present times in respect to the subject under discussion would appear to make it of first importance that 1) American financial, material, political and military resources be accurately assessed; 2) there be a close and continuing study of the probable course of Soviet policy in the Far East, where the Soviet Union is weak; and 3) those American resources which may become available for use in Asia to counteract Soviet influence be disposed against those Soviet points, and used in those non-Soviet places, where they would most likely prove most effective. It is respectfully submitted that, in view of the circumstance that air and naval strength would probably play a dominant role in this military theatre, development of the American position in those Pacific Ocean areas in which the United States possesses an important measure of political authority would appear to offer the promise of more substantial returns than if an important amount of the available American resources were diverted to give support to one part of that house divided against itself—China. China at this time has none of the marks of a good political investment.

Respectfully yours,

O. EDMUND CLUBB

893.00/8-2947 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, August 29, 1947.

[Received August 30—11:08 a. m.]

2077. Following is official Chinese Central News Agency report on Sun Fo statement made at Canton August 27: China is facing a national crisis now more serious in nature with respect to the Soviet

Union than the one created by the "Manchurian incident" in relation to Japan, Dr. Sun Fo, Vice President of China, today told Central News.

Japan's "Manchurian incident", responsible for the destruction of world peace and the outbreak of World War II, was fanned inside China only by a small number of willing collaborationists for Japan, whereas the present crisis is aggravated by the Chinese Communist Party, an organ as international in nature, echoed by the Democratic League, and worked at the beckoning of Moscow, Dr. Sun charged.

The Vice President in his comments today waved away all doubts that General Wedemeyer's farewell statement⁵⁷ on China was the prelude to complete withholding of US help to China.

With 2 years already passed since the war, world peace still has not been established, Dr. Sun pointed out with a note of sadness. The world situation is still very tense, he said, and China is in the midst of a civil war. Differences of opinion on how to secure world peace has accentuated the tenseness.

The Soviet Union, on the one hand, insists on running world affairs, backed by its veto power in the United Nations, while other countries are wing [*willing*] to compromise, to understand each other's viewpoints and to work harmoniously. These two forces, Dr. Sun stated, cannot yet be reconciled, thus causing uneasiness and doubts on all sides.

He elaborated on the United States' stand, which has no imperialistic nor ulterior motives in China. Unfortunately, an anti-US movement was successfully instigated by the Communists, dovetailed by the Democratic League, and perhaps managed by the Soviet, he opined.

This movement, Dr. Sun pointed out, has erroneously conveyed to the US that the Chinese people wanted the US to get out completely. There is no political reason for the presence of American Armed Forces in China. At present, he declared, there is only a small Marine Force guarding North China railways, plus the Military Mission in Nanking and Tsingtao designated for the training of new Chinese Armed Forces.

Dr. Sun avowed that this cannot be said for the Soviet Union. He traced the history of the signing of the Sino-Soviet amity treaty, and the subsequent Soviet actions which failed to observe this treaty in the cases of the withdrawal from the northeast, the naval base of Port Arthur for the combined use of the Soviet and Chinese Navies.

He cited the case of the free port of Dairen, which administratively should be in Chinese hands. He was particularly vehement about closing of Port Arthur to the Chinese and the virtually complete con-

⁵⁷ See telegram No. 1789, August 24, p. 759.

trol of Dairen by the Soviet. Dairen is completely under Soviet occupation, even Chinese and American Merchant Marine is refused entry, he pointed out.

"We can see in the case of Dairen that the Soviets are occupying it. They cannot refute this fact," Dr. Sun emphasized, "but in no way do we see any such move, or other imperialistic action on the part of the United States. Now that the Japanese threat is removed, we are under the Soviet threat."

In Dr. Sun's opinion there are only three solutions to the Communist question: (1) if the Communists give up their military operation policy; (2) complete Communist control of China; (3) complete eradication of the Communist Party.

On the third point, Dr. Sun made a distinction between Communism and the Chinese Communist Party. He supported General Wedemeyer's opinion that Communism cannot be eliminated by military force itself. The Communist Party and its destructive and military activities can be eliminated only if the Government and the people stand together, he declared. Otherwise, China will no longer exist as one nation.

In the past 2 years, China's Vice President recounted, the Communists have given ample evidence that they do not wish to solve political differences by peaceful means despite the many gestures of the National Government, which has asked three times for truce.

"We cannot use peaceful means to solve the civil war. Only the Communists can answer that question."

The responsibility for the civil war rests entirely with the Communists, in Dr. Sun's estimation. He cited their failure to carry out the solutions of the political council conference, their refusal to participate in the reorganized government and their refusal to attend the National Assembly.

The Communist demand for minority over-rule was charged as being undemocratic by Dr. Sun. This means that the opinions and desires of the majority are of no avail. This means that the minority will rule the majority, he said. Although majority rule even may not be a perfect democratic process, Dr. Sun believes it is better than a minority rule, which, he declared, would imply that there is no ground for the existence of democracy's implementation of majority rule.

The minority rules in the Communist territories, he said; there is no freedom in those territories. He pointed out that is why the Democratic League leaders prefer to operate in Nanking and Shanghai instead of in Communist territories.

General Wedemeyer's plea in which the Presidential envoy urged the Communists "to stop voluntarily the employment of force in their

efforts to impose ideologies" and to use "peaceful means in lieu of violence and destruction" was cited by Dr. Sun as an example of the futility of seeking Communist cooperation.

Dr. Sun predicted that Wedemeyer's plea will not be heeded by the Communists. Both Wedemeyer and General Marshall, former special Presidential envoy in China, know only too well they will not find the Communists receptive, he reiterated.

"The effect of these pleas," Dr. Sun commented, "is like playing music before a cow."

DAVIS

893.00/9-147: Airgram

The Consul General at Hankow (Krentz) to the Secretary of State

HANKOW, September 1, 1947—3 p. m.

[Received September 19—9: 03 a. m.]

A-42. The civil war again entered the Hankow district at the close of the month, after several months when there were no important CP forces in the district.

In the closing days of the month roughly 110,000 CP troops under the command of CP General Liu Po-cheng swung rapidly west from Shantung north of Suchow, thence south into Honan as far as the Hupeh border, apparently, in the initial stages, without even coming into contact with National forces.

The First and Seventh CP Army Corps, plus an independent brigade came southeast of and paralleling the Pinghan railway, capturing Shangtsai and Junan. The Second and Sixth CP Army Corps roughly followed the Honan-Anhwei border, capturing Kushih, Hwangchuan, Kwangshan and Hsihsien, southern Honan.

A group of about 2,000 crossed Pinghan railway between Hsunchang and Hsincheng destroying bridges and track, said now to be restored. This group moved southwest of the railway and reached Pingchangkwan near Changtaikwan on the railway. The railway garrisons are said to have successfully repulsed numerous attacks on the line. At any event trains were arriving from Hsinyang on the 31st. The railway claims the line is operating all the way to Kaifeng.

Latest reports indicate that National forces under General Hu Tsu-tung have recaptured Junan and are pressing south. One division from the Kaifeng garrison is said to be protecting Hsinyang and one brigade is defending Loshan.

The lines at latest reports ran from Hsinyang through Loshan southeast through Popiho to Shangcheng near the Anhwei border.

According to the Chief of Staff of the Generalissimo's Headquarters here, the objective of the CP forces is to get back to their previous

stronghold in the Tapiéh mountains of Southern Honan and Anhwei, from where they could harass the railway and this area generally.

The Chief of Staff admits that there are no Government forces in this area except for two pacification corps and the railway police.

Although it seems unlikely that an attempt on the Wuhan cities would be made now, there is certainly no military force which could prevent it. If the CP army remains in force in South Honan, it seems likely that eventually at least raids will be made here.

Foreigners have been evacuated from the Chikungshan resort on the Hupeh-Honan border and the Consulate General is recommending no travel by Americans north of the Wuhan cities. No Americans are now believed to be in the places captured by CP forces. Those in Hsinyang and points north are believed to be safer remaining where they are than attempting travel.

The recently critical and chronic staff shortage here was relieved by the arrival of Consul Leonard Lee Bacon on August 20 from Zurich, and it is now hoped that adequate political and economic reporting can be done.

The farewell statement of General Wedemeyer on August 25 had a very good reception in the press of all shades of opinion, i. e., the reaction was that everything said was true, that it was the serious advice of a friend, and that China would do well to heed it.

Reaction in official circles was one of pained surprise in the few officials I have had occasion to see during the week. The Mayor, at a dinner yesterday, spent some 10 minutes explaining to me that of course the criticisms could not apply to Hankow and suggested that probably General Wedemeyer's knowledge of Hankow's virtue accounted for his failure to visit it.

KRENTZ

893.00/9-347

*Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to Brigadier General Marshall S. Carter, Special Assistant to the Secretary of State*⁵⁸

[WASHINGTON,] September 3, 1947.

Subject: Military Situation in Manchuria

Reports from Manchuria indicate that the CCP is disposing forces for a renewal of offensive operations.

Reinforcements for government units have been inadequate to replace losses suffered during the last CCP offensive. A major obstacle to adequate reinforcement of government units has been a

⁵⁸ Noted by the Secretary of State.

reluctance on the part of commanders such as Fu Tso-yi and Hu Tsung-nan to release troops now under their command. The reorganization of the high command is still to be achieved though there are indications that the Nationalists have adopted the wise policy of keeping their forces concentrated.

Many observers believe the Communists will mount an offensive in mid-September timed to enable them to harvest the crops in areas now held by government forces. The following are considered the most likely objectives of such a drive: (1) capture of Ssupingchieh and establishment of east-west Communist corridor; (2) capture of Yingkow to deny its use to the government as a supply base; (3) capture of Fushun which would render the government's position around Mukden practically untenable; and (4) raiding against the Peiping-Mukden railroad to eliminate the government's major supply line for Manchuria. Government-controlled areas have been so constricted by CCP offensives that they cannot now supply the forces stationed therein. As CCP tactics usually avoid assaults on entrenched forces, it is likely the Communist offensive will ignore Changchun and attempt to compress Nationalist holdings in the south. A combination of the operations listed in 2, 3 and 4 above appears most likely.

It is not anticipated that the Communists will drive the Nationalists from Manchuria in this offensive. They can in all likelihood render the government's position at Mukden untenable, and they can permanently cut the government's lines of communication bringing in coal, of utmost importance in Manchuria during winter, and other supplies. The government's outlook in Manchuria is most gloomy.

A[RTHUR] R. RINGWALT

893.00/9-347

*The Consul General at Shanghai (Davis) to the Ambassador in
China (Stuart)*⁶⁹

No. 292

SHANGHAI, September 3, 1947.

Subject: National Congress of Reform Group of Democratic Socialist Party; Publication of Platform and Election of Party Officials; Further Repudiation of Carson Chang's Democratic Socialist Party; Poor Prospects of Both Parties

SM: I have the honor to refer to the Consulate General's despatch no. 274 of August 12, 1947⁶⁰ and earlier telegrams reporting results of the recent National Congress of Carson Chang's Democratic So-

⁶⁹ Copy transmitted to Department without covering despatch; received September 16.

⁶⁰ Not printed.

cialist Party. It will be recalled that the Congress failed to obtain the support of the party's "Reform Group," which proceeded to repudiate the platform adopted by the Congress and announced that it, the Reform Group, was the only legitimate Democratic Socialist Party and would hold its own Congress.

The Reform Group's Congress was duly held at Shanghai from August 15 to 18, inclusive. Press reports indicated that the proceedings revealed almost as much internal discord as that which marked the Congress of Carson Chang's group; but agreement was eventually reached. The work of the Congress was summarized by the *Ta Kung Pao* in its August 19th issue as follows:

"The National Congress of the Democratic Socialist Party held for four days under the sponsorship of the reform group already closed with satisfactory results yesterday afternoon. At the Congress, it was decided to retain the title 'Chinese Democratic Socialist Party' and not to recognize all the activities of the Party led by Carson Chang. 110 members of the Central Executive and Supervisory Committees including Wu Hsien-tze, Chang Tung-sun, Liang Chiu-shui, Wang Shih-ming, Sha Yen-kai, Sun Pao-kang, Sun Pao-yi, Lu Kwang-sheng, Li Ta-ming and Lu Yi-an were elected. The manifesto issued by the Congress advanced the following four points as a platform for the settlement of pending national issues:

"1) It is hoped that peace can be restored in this country at an early date.

"2) Human rights should be safeguarded.

"3) Industry and commerce should be developed and a minimum stability of the livelihood of the people should be ensured in accordance with the principles of democracy and socialism.

"4) China should assume a strictly impartial attitude towards the disputes between the two blocs headed by the United States and the Soviet Union, so that she can serve as a bridge between the latter two countries."

On August 21st the newly elected Central Executive Committee elected a Central Standing Committee composed of fifteen members, a list of whom is attached.⁶¹ The Central Standing Committee on August 23rd in turn elected the Party's officials (also listed in Enclosure No. 1). The two lists show a much larger proportion of men of some prominence than do the corresponding lists for Carson Chang's party and include, among others: Wu Hsien-tze (Chairman), Chang Tung-sun,* Liang Chiu-shui, Lu Kwang-sheng, Wang Shih-ming, Li Ta-ming and Yao Yung-li.

⁶¹ Enclosures not printed.

*This indicates that the Consulate General's information that Chang Tung-sun could not join the Reform Group (reported in the Consulate General's despatch no. 274 of August 12, 1947) was incorrect. [Footnote in the original.]

On August 31st the Reform "Democratic Socialist Party" issued in local English language newspapers a long notice in which the Party reviewed the events and factors leading to the Party's secession from Carson Chang's Party, recapitulated its charges against Chang, and asserted its right to the title of "the one and only legitimate Democratic Socialist Party."

In addition to the serious weakening of his position caused by the secession of the Reform Group from his party, Carson Chang has, according to the local press, sustained a further loss of prestige and strength as a result of the action of 56 members of his own Party in publishing, on August 30th, a notice in which they too repudiated his Party's Congress. It would accordingly appear that Chang and his party are now in an extremely poor bargaining position in their current negotiations with the Kuomintang for a quota of seats in the Legislative Yuan to be reserved for his Party to "win" in the forthcoming "elections." Chang returned a few days ago to Shanghai from Lushan, where he is reported to have been engaged in negotiations of that character with Kuomintang leaders; and, according to unconfirmed reports, he is not happy over the way in which those leaders treated his requests.

The Reform Democratic Socialist Party would seem to be in an even worse position with respect to the elections. In the first place, the party presumably has no chance of receiving any election quota whatever; and in the second place it would appear by no means certain, according to the local press, that parties which have refused to participate with the Kuomintang in the present government will be allowed even to take part in the elections. In this connection, a local Chinese contact who is exceptionally well informed on political matters states that a good many members of those minor parties which have refused to participate in the present government are so anxious for jobs that they would be only too glad to forget the high principles which their parties have advanced as reasons for non-participation, if they could only be assured of a post and could find some formula to make it appear that they were not deserting such principles.

Mr. Yao Yung-li, the Reform Democratic Socialist Party's most active publicity agent, told an officer of the Consulate General a few days ago that, following the publication of its notification of August 31st, his party was ceasing to concentrate its energies on attacking Carson Chang and was instead devoting its efforts to building up the party's strength.

Respectfully yours,

MONNETT B. DAVIS

893.00/9-447

The Ambassador in the United Kingdom (Douglas) to the Secretary of State

No. 2016

LONDON, September 4, 1947.

[Received September 15.]

SIR: 1. I have the honor to enclose, as of possible interest to the Department, copy of a memorandum of a conversation held by an Embassy officer on September 3, 1947, with General Chu Shih-ming, a high-ranking Chinese military officer who has just arrived in London from China.

2. The enclosed memorandum sets forth certain views expressed by General Chu on the situation in China.

3. General Chu is well known to Departmental officers as a Chinese of rare integrity and objectivity of thought. It is clear that General Chu has many reservations with regard to the competence of the Chinese Government under which he serves, but it is equally clear that he considers that Government—with all its admitted weaknesses—to [be] the only present alternative: i. e., a Chinese Communist Government subservient to the desires of the Soviet Union.

Respectfully yours,

For the Ambassador:
EVERETT F. DRUMRIGHT
First Secretary of Embassy

[Enclosure]

Memorandum of Conversation, by the First Secretary of Embassy in the United Kingdom (Drumright)

[LONDON,] September 3, 1947.

Participants: General Chu Shih-ming, former Chinese Military Attaché, Washington, former Chinese Member, Allied Control Council, Japan, et cetera
Dr. Tuan Mao-lan, Chinese Minister, London
Mr. Drumright

1. Dr. Tuan Mao-lan telephoned Mr. Drumright to say that General Chu Shih-ming had arrived in London and wished to discuss the China situation with Mr. Drumright. General Chu, Dr. Tuan and Mr. Drumright accordingly met the evening of September 3, 1947, and had a conversation lasting more than two hours. The highlights of the conversation were as follows:

2. Dr. Chiang Mon-lin, General Chu and other members of the Chinese delegation to the Institute of Pacific Relations Conference at Stratford-on-Avon had left Shanghai by air on August 24, 1947,

flying via Hong Kong and India. General Chu proposed to travel from England to the United States after the conference. He tentatively proposed to remain in the United States about three months. General Chu omitted to reveal the purpose of his mission to the United States.

3. *Military Situation in China.* General Chu said that, generally speaking, the Government had made little progress in its campaign against the Communists. The Government's campaign against the Communists had taken a favorable turn in Shantung just before his departure from China. But even in Shantung the Government forces had suffered several reverses and there had been four changes of commanders in recent months. Hsueh Yueh and Tang En-po were among the commanders who had been withdrawn from that front. The Generalissimo was pursuing a strategy of extended operations against the Communists in the hope of speedy victory. This strategy had not proved fruitful. The Generalissimo had not followed the blockading tactics employed in his Kiangsi campaign of 1934 because this method of operations was too slow and costly. General Chu had counseled against the Government's plan to occupy Manchuria, but had been overruled. He considered the Government position there untenable and he, for his part, would urge withdrawal of Government forces to China Proper. But he thought that this would be a bitter pill for the Generalissimo and the Government to swallow and, moreover, withdrawal might severely impair confidence in the Government. He thought that the Government might compromise on the problem by withdrawing from extended positions at Kirin and Changchun. He said that he doubted whether the Generalissimo would waver in his determination to hold Mukden and the railway corridor to the south. General Chu said that he personally regarded Manchuria as a "shell" and reiterated his belief that the Government would be well advised to withdraw its forces completely therefrom. General Chu said that it was obvious that the Soviets had in various ways aided the Chinese Communists in Manchuria, and that he was astonished to find that there were western observers who went around saying there was "no evidence" of Soviet aid to the Chinese Communists. General Chu said that when he left China the Government was busy formulating a plan for the training of Chinese troops to be carried out at three centers, one of which would probably be in Taiwan. General Chu remarked that the American Military Advisory Group in China had contributed little to the training of Chinese forces, adding that the group was concentrated in Nanking and that General Lucas had virtually no access to the Generalissimo and that he rarely saw General Chen Cheng.

4. *Position of Chinese Government.* General Chu said that, contrary to reports commonly prevalent among western observers, there was no possibility of an imminent collapse of the Chinese Government. He said that, in his view, the Government could, even without external assistance, remain in power for another year. In expressing this view, General Chu said that he did not wish to minimize the seriousness of China's plight. The economic situation was extremely critical. Inflation was an ever-growing canker which naturally produced corruption and inefficiency. The Government was still deriving 60 per cent of its revenue from the printing press, and the very great bulk of China's expenditures went to the military machine. The fact was, General Chu observed, that China was far more exhausted by the war than Britain, France or even Italy, but it seemed that, as during the war, the United States was concentrating on the rehabilitation of Europe and leaving China to shift for herself.

5. *The Generalissimo.* General Chu said that the Generalissimo was as determined as ever to surmount the crisis enveloping China. He had been struggling with crisis after crisis since his rise to power, and he would not be daunted by the present one. The Generalissimo likened the present situation to the one which obtained in the earlier stages of the Sino-Japanese war, with the Soviets replacing Japan as the chief threat to China's independence and integrity. The Generalissimo had carried on the struggle against the Japanese alone and at great odds, always counting on the fact that the United States would in the end come to China's aid in her own interests. While the Generalissimo was now hurt and at a loss to understand the attitude of the United States, he was confident that in due course the United States would see the true significance of his struggle against Soviet aggression and again come to his assistance. Meantime, the Generalissimo would hang on grimly, shoring up the weaknesses of his Government as best he could.

6. *The Wedemeyer Mission.* General Chu was plainly reserved in his remarks about the Wedemeyer mission. He said that he had seen General Wedemeyer only once and had exchanged only a few remarks with him. He remarked that although General Wedemeyer had made some caustic remarks about China, he felt personally that General Wedemeyer would in the end recommend some sort of support to the National Government. In support of this observation, he said that he did not see, in the present posture of world affairs, just how General Wedemeyer could safely make any other recommendation. For any other course on the part of the United States would be the equivalent of an open invitation to the Soviets to march in (in the guise of their Chinese Communist comrades) and take over China.

And however much the United States abhorred the weakness, inefficiency and corruption of the Chinese Government, he could not see the United States choosing the alternative course which would plainly be disastrous to its own interests and security.

7. *Situation in the Southern Provinces.* General Chu said that he was aware of reports of an imminent breakaway of Kwangtung and perhaps Kwangsi from the National Government. He went on to say that, based on his knowledge of the situation, there was no possibility of Kwangtung and Kwangsi seceding from the National Government. In this connection, General Chu explained that Li Chi-sen and those surrounding him were malcontents of long standing, and that they had no influence or power. As for General Chang Fa-kuei, the most powerful personality in the southern provinces, he was an intimate of General Chen Cheng's and so long as that relationship existed there was no possibility of his abandoning Nanking.

8. *The Chinese Communists.* General Chu said that he felt there were now few observers of the Chinese situation who would deny the direct relationship existing between the Kremlin and the Chinese Communists. That relationship, he said, had become all too clear in the past two years to warrant any extended comment. General Chu then went on to make the interesting observation that the tie-up between Moscow and the Chinese Communists was the major factor militating against Communist domination of China. Had the Communists been a purely indigenous political grouping, they would by now have toppled the Chinese Government from power. But the bulk of the Chinese people sense the fatal link between the Kremlin and the Chinese Communists. While the Chinese people detest their present Government and long for another, they like even less the prospect of a Soviet-dominated Communist regime and are accordingly unwilling to support it. In discussing the Chinese Communists, General Chu also made the noteworthy observation that, contrary to most Communist fifth-column organizations, the Chinese Communists lack uniformity in the application of their policy to the areas controlled by them. In north Kiangsu, for example, their rule was most despotic and they accordingly alienated the sympathy and support of all classes of the populace. In Shantung, on the contrary, they have pursued a mild and beneficent administration and in consequence receive a good deal of support from the inhabitants. General Chu said he considered that however hard Mao Tse-tung tried to impose uniformity, China was too large and the Chinese (including the Communists) too individualistic to hew to an identic line of conduct.

9. *The Institute of Pacific Relations Conference.* General Chu said that the Chinese delegation recognized that in the discussions on China

at the impending conference there would be many harsh things said about the Chinese Government, particularly by the fellow-travelling American delegation headed by Edward Carter and Owen Lattimore. While the Chinese delegates in discussions among themselves freely criticized the conduct of the Chinese Government, they would rise to a man to defend that Government against the attacks of outsiders. They were prepared for the worst and would in the conference reply item by item to the strictures of China's detractors.

EVERETT F. DRUMRIGHT

893.00/9-647 : Telegram

The Consul General at Changchun (Clubb) to the Secretary of State

CHANGCHUN, September 6, 1947—5 p. m.

[Received September 9—1:54 p. m.]

182. There are indications that Communist "sixth offensive" is about to begin. Offer following estimate of situation (see Consulate's telegrams 179, August 29 and 181, 6th⁶²).

Communists begin again after 2 months' preparation. Probably all losses have been replaced and strength increased. Communists begin drive roughly 150 miles farther south than in May and possess the initiative.

With change of Nationalist leadership in Manchuria just effected, Nationalist command presumably is now imperfectly coordinated. Nationalist strength has been increased since end June by one identified army (number troops arrived unknown), perhaps by other troops as rumored, and by some local recruiting but considering Nationalist losses in fifth campaign they may only have brought strength to approximately that of beginning May. Nationalists are on defensive with weakened communications system and bad officer and troop morale.

It is evident that Nationalists are uncertain where Communist blow will fall but they purport to believe Communists will attack Ssuning south of which Nationalists have strong concentration. It must be assumed, however, that Communists will avoid main points Nationalist concentration at least in beginning stages of campaign except to create diversions in such areas to pin Nationalists down there. If May fighting is standard, this will take little Communist effort. Tentatively suggest that following would be logical sectors of Communist effort: (1) south of Kunchuling, now lightly held, to cut Changchun-Mukden highway and isolate Changchun garrisons; (2) Kirin,

⁶² Neither printed.

where troops are poor, with cutting of Changchun-Kirin railway by pincer movement and subsequent attempt to capture Kirin; (3) Fushun, fall of which would severely reduce Mukden's already meager power and fuel supplies; (4) Peiping railway, by attack from Jehol supported by drive from Liaoyuan with latter Communist force striking in vicinity Sinmin, with secondary operation to cut communications between Mukden and Yingkow. It will be appreciated that although ultimate Communist aim of conquest is a constant factor, strategy is developed flexibly in action and equation contains many unknowns. This paragraph, therefore, is highly speculative and is offered only for possible suggestive value.

Sent Dept; repeated Nanking as 352, Peiping, Dairen. Mukden by mail.

CLUBB

893.00/9-847 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, September 8, 1947—11 a. m.

[Received September 9—3:09 a. m.]

247. Bulk refugees from Communist areas are poor and middle class people of non-working age. Do not fit into Communist program, find slightly better conditions in Nationalist territory, although large numbers educated classes who previously left Communist territory are returning thereto because consider conditions and program in Communist territory better. Source: Educated Chinese in Kaiyuan who has talked to a large number of Harbin and Hsian refugees.

All railroads in Communist territory north of Sungari repaired and in good condition. Rolling stock ample. Railroads being very efficiently run. Little corruption among officials. Communists building railroad from Chengchiatun to Harbin. Source: Former member south Manchurian railway administration who was caught in Harbin, returned to Kaiyuan, disappeared and returned to Harbin. People have great respect for upper level Communists. This includes city magistrates and above. Lesser officials corrupt and intensely disliked by people. Land reform program in Manchurian Communist-held territory completed before Communist fifth offensive. People very satisfied and consequently willingly and enthusiastically joined offensive. Communists believe successful completion of land reform greatly responsible for high morale and success in fifth offensive. Soviets actively propagandizing Communists. Being very clever in their infiltrating tactics so that Communists will not think they are taking over. Making Soviet movies available to all Communist areas.

Soviet published periodicals and papers readily available Communist area north Sungari. Source: Chinese student who visited Harbin and Tsitihar and Harbin and who has returned to Peiping to continue studies.

Sent Nanking as 378; repeated Department as 247 and Changchun as 244.

WARD

893.00/9-847

The Ambassador in China (Stuart) to the Secretary of State

No. 986

NANKING, September 8, 1947.

[Received September 22.]

SIR: I have the honor to report briefly on impressions gathered in Peiping during a visit there primarily for long delayed dental work.

The statement issued by General Wedemeyer upon his departure from China caused the same general reactions as elsewhere: among the officials a sense of disappointment and resentment, while Young China was immensely pleased. Thus the happy anticipations within the Government on receiving the news of his Mission and the anxieties of liberals and anti-Government groups generally were reversed by the severe criticisms of his parting message. This has served to manifest more clearly the wide-spread and deepening dissatisfaction among intellectuals and non-party elements of all classes with the Kmt.

The prevailing attitude of students is, however, quite revealing, especially when they are thought of as a rough register of the trend in public opinion. In both Tsing Hua and Yenching Universities the anti-Communist element is reported as certainly 90% and more probably 95%, and the anti-Kmt-Government proportion as fully 90%. In the University of Peiping, Government sympathizers claim that the percentage opposed to the present administration is much lower. My guess would be that these figures are a fair index of student thinking generally over the country. The obvious conclusion would seem to be that the people—even the more radical and immature—are instinctively against Communism and could easily be won to support a truly reformed National Government. Among the students Chiang Kai-shek, as the symbol of Kmt rule, has lost greatly in esteem. To most of them he is frankly finished.

Another impression is the extent to which Soviet inspired literature is being read by students and the unthinking way with which they accept and quote assertions, about the United States for instance, which are palpably untrue. If we are to undertake a program of

active assistance to China I earnestly hope that it will be accompanied by provision for carefully planned publicity.

Conditions in Communist controlled territory are described to me as follows. The more intelligent country people live not so much in actual discontent or hardship as in fear of what might happen to them at any time. The others accept relative economic security and the regulations imposed on them rather passively. The children are growing up with more or less enthusiasm for the existing regime and are taught to believe all that is evil of the National Government and America. The situation is still somewhat plastic but will become fixed with time. There is general agreement that better local administration with complete assurance that there would be no danger of the certain reprisals if the Communists came back would result in a welcome for the National Government. Economic distress is widely prevalent but there is food for everyone.

There is great satisfaction in North China over the appointment of General Chen Cheng to supreme authority in Manchuria and the dismissal of Hsiung Shih-hui. The purging of army officers and other reforms, as reported in the local press, have made a fine impression.

Marshal Li Tsung-jen⁶⁸ is gaining in public confidence. There seems no reason to credit rumors of his disaffection toward the National Government. Governor Sung Lien-chung complains—as usual—of having insufficient troops under his command to cope with the Communists in Hopei. The Mayor is working diligently to arouse interest in the coming elections and has drafted college professors and others to visit the different precincts of the city and give lectures on the subject. But he is discouraged by the small numbers registering for casting ballots. It is not clear how much of this apathy is due to fear and how much to indifference or ignorance.

Respectfully yours,

J. LEIGHTON STUART

893.00/9-1047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 10, 1947—9 a. m.

[Received September 10—2:25 a. m.]

1886. Following is Hankow's telegram 182 of September 9, 10 a. m.:

“Week-end situation: Nationalists have retaken Huang-han and attacking Macheng, Communists pushing southeast taking Lotien and Lingshan. Any attempt cut Yangtze will be met with large Nationalist forces Kiukiang. Original Hankow push believed feint. Hankow garrison returning to barracks.”

STUART

⁶⁸ Director of Generalissimo Chiang's Headquarters at Peiping.

893.00/9-1047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 10, 1947.

[Received September 10—9:24 a. m.]

1891. Following was published in *North-China Daily News* of September 7, 1947:

“A reliable source said Generalissimo Chiang Kai-shek, in a long message to the plenary session of the San Min Chu I Youth Corps Central Committee yesterday afternoon, levelled the ‘severest criticism’ against corruption and the ‘deteriorating spirit’ of the Government and party.

“This source said Chiang’s message was read to the meeting by Yen Shou-chien, Youth Corps Deputy Secretary-General, and was about 10,000 words—one of the longest the Generalissimo ever made.

“He was unprecedentedly outspoken and frank in his criticisms of shoddy spots in the Kuomintang organization and the Government.

“The source said Chiang listed all ‘what he thought was wrong with the Government.’

“He appealed to Youth Corps members to accept the merger with the Kuomintang so as to achieve unity and strength of spirit and purpose to face the present situation.

“He is reported to have admitted in his message that Communist organization and propaganda are superior to those of the Kuomintang. This source declined to give further details of the speech.

“He said several Youth Corps members speaking at the session attacked the ‘degenerating spirit’ and corruption in the Kuomintang and suggested the merger question should be cautiously reviewed by the meeting.

“He said most Youth Corps members are reluctant to merge with a party ‘so corrupt as the Kuomintang.’”

Sent Department as 1891, September 10.

STUART

893.00/9-1247 : Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 12, 1947.

[Received September 23—8:32 a. m.]

A-180. The Ambassador has been informed by a Chinese with whom he has been acquainted for many years and in whose veracity he has confidence that two regulations affecting the coming elections have come to his knowledge: (1) Any Kmt member who runs independently for election to the Legislative Yuan will be dismissed from the Party; (2) The Provincial Governors, Political Commissioners and Hsien Magistrates are to be held responsible for the election of those names furnished by the party.

On August 15 the Ambassador had suggested to the Generalissimo that Dr. Chen Li-fu be sent abroad for the study of political party methods in democratic countries. The Generalissimo replied that he had been thinking of having him go to Europe but could not spare him now because he needed him for the coming elections. One cannot but speculate as to whether there is a plan to pack the Legislative Yuan with approved Kmt members.

On the other hand it is understandable that since Chinese voters are mostly ignorant and indifferent and all of them without experience, some control from the Kmt would seem desirable to secure continuity in the national government.

STUART

893.00/9-1647: Airgram

The Chargé in the United Kingdom (Hawkins) to the Secretary of State

LONDON, September 16, 1947.

[Received September 23—8:49 a. m.]

A-1933. 1. Reference Embassy's air mail despatch No. 2016, September 4, 1947, on subject of conversation with General Chu Shih-ming on situation in China.

2. In course of informal conversation today, Dr. Tuan Mao-lan, Minister-Counselor of the Chinese Embassy, London, told Embassy officer, that General Chu Shih-ming had left London September 15th by air for New York. According to Tuan, Chu is going to New York for the ostensible purpose of serving as one of China's delegates to the General Assembly meeting of the United Nations. However, his real mission, according to Tuan, is to assist Dr. Wang Shih-chieh, Chinese Foreign Minister, in talks which the latter hopes to have with the Secretary. The purpose of these talks, Tuan said, would be to seek American aid for China.

3. Tuan expressed the personal view that if Wang were successful in obtaining American aid for China, he would remain on as Foreign Minister. If, on the other hand, Wang failed in his quest, Tuan thought that Wang would resign his post as Foreign Minister. In the event that Wang remained on as Foreign Minister after his return to China, Tuan considered that General Chu Shih-ming would be brought into the Foreign Ministry as Vice Minister.

4. It was clear from the conversation that Tuan felt that Chinese hopes for American aid had been dashed by the Wedemeyer statement and that Nanking is now pinning its hopes on the efforts to be made by Wang Shih-chieh in the United States.

HAWKINS

893.00/9-1747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 17, 1947.

[Received September 17—1:33 a. m.]

1940. Following is full text of 6-point measure for unification of organization of Kmt and San Min Chu I Youth Corps, adopted at a plenary meeting of the joint session of the Kmt and Youth Corps on September 12 and published in Central News bulletin datelined September 14: ⁶⁴

“In order to consolidate revolutionary strength and to unify revolutionary leadership, thereby meeting the needs of the present circumstances, it has been decided by the Kmt Central Party Headquarters to unify their organization. Besides unifying the organization of the party and corps offices of various grades in the provinces, municipalities and cities, the principles and practical measures for effecting the unification of which have already been passed and announced by the standing committee of the Kmt CEC, the following measures have been decided upon for the unification of the organization of the Central Headquarters of the Kmt and the Central Headquarters of the Youth Corps and for the strengthening of their organization:

1. The secretaries of the San Min Chu I Youth Corps Headquarters for the present term shall all be made members of the Central Executive Committee of the Kmt, the reserve secretaries of the Corps be made reserve members of the CEC of the Kmt.

The supervisors of the San Min Chu I Youth Corps Headquarters for the present term shall all be made members of the Central Supervisory Committee of the Kmt and the reserve supervisors of the corps be made reserve members of the Central Supervisory Committee of the Kmt.

The foregoing provision, after being passed by the present plenary session of the CEC, shall be submitted to the 7th National Congress of the Kmt for ratification.

2. The number of members of the standing committee of the Central Executive Committee of the Kmt shall be increased from 45 to 55; the number of members of the standing committee of the Central Supervisory Committee of the Kmt from 15 to 19. The selection of candidates for the membership of the two committees shall, upon

⁶⁴ See telegram No. 1939, September 17, from the Ambassador in China, reporting the Kuomintang Central Executive Committee's manifesto of September 13, Department of State, *United States Relations With China*, p. 826. For the Ambassador's comment on the meeting of the fourth plenary session of the Kuomintang Central Executive Committee, in his telegram No. 1970, September 20, 3 p. m., see *ibid.*, p. 828.

the nomination of the Tsung Tsai (Director-General⁶⁵) of the Kmt, be decided upon by the plenary session.

3. In addition to the existing various ministries and commissions under the CEC, a youth ministry shall be created and established, charged with the duty of leading, directing, organizing and training the youths. Organization of the ministry shall be separately provided for.

4. The various ministries of the CEC shall establish various committees to decide on policies and to examine their work. The ministers of the various ministries shall be ex-officio members of the various committees and shall preside at their meetings. Detailed measures shall be separately provided for.

5. The CEC shall establish a committee for research in revolutionary theories, charged with the duty of studying the theories of party principles, platforms and policies. Organization of the committees shall be separately provided for.

6. After the unification of the organization of the Kmt and the Youth Corps, in order to meet the needs of the period of constitutional government and to effect improvements in the organization of the party, the standing committee of the CEC shall designate a number of persons to form a committee to study and map out concrete measures, to be submitted to the 7th National Congress of the Kmt for consideration.

STUART

893.01/9-1847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 18, 1947—3 p. m.
[Received September 18—10:24 a. m.]

1955. Govt has announced appointment of T. V. Soong as Governor [of] Kwangtung Province. Nomination for post was by Gimo. Soong aware there was strong and determined CC clique opposition to appointment but that this will not deter him from assuming office.

Lo Cho-ying, present Governor, has been dismissed from office. Chang Fa-kwei will remain in Southeast but it is still not clear whether he will continue as commander Gimo's South China headquarters or assume office as Governor of projected new province Hainan Island. In latter event Soong may also assume charge Gimo's South China Headquarters.

⁶⁵ Generalissimo Chiang Kai-shek.

Dept will note that this is first appointment civilian Governor Kwangtung Province in modern times.

Repeated Canton 15. Canton please comment.

STUART

893.00/10-347

Office of Intelligence Research Report No. 4517⁶⁷

[WASHINGTON,] September 18, 1947.

THE STRATEGIC IMPORTANCE OF CHINA PROPER AND MANCHURIA TO THE
SECURITY OF THE U. S.

SUMMARY

A full evaluation of China's actual or potential significance to American strategic interests must necessarily include point-by-point comparisons between China and other areas of the world. As a preliminary to this process, the factors contributing to strategic importance can be evaluated for China considered in semi-isolation. This preliminary analysis permits tentative conclusions but leaves unanswered the question of China's relative place among the powers.

As a prospective military ally of the US in a war with the USSR, China offers both advantages and liabilities. Given an effective government and the menace of aggression, China might achieve sufficient unity to become a useful asset to the US. China's influence in Asia is of importance as a factor that might retard the growth of Communism in other Far Eastern areas. As the source of a few industrial raw materials, China can make some contribution to American economic strength. In purely military terms, China could provide bases and perhaps manpower for use against the USSR.

To be weighed against these considerations is the fact that an alliance with China must necessarily place upon the US the responsibility for providing economic and military assistance, first to obtain some measure of stability within China and later to develop China's economic and military resources for use in modern warfare.

The present unstable situation in China, viewed in the light of US-USSR tensions throughout the world, constitutes a source of international friction and is therefore a potential danger to the security interests of the US. A reasonably unified, non-Communist China,

⁶⁷ Forwarded on October 3 to the Director of the Office of Far Eastern Affairs (Butterworth) by the Chief of the Division of Research for Far East (Stelle), with the comment that it "was prepared as a contribution to a Central Intelligence Agency roundup of materials on the question of China's strategic significance, viewed in the context of a possible conflict between the US and the USSR."

on the other hand, would probably serve to further American security interests; the emergence of such a state, moreover, would be damaging to the prestige of the USSR throughout the world.

It may be assumed that a Communist China would be closely aligned, politically, economically, and militarily, with the USSR. This situation would give the Soviet Union assured access to the food and raw material resources of North China and Manchuria and to naval and air bases in China; Chinese manpower reserves would probably be of only minor significance to the USSR. The development of a Chinese Communist state would tend to enhance the power of the Communist political movement in Asia and thereby contribute to the extension of Soviet influence in the world. If these prospective gains were to be exploited in full, however, the USSR would find it necessary to allocate from its scarce domestic resources capital equipment and possibly consumers' goods for the rehabilitation and development of the Chinese economy.

The probable cost to the US of securing China proper (excluding Manchuria) for the National Government can be estimated only within wide ranges. On the assumption that a minimum of internal economic stability is needed to maintain the National Government's military-political position, it is estimated that American non-military grants or credits totaling roughly US \$2 billion would be required for the three-year period 1948-50. In order to have reasonable assurance of a Nationalist military victory over the Communists in China proper within the three years, it would be necessary for the US to provide military support in the form of equipment and continuing weapon and ammunition supplies for thirty Nationalist divisions. If the problem is viewed as one of restoring to Nationalist control all of China proper plus the Manchurian provinces, these estimates must be increased, perhaps by as much as 100 percent.

[Here follows detailed report.]

893.00/9-2047 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, September 20, 1947—11 a. m.

[Received September 22—8:20 a. m.]

273. Chen Cheng energetically preparing Nationalists for anticipated Communist sixth offensive.

Morale of northeasterners and military definitely strengthened by indications Nationalists no longer considering withdrawal from Manchuria, as was currently rumored last stages Communist fifth offensive. Chen already has established reputation as being unequivocally op-

posed to corruption among army and public officials. Several high ranking military officers have been arrested for corruption and rumors being circulated they will be executed. Rumor prevalent Chen Ming-jen recently promoted rank Lt. General and hailed as hero of Ssuping will be court-martialed by Chen Cheng for corruption. Chen definitely interested in civilian welfare and personally visits markets observing conditions and practices of military personnel dealing merchant. All these acts raising morale. Chen has pushed repair of Changchun-Mukden rail line. Barring unforeseen events or Communist activity, traffic between Mukden and Changchun should be reestablished by October 7. Confidential source within PNEH⁶⁸ states four armies totaling approximately 120,000 men being sent to northeast. Bulk of one army has already arrived. Nationalists feel that if not pressed too hard during next month and half, they will be able start own offensive, but this seems unduly optimistic.

Communists concealing future intentions well. Nationalists still uncertain where main attack will center. Communist troop concentrations indicate Nationalists could expect main efforts against Kirin and Ssuping kai and possibly a third main effort in the Hulutao-Chinchow area, should the Communists be able to supply three simultaneous drives. Probable date opening Communist offensive still uncertain. Muddy roads may have been holding up drive to date. Communists also may be waiting until Nationalists have expended equipment in repairing rail lines because they undoubtedly realize that if they effectively destroy rail line this offensive Nationalists will experience great difficulty in again restoring it.

If Communists receiving instructions from Moscow as to strategy, may also be desirous drawing Nationalist troops into Manchuria from intramural China, to relieve Nationalist pressure there. Might do this if think Manchurian Communists capable handling increased number of Nationalists.

Little hope seen for Nationalists before Chen Cheng's arrival. His arrival coupled with energetic positive action his part plus reinforcements lend Nationalists hope. Northeastern spokesman skeptical Chen's initial momentum will continue and adopting "wait and see" attitude toward him. Readily admit he is moving in right direction, but think it too early to make definite decision re permanency his reform. Many people think job too big for Chen and that soon he will become bogged down in maze of detail work and major issues which he now personally handles will again fall into hands of subordinates who will abuse power. In any event his holding and possibly expanding of present Nationalist controlled northeast will prove extremely

⁶⁸ Generalissimo Chiang's Northeast Headquarters.

difficult task for reason such area consists of vulnerable corridor extending from Great Wall to Sungari River.

Sent Nanking as 405, repeated Department as 273, sent Changchun by mail as 261.

WARD

893.00/9-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 20, 1947—noon.
[Received September 20—10:30 a. m.]

1967. Political, military and economic position of Central Government has continued to deteriorate within recent months in accordance with previous expectations (reEmbtel 1180, May 29). Currently the cumulative effect of the absence of substantial, financial and military assistance expected from the Wedemeyer Mission and renewed Communist military activity are intensifying the Chinese tendency to panic in times of crisis.

Department will have noted renewal of Chinese efforts to obtain favorable action on ammunition supplies (reEmbtel 1902, September 11 and Embtel 1916, September 12⁶⁹) and despite Embassy's statements that ammunition question is one for decision in [Washington], constant inquiries are received with regard to action taken. More recently there has emanated a series of thinly-veiled suggestions from senior officials of the Government obviously intended to convince the Embassy that if aid is not soon forthcoming from the US, it may become necessary for China to seek assistance from the Soviet Union. It has even been suggested to the Ambassador that the Soviet Ambassador to China, whose return is expected shortly, might be asked to mediate in the Civil War and that he would be glad to accept.

Although the Embassy does not overlook the remote possibility of a Sino-Soviet *rapprochement* and is following the situation closely, it considers that such talk is primarily for effect on the US and secondarily reflects a feeling of desperation among Chinese leaders. Department will realize that under present circumstances, and prior to any action as a result of General Wedemeyer's report and recommendation, a Chinese paper flirtation with the Soviet Union by the Vice-President and President of the Executive Yuan⁷⁰ is a maneuver reminiscent of similar Chinese tactics in the past, of Dr. Sun Fo's letter to *New York Times* in January 1942. An added element in the overall situation, of course, is the increasing Chinese fear that the

⁶⁹ *Post*, pp. 887 and 888, respectively.

⁷⁰ Wang Yun-wu and Gen. Chang Chun, respectively.

US is tending more and more to shift center of gravity of its Far Eastern policy from China to Japan.

At the moment the most serious concern of the Government is the sweeping large-scale raid of Liu Po-cheng into Anhwei and southern Honan which commenced about August 12 (reEmbtel 1823, August 28¹¹) and has been increasing in momentum since that time. There is much speculation with regard to Liu's ultimate objective which is variously interpreted to be the crossing of the Yangtze River at some point between Wuhu and Hankow and advancing southward to establish Communist bases in Fukien or Kwangtung, or even to make connection with the Communist-led forces of Ho Chi-minh in Indochina. It is more likely [that Liu has] no more concrete objective in view than to harass a wide area, further embarrass the Government and cause it to withdraw troops from critical areas in pursuit.

Three divisions have already been withdrawn from southwestern Shantung and despatched in pursuit of Liu. Concurrently Yeh Chien-ying, alleged by Government to have been contained in Shantung in Yellow River delta area, has moved his troops southeastward and crossed the Yellow River in the vicinity of Tungo, with a force of approximately 40,000 men. The possibility suggested in Embtel 1823 of August 28 appears now to have become fact and recent Government optimism with regard Shantung has been proved largely unwarranted.

In Manchuria the military situation remains quiescent. Arrival of Ch'en Ch'eng and military reforms inaugurated by him have had excellent effect upon overall military and civil morale. However, sixth Communist offensive Manchuria is imminent and seems to be waiting only upon further drying of roads which has been delayed this season by unusually heavy rains. It is doubtful that changes made by Ch'en Ch'eng will be in sufficient time to counteract serious decay which set in under Hsiung Shih-hui and Tu Li-ming regime. Furthermore, as pointed out in Embtel 1760, August 20, it is likely that on-coming Communist offensive will be coordinated with Communist military activity North China to preclude the despatch of adequate replacements or reinforcements outside the Wall. Current activities of Liu Po-cheng in Central China and Yeh Chien-ying in Shantung now tend to confirm this belief. Communist radio broadcasts state that offensive to "liberate" China north of the Yangtze has been launched, but it is unlikely that Communists will be successful in attaining this objective within foreseeable future. Their maneuvers, however, will undoubtedly further shake the economic and political structure of the Central Government throughout China but critically so in the north.

¹¹ Not printed.

Most disheartening features of present Chinese situation in economic as in other spheres are overt reliance on *deus ex machina* of American aid to extricate China from its pressing problems and corresponding lack of self-reliance and self-help in tackling them. While introduction of "official" open market rate of exchange on August 17 marked a welcome departure in this respect,⁷² toying with premature and ill-considered project for introduction of silver coinage, expectation that China's balance of payments deficit will be partly covered in some form or other by the US, and continued passivity in face of mounting hyper-inflation clearly reflect dominant trend of dependence on outside assistance. While there is a *prima facie* case for foreign aid, for instance, to cover part of balance of payments deficit, it would be immeasurably strengthened if there were signs of a concerned and aggressive policy on part of Government.

Too early to judge what impact of establishment of "official" open market rate of exchange on China's balance of payments will be, as much depends on whether political pressures will counteract influence of foreign advisers who rightly wish to hug black market rate for US currency. Nevertheless, its establishment is a healthy if belated step in right direction. Central Bank had been losing foreign exchange at rate of \$30 million a month, \$20 million for financing gap between commercial imports and receipts from exports, et cetera, and \$10 million for Government imports and expenditures abroad. In its first month of operations Exchange Equalization Committee's receipts have slightly more than covered outgo on commercial imports, but unless this trend can be maintained, China's existing foreign exchange assets of \$260 million, including 45 million ounces of silver, barely sufficient to last another 9 months.

News of appointment of Wedemeyer Mission and its presence in China rekindled hope of American aid and thus functioned as a temporary curb on rising prices in July and August. But since beginning of September, Shanghai wholesale prices have risen over 20 percent and price of rice by over one-third, in spite of fact that summer crops currently being harvested give indication of being at least tolerably fair. Since Embtel 1180 of May 29, they have increased over 85 percent and 50 percent respectively.

Note circulation at the end of August CN \$13.7 trillion or 64 percent more than at end of May and 270 percent more than at beginning of year. Thus higher rate of increase of note issue in first 5 months of 1947 has been maintained. Budgetary deficit and expansion of note issue since beginning of year almost identical. Budgetary receipts continue to remain at below 40 percent of expenditures of \$16.5

⁷² For correspondence on this subject, see pp. 1030 ff.

trillion in January–August and it is to be feared that rising prices and current military situation will lead to a further deterioration in this respect.

Overall outlook continues to be one of steady deterioration of Government position and creeping paralysis of administration. Central Government now in position of an extremely sick man whose will to live begins to show signs of weakening.

STUART

893.00/9-2547 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, September 25, 1947—noon.

[Received September 27—10:47 a. m.]

280. Two reasons for Chen Cheng coming northeast. First, to suppress Communists. Second, to suppress mounting momentum of northeastern Mobilization Commission movement calling for “north for northeasterners”. Source thinks second reason most important factor Chen’s assignment Generalissimo worried about reports received growing demand among northeasterners for return Marshal Chang Hsueh-liang. Several generals who displayed sympathy to northeastern people’s movement already sent out of northeast by Chen.

One of the first actions taken by Chen upon arrival in northeast was proscription military units not approved by Nationalist Government, and prohibition recruiting of troops without Nationalist approval. Believe no military force not strictly controlled and of unquestioned loyalty to Generalissimo and his followers will be allowed exist in northeast. Believed General Ma Chan-shan will never be given troops to command. Group of northeasterners who have organized into unit called “Northeast Mobilization Commission”, led by Wang Wa-yi, member People’s Political Council, being closely watched by Chen. Organization too powerful to be overtly opposed by Chen. This group offered mobilize northeasterners into semi-national guard unit to fight Communists. Nationalist Government fearful this organization backed by military forces will become too powerful and force Nationalists accede demands of northeasterners. Therefore offer refused and Chen will make certain they have no military power. Organization also being fought by Nationalists who have appointed key organization members to Government jobs and then insisted appointee resign from organization. Wang offered important job by Chen on direct order of Generalissimo and refused job because knew acceptance would force resignation from commissioner.

Chen's attitude towards this organization, which obviously reflects Nanking attitude, exceedingly important at present time.

Rumored Chen will be relieved position chief [of] staff, Ministry National Defense, to allow him devote entire attention to northeast. Common feeling once this done he will be on his own and will no longer receive support in way of reinforcements and equipment now getting.

Elements within Whampoa military clique also starting covert movement against Chen. Movement led by Tu Yu-ming and Hsiung Shi-hui. Chen also stated disliked by Chang Chun. Consolidation NECC and PNEH engineered by Chen. Reported not to have been ordered by Generalissimo until pressure to do so brought on him by Chen. Chen, not wishing antagonize military clique, who wanted to retain military predominance in northeast government structure, effected consolidation before coming to northeast by insisting Hsiung institute move. Move sought [*fought?*] by Tu through Cheng Tung-kuo who replaced Tu as acting head of NECC. Whampoa clique desire military establishment in northeast independent of political establishment. This clique has found merger not Hsiung's idea and are beginning put undercover pressure on Chen.

Ability Government defend northeast successfully questionable. Government will need fullest cooperation northeastern people and Nationalists in other areas to hold northeast. Points brought out are first indication this cooperation may not be forthcoming. Believe this last chance Nationalists may have convince those northeasterners who have not already gone over to Communists that Government intention toward northeast beneficial.

If Nationalists continue present tactics they may experience northeastern internal as well as Communist external opposition.

Sources re foregoing: Wang Wa-yi, a military attaché, and editor leading Kmt paper northeast.

Our opinion is that only hope Nationalists have holding northeast is to win northeasterners to their active support or at least not alienate them. This can only be done by cleaning up Nationalist corruption and by showing northeasterners that Nationalists have their interests at heart. Mobilization manpower for military purposes serious problem in northeast. Conscription here has not been successful. Northeasterners not believed willing fight wholeheartedly for southern Nationalists, but believed they would fight willingly for northeast and northeastern leaders. Chen's actions have already practically precluded immediate military cooperation by northeasterners.

Sent Nanking as 411, repeated Department as 280.

893.00/9-2747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 27, 1947—11 a. m.

[Received September 27—10:14 a. m.]

1994. Following is Shanghai's 1587 of September 21.

"Two separate good sources (Chinese banker and head of Texaco China quoting statements just made to him by 'top-ranking Chinese business leaders') told us yesterday that T. V. Soong, finding CC Clique too strong to oppose and Political Science group too weakened to be worth bargaining with, has come to definite terms with CC and joined forces with them against Political Science. Second source named 'subsources' as further stating as unquestioned fact that Soong had hoped to handle all 'negotiations' with General Wedemeyer and had Gimo's approval therefor; and that Soong's move to CC is definitely related to his failure to persuade Wedemeyer to deal with him on such basis. According to both sources, Soong's recent gift of [shares] to Kmt cause and appointment as governor Kwangtung are part of bargain with CC and one informant said a way would be found to give Soong military strength without which his governorship would be meaningless. Recent editorials in local papers controlled by H. H. Kung⁷³ lavishly praising Soong's public spirit and patriotic conduct business affairs (sample summarized in Contel 1578, September 17; repeated Department 2277⁷⁴) seem clear evidence of Kung-Soong *rapprochement* which presumably involves Kung's association with bargain reached between Soong and CC.

According to statements made to us by several Chinese, prominent in intellectual anti-Kmt circles, Government's current anti-American show was decided upon at least 2 weeks ago at insistence of rightist elements, especially CC which finds such move timely and effective for weakening Political Science. . . .

We have impressive evidence here of extent to which CC has been increasing its power, spreading its political and economic tentacles and dominating, with help of other reactionary elements, Kmt's unscrupulous and ruthless election preparations to ensure that electees comprise only elite party supporters plus such few political beggars as it may seem expedient to accept as window dressing. Will report further on this."

Embassy comments on foregoing message follow.⁷⁵

STUART

⁷³ Former Chinese Minister of Finance, brother-in-law of T. V. Soong.

⁷⁴ Not printed.

⁷⁵ See telegram No. 2020, October 2, 8 p. m., from the Ambassador in China, p. 300.

893.00/9-2947

The Ambassador in China (Stuart) to the Secretary of State

No. 1026

NANKING, September 29, 1947.

[Received October 7.]

SIR: I have the honor to report on various recent developments, more in an attempt to interpret their significance than as items of news.

Kuomintang.

Dr. Chen Li-fu and his associates had been losing influence until the recent meeting of the C. E. C. when, by cleverly capitalizing the mood of indignation caused by General Wedemeyer's statements and the anxieties as to the over-all outlook which these high-lighted, they had an apparently sweeping return to power. But after the adjournment of the formal sessions the internal struggle has continued between the C. C. Clique and its opponents and President Chiang has been actively working out a solution which would avoid either the complete domination of that Clique or any violent disruption. Dr. Chen tried hard to succeed Wu T'ieh Ch'eng as Secretary-General but the settlement now reached is that General Wu will stay in office with two assistants, Wang Ch-i-chiang and Cheng Yen-feng, both of them of the more progressive and democratic type, not allied with any of the inner factions. They were both European trained, the latter having served at one time as a Secretary of the League of Nations.

Another C. C. member, Ku Cheng-kang, Minister of Social Welfare, was to have taken Chen Li-fu's present position, but that has been thwarted and a decision should be reached today. But a sub-division in the Party Board of Organization has been formed (Chen Li-fu not participating) known as the "Youth Bureau", with Professor Ch'en Hsueh-p'ing in charge. He has been for years on the faculty of the University of Peiping, a close associate of President Hu Shih and one of its outstanding liberal leaders of thought. He presented an outline of policy to President Chiang which was approved. This stresses two features in the control of students: (1) they should concentrate on their studies rather than concern themselves with political agitation; (2) the Kmt members among them should try to "serve" their impecunious fellow students.

Reforms.

There is not much evidence yet of success in dealing with graft, which is becoming more prevalent in the worsening economic situation. But President Chiang is at least trying to tackle the problem. The Control Yuan has been given considerably more authority with instructions to exercise it in this matter. One hears constantly of

those who have been brought to trial. An instance, which is a somewhat acid test for any Chinese official, is the son of an old and honored friend of President Chiang, now at the head of the Postal Administration but charged with flagrant peculation, whom President Chiang ordered to be punished according to law regardless of all other considerations.

The powers of the local police are being enlarged as part of the plan for eliminating or at least restricting the activities of military police and secret service men.

Pro-Russian tendencies.

The recent statement by Dr. Sun Fo is declared by others in the Government to be a characteristic instance of his expression of personal views. But they also point out that it should not be ignored in view of the group around him, including such well-known liberals as Shao Li-tze. These men are advocating Russian help in persuading the Chinese Communists to cease fighting and to withdraw into Manchuria which would become semi-autonomous. Economic difficulties could be largely relieved by substituting a system of barter for foreign exchange. This group have been working hard to win the C. C. Clique to their point of view and their lack of success has been chiefly due perhaps to the attitude of President Chiang. One of the very few Chinese who dares to talk frankly to him, pointed out that this solution would result in his becoming virtually a puppet, and that he would not fit easily into such a role.

Message from Gen. Wedemeyer through Gen. Ho Ying-ch'in.

Madame Chiang sent me word that such a message had been received and that the Gimo was quite incensed over it. It was to the effect that General Wedemeyer hoped the Chinese Government leaders would understand his own reasons for making the criticisms he had, and that if they failed to do so it would be more difficult for him to make recommendations beneficial to China. Having asked that I be told of this, she decided later that it would be better for me not to be told on the ground that this might aggravate the already strained relationships. The Gimo took this message to be a threat or a form of "blackmail". Were the issues not so extremely grave there would be something ludicrous about the way in which this ugly word is being used by both Americans and Chinese as descriptive of the others' tactics. Knowing Gen. Wedemeyer as I have now been able to I can understand his intentions in a wholly different light and in keeping with his friendly feeling for China and his constructive purpose. It is also entirely possible that in the use of two linguistic mediums, with telegraphic coding and psychological factors, such misapprehensions could easily result. I have debated whether to narrate this incident

or not but have done so on the principle that the best procedure is full and frank reporting of all that has to do with Chinese-American issues.

This episode would be unimportant—or would never have happened—were it not for the tension under which the responsible leaders of the Government are almost desperately trying to find a solution for their mounting problems. They have been waiting so long for American assistance while their need of it is becoming steadily more acute that those who are regarded as having made concessions to placate us are being taunted with failure and other possible remedies are being advocated. This helps to explain why some of the best among them have been saying petulant things, while others either try to frighten us with the Russian bogey or short-sightedly but seriously toy with the idea. These ill-considered comments cause unfavorable reactions in the United States some of which are published here and arouse further misunderstanding. Meanwhile the suffering people of the country, who will in the end determine its destiny, are utterly helpless.

There are not a few hard-working, public spirited progressives in the Government who share our dissatisfaction with it and who earnestly desire for their country all that we have expressed as our hope for China. But their difficulties are very real. Just to mention one of many, the members of the two minority parties brought in to broaden the basis of the Government are showing themselves to be even more rapacious for office and its perquisites than many of the Kmt, with no improvement in administrative efficiency. These progressives and their many sympathizers outside would be immensely heartened by some indication of our intention to assist them and would, in my opinion, be the nucleus through which we can go a long way toward realizing our aims for China and for a stable peace in this part of the world. But they do not see much hope without such aid from us and any authoritative indication of our policy would be very reassuring.

Respectfully yours,

J. LEIGHTON STUART

893.91/9-3047 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, September 30, 1947—1 p. m.

[Received September 29—11:46 p. m.]

2316. USIS ⁷⁶ Chinese news editor states that Tso Shi-sen, Vice Minister of Information for the Kuomintang, instructed Kuomin-

⁷⁶ United States Information Service.

tang-controlled newspapers in Shanghai not to publish any criticism which American officials or the American press levelled against Soviet Union unless absolutely necessary, in which case news should be played down using only short items under inconspicuous headlines. Instruction was sent to all Kuomintang publishers and editors.

Sent Nanking 1624; repeated Department 2316.

DAVIS

893.00/9-3047 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, September 30, 1947—5 p. m.

[Received October 1—12:30 a. m.]

293. Communist attack Chinhsi area appears turning into major offensive. My telegram 413, September 26; 284 to Department⁷⁷. Communists apparently found weak [spot] this area and have been pushing advantage. Early morning September 29, Communists attacked Mukden—Peiping rail lines between Hsingcheng and Suichung (40.30—120.30). Four bridges at Psimisotze and Wanghaitien destroyed. Considerable time required repair bridges but estimate unknown Consulate General. This is first time in over one [apparent omission] Communists have damaged main line Peiping—Liaoning railway north Great Wall, and the first time since V—J Day any major damage has been done thereat. Communists have massed troops in Hsingcheng area and Nationalists expect attack on this city. Capture of Hsingcheng by Communists would mean effective cutting land communications Manchuria and intramural China and would jeopardize position Hulutao and depreciate Chinwangtao to Manchuria. Vulnerability of Yingkow to Communist attack pointed out, my despatch No. 45, August 26,⁷⁸ plus statement made to AMilAt⁷⁹ by Yingkow military authorities recently that they will not be able hold Yingkow should Communists attack, make possibilities present serious threat Nationalist position Manchuria.

Sent Nanking 419; repeated Department 292 [293] and Changchun as 274.

WARD

⁷⁷ Not printed; it reported Communist attacks in southwest Manchuria where two divisions of Chinese 49th Army from intramural China were reported destroyed or captured by Communists (893.00/9-2647).

⁷⁸ Not printed; it surveyed technical improvements needed to make Yingkow capable of receiving American material aid for Manchuria (893.1561/8-2647).

⁷⁹ American Military Attaché.

711.93/9-3047

*Memorandum Prepared in the Department of State*⁸⁰

MEMORANDUM FOR THE PRESIDENT

Subject: Dr. Wang Shih-chieh, Chinese Minister for Foreign Affairs

Dr. Wang was educated in England and France, is an authority on comparative law and has been active in academic circles in China, both as university professor and president and as Minister of Education. Pro-western in his outlook, he represents the best type of modern progressive Chinese in the Government and, on some occasions, he has been able to influence the Generalissimo.

If Dr. Wang does not confine his visit to a call of courtesy, he is likely to touch on the subject presently of most concern to the Chinese Government, which is described in the following paragraph.

The Chinese fear that United States preoccupation with western Europe is resulting in neglect of China's urgent need for American aid and they are seriously concerned lest the United States not extend to them substantial financial, economic and military assistance. They feel that the U. S. has a moral obligation to assist them: partly because of the American role at Yalta, which led to the Sino-Soviet Treaty of 1945 granting certain rights in Manchuria to the USSR, and partly because they regard their situation as similar to that of Greece and Turkey.⁸¹ They, of course, minimize their own inability to take sufficiently effective steps to carry out urgently required political, economic and military reforms which would strengthen their hand against the Communists and which are ultimately essential to the continued existence of their Government.

If Dr. Wang should introduce the foregoing subject, it is suggested that he be informed that the United States does have a definite traditional interest in China and that China is not being overlooked by the United States in its consideration of the problems of economic recovery and rehabilitation throughout the world.

711.93/10-247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 2, 1947—7 p. m.

[Received 10:16 p. m.]

2018. I called on Gimo evening September 28 for informal talk. I mentioned that a variety of rumors were rife with regard to relations

⁸⁰ Drafted on September 30 by Philip D. Sprouse, of the Division of Chinese Affairs, and handed by the Director of the Office of Far Eastern Affairs (Butterworth) to the Under Secretary of State (Lovett) for President Truman.

⁸¹ See Department of State *Bulletin*, Supplement, Aid to Greece and Turkey, May 4, 1947, p. 827.

our two countries. Gimo voiced emphatic assurance that the friendly relationship between China and the US was too long-standing to be affected by any seeming conflicts of interest. He then remarked that his own policy was inflexibly clear and firm. In view of reports reaching me of strong pressure upon him from Kmt groups to shift from America to a more pro-Russian course his introduction of this comment seemed to me quite significant.

I questioned him as to the real reasons for the Chinese stand regarding the Jap peace treaty and he replied without any apparent hesitation. He explained that in view of all the devastation the Chinese people had suffered from the war they ought to be adequately protected and compensated in the terms of the treaty, and added that the Foreign Minister had been instructed to discuss the problem in all its aspects with you in an effort to find a solution acceptable to both nations.

He continued in a more personal vein to the following effect: He felt the responsibility to his people of averting the dangers to China of a treaty in which the Soviet Union was not a signatory, all the more so because of China's present weakness; it was almost an issue of China's survival, to say nothing of the stability of the Pacific area; if the Soviet Union violated the agreement his own Government would at least have done its best for its people and would have a case to present to the UN. He then referred to India with its huge population and the importance of having both China and India develop according to their natural tendencies and that for reasons such as these it seemed to him America should be no less concerned about Asia than Europe.

STUART

893.00/10-247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 2, 1947—8 p. m.

[Received October 3—8:32 a. m.]

2020. There have been many reports from diverse but fairly reliable sources that T. V. Soong and the CC clique have entered a temporary *rapprochement* and that the governorship of Kwangtung, the calling off of the press and other attacks on Soong, and his recent substantial gift to the party were among the items in the bargain. Although T. V. himself denies having entered into an understanding with CC clique, it must be pointed out that as elsewhere the CC clique dominates the party machinery in Kwangtung and without some assurance of its non-opposition both on a national and provincial scale it is doubtful whether T. V. would have accepted the governorship. (Ref-Embtel 1194 [1994], September 27, 11 a. m.).

Embassy considers that it is Government's objective to stabilize its bases in south China at a time when it is weakening in north China and when separatist tendencies in Kwangtung and Kwangsi might gather impetus. It is very likely T. V.'s objective to stage a comeback on the political scene by acquiring a reputation as a model governor. At the same time he avoids being connected with the Nanking operations of the Central Govt in a situation where any responsible official in Nanking will find it hard to avoid loss of prestige.

Embassy concurs with Shanghai's statement that CC clique is increasing its power—not only in Nanking but consolidating its over-all position through control of the party machinery throughout the country.

STUART

893.00/10-247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 2, 1947—9 p. m.

[Received October 3—3:28 a. m.]

2021. Following is Shanghai's 1619 of September 30:

"In conversation with officer of Consulate General September 27, Lai Lien, member of standing committee of Kmt CEC and one of most active CC politicians, stated:

1. T. V. Soong did not want Kwangtung governorship but was persuaded by Generalissimo to accept. (Other sources here state national situation is so serious for Generalissimo that he needs Soong's prestige and ability to hold and prepare south China as base for possible last stand of Government.) Lai seemed to confirm by implication recent reaching of Soong-CC understanding as he made remarks indicating that Soong had finally gotten over his political snobbishness and shown willingness 'to play ball with the gang'.

2. Soong now in Shanghai will leave for Canton soon for preliminary 2 weeks' survey of situation needs, following which he will return north before permanently taking over position. (In this connection T. K. Ho, local Soong man, formerly Deputy Mayor Shanghai, tells us he is proceeding Canton soon in response invitation from Soong.)

3. Principle of substituting civilian for military administrators was also factor in Soong's appointment. Appointment may soon be expected of new civilian governors for provinces south of Yangtze beginning with Fukien, Kiangsu, Chekiang, Hunan, and also for Hupeh.

4. No agreement with Young China and Democratic Social parties regarding their requests for election quotas has yet been reached.

Evidencing an impatience believed to reflect typical CC contempt for small parties, Lai said the two parties to conceal their weakness were refusing divulge their membership numbers.

5. Rumors that Chu Chia-hua will leave his Education Minister-ship are probably true 'as he has been a failure'. Repeated remarks and questions by Lai revealed clearly smouldering resentment against what he feels is misinformation given American public to make them regard Central Government as hopelessly corrupt and Communists as agrarian reformers rather than real Communists; also against what he pictures as 'anti-China' group headed by Gauss⁸² and Vincent."⁸³

STUART

VI. RENEWED COMMUNIST OFFENSIVE IN MANCHURIA; GOVERNMENT'S MEASURES AGAINST THE DEMOCRATIC LEAGUE; CRITICAL POSITION OF GOVERNMENT FORCES (OCTOBER 2-DECEMBER 31)

893.00/10-247 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, October 2, 1947—5 p. m.

[Received October 3—8:08 a. m.]

295. Communists starting intense offensive. Have consolidated positions on railroads between Hsingcheng and point 20 kilos Ne Shan-haikwan. Control entire rail line except small portion immediate vicinity Suichung (mytel 421, September 30⁸⁴). Early morning October 1 Communists destroyed 3 spans on each of 2 rail bridges at Hsinmin on Peiping-Liaoning railroad 60 kilos west of Mukden. Nationalists considering withdrawing crack troops from Chinchow area to reinforce garrison Hsinmin.

Mongolian cavalry troops moving east attacked and surrounded Faku (42.30-123.30) October 1. These forces moving east towards Kaiyuan. Other Communist forces in Hsifeng (42.45-124.55) moving west towards Kaiyuan. Bulk Nationalist forces Ssuping being held there because Nationalists believe Communist move towards Kaiyuan merely feint and real attack will be launched at Ssuping. Unconfirmed reports indicate Communists have cut rail line between Ssuping and Kaiyuan. Other unconfirmed reports indicate Communists attacking points on rail line between Changchun and Ssuping.

Communists cut Mukden-Yingkow railway at Haicheng October 1.

Sent Nanking 425, repeated Department as 295, Tientsin as 94, Changchun by mail as 282.

WARD

⁸² Former Ambassador Clarence E. Gauss.

⁸³ John Carter Vincent, former Director of the Office of Far Eastern Affairs.

⁸⁴ Not printed.

893.00/10-1747

*Memorandum by Mr. Josiah W. Bennett, Assistant Public Affairs Officer in the Embassy in China*⁸⁵

[NANKING,] October 2, 1947.

The following account of the political attitudes of students at Nanking University, Christian college in Nanking, is based on the observations of an American student who has been in attendance at the university during the past year, supplemented by my own conversations and experiences with Chinese students in Nanking.

A majority of the students at Nanking University are of liberal views. But they are not liberals in the American sense, and liberalism does not have the positive content for them that it does in America. For them it means, above all, opposition to the present Chinese Government and all its works. The students lavish so much emotion on the question of removing the present regime from power that they have no clear idea of what sort of government should replace it.

Antipathy to the present regime stems from many causes. Students resent the fact that the government, while slighting the universities financially, is only too ready to interfere with what they consider purely academic affairs. They are inflamed by the disbanding of demonstrations, the dropping of politically active students and professors, and the activities of the Kuomintang Youth Corps in their midst. They compare the small sums which are granted for educational work with the vast amounts diverted to corrupt ends. And their emotions are especially excited by the continued expenditure of money and blood on what they consider a criminal civil war.

These student "liberals" are in reality ardently nationalistic. Much of their dissatisfaction with the government seems to result from a feeling that the Government is not upholding the prestige and dignity of China; and they are especially critical of what they consider to be the Government's supine policy toward the United States and Russia.

In a real sense the present student movement is a revolt of the younger generation against their fathers. Many of the students at Nanking are from influential and official families. They seem possessed of the belief that they are being cheated of their birthright by the bungling stupidity of their elders.

There is an active Communist "cell" in the student body at the university which assumes leadership of most student political activities. This group surreptitiously studies the works of Marx, Lenin, Stalin, and Mao Tse-tung and are thoroughgoing Communists in

⁸⁵ Copy transmitted to the Department by the Ambassador in China in his despatch No. 1055, October 17; received October 27.

their beliefs. Small in members, its influence is great, because it is able to unite with it all those sharing their hatred of the Kuomintang regime. Most of the student liberals are quite uncritical of the Communist regime, of which they have no experience, and frankly admire the Communists for their success in opposing the Government. Thus they have come to identify the Communist cause with their own, although, paradoxically, most of them would deny that they desire a Communist government in China.

There is then an almost complete lack of comprehension of the implications of a Communist victory. Many of the students profess to believe that the Communists are an indigenous Chinese political movement with no outside connections. Many also state that the Communists, even though they should defeat the Government militarily, would be incapable of governing the country and that liberals like themselves would be able to leap into the ensuing vacuum and seize control of the country. The opinion is quite commonly expressed on the campus that the struggle is a good thing because from it will emerge a government, neither Kuomintang nor Communist, which will be preferable to either of the two alternatives.

The students are exceedingly provincial in their political outlook. There is little understanding of the broad international issues involved, of the present world-wide struggle between Communism and democracy. In their eyes, the iniquities of the present regime in China eclipse all other considerations. Whatever tends to prolong the existence of that regime is bad; whatever tends to hasten its collapse, good. Thus American aid is bad; Communism good; and world issues which have no immediate bearing on the situation in China matters of indifference.

The students' attitude toward the United States is conditioned by these emotions. The traditional Chinese friendship for the United States still prevails in the abstract; admiration for American scientific and technological progress is universal. But American policy toward China, which they conceive to be the product of a stupid or wicked government rather than the will of the American people, is heartily condemned by all student liberals. They feel that American support of the present government has prolonged the civil war—by which they mean it has delayed the collapse of the government. By the same logic which convinces them that all who oppose the government are their friends, they believe that all who help the government are their enemies. In denouncing the Americans the Communist shibboleth of "imperialism" is ready to hand and is used uncritically. The presence of American troops in some cities, the flood of American

goods on the market, and the occasional incidents involving American personnel all lend color to the Communist charge.

The deep emotion on which the anti-American feeling is based makes it impossible for the students to view the problem with objectivity. They cannot see that Americans are just as averse as themselves to the inefficiency and corruption in the Chinese Government. They do not believe that America denies [*desires?*] a democratic government in China. They do not understand that much of the aid that America has given China has been prompted by humanitarian motives rather than by sinister design. They cannot understand the American aversion to Communists. But fundamentally they cannot forgive the United States for continuing to deal with a government from which they have withdrawn all loyalty.

Feelings toward Russia are mixed. Most students are suspicious of Russian motives and their nationalist sensibilities have been gravely injured by the Russian behavior at Dairen.⁸⁶ The Chinese Government has attempted through the Youth Corps to capitalize on the Dairen issue to stimulate anti-Russian sentiment. The result has been the opposite of that intended, as most liberals are inclined to oppose anything sponsored by the Government, whatever its merits. In other ways the students are favorably inclined toward Russia. They are quick to praise small things, such as Russian advances in sociology or Russian literature, but fail to see the grave drawbacks of the Russian system of government and the threat that it poses to the cause of democracy. Their uncritical approval of things Russian is clearly parallel to their unreasoning acceptance of Communist good intentions.

A most disturbing fact about these student liberals is that they appear to have no real understanding of, or even interest in, democracy. It is true that a certain professor has made himself very popular by lecturing on western liberalism and making unflattering comparisons between the Western democratic governments and the Chinese Government. But it is hatred of the government that has provoked admiration, not love of Western liberalism. The hatred of the government is not so much because the government is undemocratic as because it is a corrupt monopoly of power. The liberals themselves want to monopolize power, not give it to the people. Their opposition rests simply on the belief that they would be better governors than those now governing. Kuomintang, Communists, and liberals alike believe in solving national problems through government action rather than through individual initiative. They all advocate state planning of one sort or another in the nation's economic life. Voices are seldom raised in favor of capitalism and free enterprise, for all appear to

⁸⁶ For correspondence on this subject, see pp. 481 ff.

believe that capitalism is dead or dying and that socialism of one sort or another is to be the order of the new day.

These attitudes are perhaps inevitable in Chinese students. Traditionally the Chinese scholar studies to fit himself as a government official rather than as a voter. The Chinese Republic has inherited from its dynastic predecessors the traditions of a centralized, autocratic government with distinct tendencies toward monopoly and control in the economic field. The farmers and small business men, who in Western countries have been the bulwark of democracy, have in China never developed an active interest in government. Moreover, the students at Nanking University do not represent these classes. Most of them are from the governing class—government officials, big business men, bankers, landowners. Even those who come from humble origins are anxious to improve their status by graduation to the upper class and are quick to acquire the psychology of their superiors. Democratic ideals, belief in the worth of the individual and in the right of the people to choose their governors, can grow but slowly in such hostile soil.

893.00/10-347 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, October 3, 1947—3 p. m.
[Received October 6—3:10 a. m.]⁸⁷

297. While Communists' sixth offensive began September 16 [it] did not gain great moment until October 1.

Initial attack apparently caught Nationalist unprepared indicating once more their intelligence deficient. Nationalists expecting attacks between Mukden-Changchun had bulk forces concentrated there. Communists moved units south and struck in Chinhsi area where little resistance met. After several days fighting Communists succeeded annihilating or capturing 13,000 Nationalists of 49th Army with all heavy equipment thus practically wiping out unit which had just arrived as reinforcements. Communists pushed advantage and seized rail line between Hsingcheng and point 20 kms. north of Shanhaikwan. Thus land communications between Manchuria and intramural China cut. At same time value port of Chinwangtao to Manchuria considerably lessened.

Communists then moved north to Hsinmin where three spans on each of two bridges destroyed. This destruction cut land communication between Mukden and Hulutao port. At same time other Communists cut Mukden-Yingkow rail line between Haicheng and Ta-

⁸⁷ Notation on the original: "Message delayed in transmission."

shinchiao [*Tashihkiao?*] thus cutting land communication between Mukden and Yingkow port. Simultaneously Mongolian cavalry troops moved on Faku 50 kms. north of Mukden and after surrounding city moved east towards Kaiyuan. Simultaneously other Communist troops in the Hsifeng area moved west towards Kaiyuan.

Further north Communist forces are reported hitting points on railway between Ssuping and Changtu.

Nationalists are in much worse position than at end of fifth offensive. Manchuria has temporarily lost all land communication with China. Two divisions Nationalists reinforcements have been neutralized and even further appears that they have surrendered to Communists together with all equipment. Two more divisions Nationalist reinforcements have arrived at Shanhaikwan but they will have to fight their way through Communist territory to be benefit to Nationalists.

Nationalist bewilderment seems complete. Using same tactics as in fifth offensive, namely building all defenses around highly rated New First and Sixth Armies. Have already started moving these armies from place to place and soon have them completely tired out so that should it become necessary for them engage in actual combat their efficiency will be greatly lessened. Nationalist intelligence again conspicuous by inefficiency or absence. Intelligence consists of knowledge Communist units and where formerly located but apparently without knowledge Communist intentions or capabilities.

Morale rose upon arrival Chen Cheng but his later repressive moves vis-à-vis northeasterners, plus these initial Communist successes, have had depressing effect and present indications Nationalists can receive no more assistance from northeasterners than they did during fifth offensive.

Sent Nanking, repeated Department as 297; Tientsin as 95, Changchun by mail as 283.

WARD

761.93/10-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 4, 1947—8 a. m.

[Received October 3—11:23 p. m.]

2026. Reference Shanghai's telegram 2316, September 30, 1 p. m. to Department. As a correlation to the information reported by Shanghai, Embassy has noted that the Chinese press throughout the country has during recent weeks perceptibly decreased the amount and sharpness of its criticism of the Soviets. Whereas a month ago

issues such as Dairen, Sinkiang and Outer Mongolia provoked criticism of the Russians, which in many instances was even unbridled and irresponsible, such comment has now almost entirely disappeared. There has, in fact, been little criticism since the Peitashan fiasco.⁸⁸ Any comment which does appear now of the Russians is usually couched in the generalized terms of Confucian platitudes expressing the Chinese hope that all men will be tolerant and understanding. Since the basic attitudes of the Russians toward various problems in China have not changed, the shift in tenor of Chinese public expression must be considered as calculated.

With the above change, there has also been an increase in the volume of criticism of the United States. This has not yet taken other than a general form but it is noticeable that almost nowhere is a kind word said in the press any more for Americans or American policy.

STUART

893.00/10-447 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, October 4, 1947—3 p. m.

[Received October 5—11:25 p. m.]

302. Unconfirmed reports received Nationalist forces' garrisons for defense Mukden seriously weakened by Communist attacks. Nationalist Fifty-third Army Kaiyuan area sent Changtu by Chen Cheng⁸⁹ to meet expected Communist attack. Chen realized weakening Mukden defense and recalled unit. Unit attempting return to Mukden surrounded by Communists and all but one-half division entire army lost. 207th division now Sixth Army, which army is backbone Mukden defense, also badly defeated by Communists and now only have one regiment remaining. Confirmed two division Nationalist Fifty-ninth Army [lost] Chihhsi area. During night October 3 Communists destroyed rail bridge several miles south Liaoyuan on Mukden-Yingkow rail line. Growing local dissatisfaction with Chen Cheng. Now called "every time defeat general". "Armchair strategists" and military men not in Chen's clique think he has blundered seriously, has become excited and has committed troops unwisely and with little military judgment. Will have serious effect morale if continued.

Sent Embassy as 430, repeated as 302, Changchun by mail as 286.

WARD

⁸⁸ For correspondence on this subject, see pp. 546 ff.

⁸⁹ Recently appointed to supreme command in Manchuria.

893.00/10-647

Memorandum of Conversation, by the First Secretary of Embassy in the United Kingdom (Drumright) ⁹⁰

[LONDON,] October 4, 1947.

1. In the course of a conversation last evening Dr. Chiang ⁹¹ expressed some views on the Chinese situation which are perhaps worthy of record.

2. Dr. Chiang was pessimistic about the situation in China, though he appeared to feel that the National Government is in no danger of imminent collapse. He observed that financial and economic conditions are in a particularly critical state. Dr. Chiang appeared, however, to derive some satisfaction from the concept that China is better off economically in some respects than France or Italy. (Dr. Chiang has just returned to England from a brief trip to France.)

3. Dr. Chiang was obviously concerned over what he regarded as a marked deterioration of Sino-American relations. He had regarded General Wedemeyer's public statement ⁹² as a broad hint that China would receive short shrift from the United States. He said the notion was now prevalent in China that the United States was preparing to abandon China and consolidate in Japan, the Liu Chiu Islands and the Philippines in furtherance of its struggle with the Soviets. All these phenomena disheartened National Government adherents and gave great comfort to the Communists and their followers. Moreover, Dr. Chiang added, it would be a grave mistake to conclude that stability could be achieved in East Asia in the absence of Chinese stability. Nor would American security be achieved by withdrawal to Japan and the Philippines.

4. Dr. Chiang said he thought that most American observers, including Wedemeyer, took a superficial and short-sighted view of the Chinese situation. Americans tended to measure China too much by their own standards. They underestimated China's war-time sacrifices; they failed to understand that those sacrifices had largely brought China to her present deplorable state; they could not see that China needed outside assistance to eliminate the corruption and inefficiency of which the Americans were constantly complaining.

5. Dr. Chiang said that the Chinese people dislike the National Government because of its corruption and inefficiency, but that they prefer it nonetheless to the Chinese Communists who are commonly

⁹⁰ Copy transmitted to the Department by the Chargé in the United Kingdom in his despatch No. 2235, October 6; received October 13.

⁹¹ Chiang Mon-lin, former Secretary General, Chinese Executive Yuan.

⁹² Statement of August 24, by Lt. Gen. Albert C. Wedemeyer, recently President Truman's personal representative in China on a fact-finding mission; for text, see telegram No. 1789, August 24, from the Ambassador in China, p. 759.

regarded by the Chinese people as the agents of Soviet Russia. In spite of this handicap, there was, of course, a possibility that the Communists might achieve their aim of dominating China, but he was convinced that the Chinese people were too individualistic to accept the Communist strait jacket and Marxian doctrine for any length of time. In this connection, Dr. Chiang observed that if the Communists got control of China they would ruthlessly wipe out all opposition; one of the first aims of the Communists would be the total elimination of American and British influence from China.

6. Dr. Chiang said that he deplored Sun Fo's⁹³ recent statement in which he suggested that if China could not expect aid from the United States it would have to turn to the Soviet Union. Dr. Chiang explained that Sun Fo was impulsive by nature and probably had made the statement without regard to the consequences. Dr. Chiang considered that National Government leaders would do well to exercise patience and to refrain from giving offense to the United States at this juncture.

7. Dr. Chiang said that at the recent Institute of Pacific Relations conference (at which he headed the Chinese delegation) several of the American delegates (and notably Owen Lattimore⁹⁴) had urged a "hands off" attitude toward China. He, for his part, had drawn a parallel between the situation in Western Europe and in China and had advocated that aid be granted China much in the same way that aid is being considered for Western Europe.

EVERETT F. DRUMRIGHT

893.00/10-647 : Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 6, 1947.

[Received October 16—8:37 a. m.]

A-196. At the weekly press conference held October 1, 1947, Dr. Hollington K. Tong, Director of the Chinese Government Information Office, answered the following questions concerning the Democratic League:

Question: Is it true that the members of the Democratic League have assumed important positions in the Communist areas? Do you have details?

Answer: Members of the Democratic League who have taken up responsible positions in the Communist-controlled areas in the North-

⁹³ President of the Chinese Legislative Yuan.

⁹⁴ Johns Hopkins University faculty specialist on Far Eastern Affairs; American adviser to Generalissimo Chiang Kai-shek in 1941.

east include: Yen Pao-hang, Chairman of the so-called Liao-Pai Provincial Government; Yu Yi-fu, Chairman of the so-called Meng-kiang Provincial Government; Chai Hsiang-chen, Vice-chairman of the so-called Meng-kiang Provincial Government; Kwang Meng-chueh, Commissioner of Education in the so-called Meng-kiang Provincial Government; Han Yu-tung, Minister of Education in the so-called Sung-kiang Provincial Government; Chow Ching-wen and Kao Tsung-min, both members of the so-called Joint Administrative Committee of the Northeastern provinces.

These individuals are only a few well-known examples. A local committee of the Democratic League has long been functioning in Communist territory. Besides the more prominent ones, there are many more League members who are actively cooperating with the rebels. The Central Committee of the Democratic League has taken no action whatsoever against its members such as those just mentioned who have been working with the Communists and are thus actively participating in open rebellion against the Government. It is noteworthy to mention that these persons at the same time are members of the Democratic League's Local Committee in Communist territory. On the other hand, the Democratic League has taken stern action against its members who have accepted positions in the National Government and those who took part in the National Assembly. Such members were forced by the Democratic League to withdraw from the League. It opposes not only the Government but also the constitution of the republic. In other words, League members, while having no individual freedom to serve the Government or sit in the National Assembly, can still retain their membership even though they have been actively working with the rebels. This sharp contrast illustrates the position taken by the Democratic League.

Another fact is also worthy of our attention. Since the promulgation of the mobilization act, League elements have attempted to rouse nation-wide opposition to the implementing of the articles. For example, the Hong Kong Kowloon Committee of the Democratic League, which has taken refuge in fallen territory, issued a manifesto in July inciting the people to oppose the mobilization act by action. The manifesto, which is an obvious attempt to incite public disorder, was issued in the name of a local committee of the Democratic League. More than two months have since elapsed but the persons responsible for the central direction of League activities are not known to have taken any steps to correct their local representatives or clarify their own attitude. It is a plain fact that activities of any political party generally follow a program laid down by its central committee. Local committees of the Democratic League have either participated in

open rebellion or attempted to inspire public unrest. Those in the Central Committee of the Democratic League cannot escape due responsibility for such acts.

I do not propose to discuss in detail the close association that has existed in the past between the Chinese Communist Party and the Democratic League. The League has acted in close unison with the Communists and follows closely their lines of propaganda. This fact can be verified by any person who has been watching the political situation in China. The fact [is] that some League elements after the promulgation of the mobilization act are still cooperating with the Communists while others have made open attempts to inspire public disorder. This fact convinces us more than ever that the Democratic League is far from being an independent political party but is merely serving as a front of the Communists.

STUART

893.00/10-1747

*The Consul General at Tsingtao (Spiker) to the Ambassador in China (Stuart)*⁹⁵

No. 63

TSINGTAO, October 6, 1947.

Subject: Some Aspects of the Political Situation in Shantung and in China Generally.

SIR: I have the honor, in continuation of my despatch no. 46 of July 25, 1947,⁹⁶ on the above subject, to submit, more as a matter of record than as an expression of new ideas, the following résumé of comments made by an intelligent and well-informed foreign observer of many years' experience in China, who prefers to remain anonymous and who is referred to hereinafter as "the observer". Since he enjoys close contact with a large number of thinking Chinese, his comments on the results of the Wedemeyer Mission's visit will, it is believed, make an interesting addition to the record of that visit.

The observer states that General Wedemeyer's statement, issued on the eve of his departure from China for Korea, has been discussed in his hearing by many thoughtful Chinese, most of them the impoverished victims of international and civil war, all of them basically patriotic, none of them avowed communists. The consensus of opinion among them (which appears to be widely shared by foreigners) is that General Wedemeyer would have performed a great disservice to this country if he had glossed over the well-known failures of the

⁹⁵ Copy transmitted to the Department by the Ambassador in China in his despatch No. 1056, October 17; received October 24.

⁹⁶ Not printed.

Government and the Kuomintang, or if he had implied that unlimited American aid was likely to be forthcoming, for one party in the civil war at an early date and virtually without conditions. If he had so implied, they point out, there would have been no incentive to independent action by the Government, either in the field of arms upon which it has elected to rely for unification of the country or as to the implementation of its announced programs of reform in domestic politics (for example, the establishment of constitutional government by free elections to be held this year), finance, foreign trade, or any other question. In fact, this frank though unpalatable utterance by one who is known to be a friend of China has, according to the observer, at least caused the Government to bestir itself, and although some of its decrees (for instance, those relating to reduction in office servants, dishes at feasts, new buildings, the use of cosmetics, and the giving of presents, as elements in a policy of national thrift) are hardly likely to be taken seriously, there does appear to be some widespread conviction that Heaven (in this instance the American Congress) may help those who first help themselves.

Yet the most important newspaper at Tsingtao contained an editorial which commented in the most bitter terms upon what it called "foreign interference in our national affairs", and claimed that China ought not to petition America for assistance but to demand this as a right, in exchange for this country's having fought the first and the longest fight against the common enemy and thereby, perhaps, prevented American soil from being invaded. (Otherwise, it should be added that local press comment contained little of an original nature concerning the Wedemeyer Mission, but generally followed the lead set by the Shanghai and Nanking press). The observer states that the one phrase in General Wedemeyer's statement that has heartened Government authorities is the expression of his "conviction that if the Communists are truly patriotic and are interested primarily in the well-being of their country, they will stop voluntarily the employment of force in their efforts to impose ideologies". On the other hand, the observer states that he has heard it sardonically asserted that anyone who imagines that the communists (now in a stronger position than when General Marshall was mediating a year ago) are likely to abandon their struggle after twenty years of effort is by this admission unqualified to pass judgment upon the affairs of China. The observer adds that this, of course, is not far removed from the other idea that frequently comes up in conversation with some Chinese; that no foreigner, however intellectual or long resident in this country, can ever expect to understand the characteristics of its people or the working of their minds, or, above all, their acute sensibilities in regard

to national prestige ("face"). The observer continued that the same speaker, steeped in his classics and reflecting in terms of dynasties and two thousand or more years, will often go on to say that history has shown the Chinese nation to be imperishable, that civil strife from time to time is inevitable, that another hundred years may not be too long on this occasion to bring about peace and order, that foreign intervention on one side may only have the effect of combining the aggressors against the nation concerned, and that the best hope for China lies in an all-out conflict between Russia and the United States (or the United States and one or two allies) during which Russia would be too preoccupied to assist the Chinese communists, and following which the democracies, inevitably victorious, would find it to their commercial and other advantage to rehabilitate this country, including the dispersal of whatever remnant of communists might still be lurking in its northern provinces or on an international battlefield in Manchuria.

The general impression among reasoning Chinese, according to the observer, seems to be that as the result of General Wedemeyer's mission some measure of aid will be forthcoming for the Central Government, though not much in the form of military supplies; that what is needed, among other things, is a properly controlled project of rural, industrial, and economic relief on the original UNRRA⁹⁷ pattern but devoid of the corruption and incompetence that have marked too many of the operations of CNRRA.⁹⁸ The observer adds that currency stabilization is another obvious need. He continues that a standard for "proper control" has been set by the Government of the United States in regard to the disbursement of its grant of US\$350 billion [*million?*] to Greece, where American technicians and supervisors will safeguard the interests of American taxpayers by closely governing all expenditures. He states that this is a replica, adapted to local conditions, of the method which has been successfully followed on a smaller scale in South America. Continuing, he states that it goes without saying that any proposal to introduce such control in China will meet with strong opposition from many sides; yet if the country at large is to be benefited, and foreign funds are not to be dissipated, it will be necessary to circumvent the central and provincial officials who were described by General Wedemeyer as being "notoriously marked by greed, or incompetence, or both".

In conclusion, the observer suggests that Great Britain could perhaps make a valuable contribution to China's well being by aiding in the reorganization of its civil services "according to the British pat-

⁹⁷ United Nations Relief and Rehabilitation Administration.

⁹⁸ China National Relief and Rehabilitation Administration.

tern, generally admitted to be the finest in the world". He says that experience in foreign supervised Chinese Government services has shown not only that good moral and practical leadership can make itself felt at once, and in the place of its immediate operation, but that its influence widens and endures. He is convinced that Chinese civil servants can also be tenacious, industrious, loyal, honorable and mutually helpful, but that, as General Wedemeyer pointed out in a wider aspect, they await "inspirational leadership".

Respectfully yours,

C. J. SPIKER

893.00/10-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 7, 1947—9 a. m.

[Received October 7—6:30 a. m.]

2034. As Department will have gathered from recent messages [from] Changchun and Mukden, it now seems clear that Communists have launched major offensive Manchuria. Reds have struck at variety of places before Ch'en Ch'eng reorganization moves were completed and outcome in northeast will depend largely upon Ch'en's ability to forestall panic and make adequate counter-dispositions with uncompleted new staffs.

Following is general situation in brief: Second Communist column from Huaite wrecked rail line completely between 8 and 18 miles south Changchun, intermittent damage south to Ssuning. Part Communist first column and 24th Brigade attacking Itung south Changchun. Mukden expects major battle Kaiyuan and Changtu. Estimate over 100,000 Reds Meihokou area immediately available. Seventh Red column already contacted near Kaiyuan and units 1st and 3rd Red column attacking Hsifeng. Yingkou isolated as expected but Reds also blew bridge between Liaoyang and Anshan cutting off Anshan defense anchor. No reports activity near Fushun but Reds active short stretch Nationalist-held Mukden-Antung line and Reds reported landing Antung from Shantung, Mukden isolated from China except by air. On Peiping-Mukden line Nationalists 54th Division 13th Army moving north from Shanhaikwan but Red 10th and 11th Brigades held rail line Hsingcheng area.

As previously reported by Mukden and now fairly well confirmed, the newly arrived 49th Army has been nearly two-thirds destroyed in Chinhai area. Likewise Nationalists' 53rd Army and 207th Division are reported to have been badly mauled. Immediate outlook is that Government will hold major centers but that serious losses of men, equipment, transportation lines, food and fuel will make Govern-

ment position precarious for coming winter. Disruption Ch'en Ch'eng's plans for drastic reorganization weakens his internal political position as well.

Generalissimo's⁹⁹ present visit to Peiping is believed partially in connection with northeastern situation but consensus of opinion here among informed American observers, as well as senior Chinese Generals, is that Government's best hope is that Generalissimo will refrain from tactical meddling.

STUART

893.00/10-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 7, 1947—10 a. m.

[Received October 7—3:23 a. m.]

2035. Embassy reliably informed that recent Peiping arrests as reported in Peiping's 296, October 3, to Department,¹ were made possible by locating radio station which had been in communication with Communists. Approximately 30 persons were seized when they came to station site for subsidies, instructions, etc.

Most important arrests were:

(1) Major General Hsieh Shih-ping, head of First Department headquarters of General Sun Lien-chung,² and who was largely in control of military operations that headquarters. It is alleged that General Hsieh had been a Government member of Executive Headquarters and was there greatly influenced by his Communist associates, that in March of last year he became a probationary member of the Chinese Communist Party and expected to be admitted to full membership in March of 1948.

(2) General Sun Lien-chung is reported to have been astounded by the news of General Hsieh's arrest and insisted upon posting bond for him until he was confronted with a signed confession by General Hsieh [and?] Yu Shin-ching, chairman of the planning board of Sun Lien-chung's headquarters with the titular rank of Lieutenant General. This man is a graduate of Columbia University and formerly a deputy of Feng Yu-hsiang³ and is reported not a member of the Communist Party but greatly dissatisfied with the National Government.

(3) Tung Chien-ping, director of the Tientsin land bureau who was stated to have held an important position as a transmitting agent of instructions to Communist Party workers in Government areas.

⁹⁹ Chiang Kai-shek, President of the National Government of the Republic of China.

¹ Not printed.

² Governor of Hopei Province.

³ The "Christian General", at this time traveling in the United States.

Other arrests included teachers and an assistant manager of the Peiping branch of the Central Bank who handled Communist Party finances. Embassy informants also confirm the escape of General Wang Yeh-chiu and another individual stated to be in charge of the shipment of medical supplies to Communist areas. It is also stated that many documents were seized and as a result of preliminary examination of these, arrests have already been made in Mukden, Jehol, Kalgan and Shanghai.

In spite of General Sun Lien-chung's professions of astonishment at implication of one of his senior officers, Embassy cannot but believe that he was not without knowledge of what was occurring within his headquarters. Generalissimo's current visit to Peiping is undoubtedly in connection with this affair inasmuch as the arrest of the daughter of Chen Pu-lei (for many years trusted private secretary of Generalissimo and currently member of State Council) and her husband, would appear to be indicative of how deeply anti-Government if not pro-Communist feeling has penetrated into circles which could normally be expected to remain faithful to the Kuomintang.

STUART

893.00/10-747 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, October 7, 1947—11 a. m.

[Received October 7—5:38 a. m.]

304. Generalissimo instructed Chen Cheng several days ago [that] all localities Manchuria except Kirin (including Hsiao Feng Man dam), Fushun, Anshan and Mukden may be surrendered to Communists but these four named places must be held at all costs.

Chen Cheng's chief of staff realizing incapability making snap decision of the present Communist offensive so advised Chen. Chao Chia-hsiang, former chief of staff NECC,⁴ "purged and exiled Chinchow" by Chen, recalled Mukden late evening October 3 and asked by Chen Cheng assume chief of staff position. He told Chen Cheng [it] was useless for him take job because Chen had frittered away 2 months vitally needed in preparing for Communist offensive. After further urging he stated would assume command NE only if given absolute military command and his orders would be supreme not to be countermanded by anyone, civil or military, including Chen Cheng. Chen Cheng accepted and Chao Chia-hsiang at present in complete command

⁴ Headquarters Northeast China Command.

as chief of staff Nationalist military forces NE. Source unusually well-informed Chinese with very close top PNEH⁶ connections.

Sent Nanking as 431; repeated Department as 304, sent Changchun by mail as 287.

WARD

893.00/10-747 : Telegram

The Consul General at Canton (Boucher) to the Secretary of State

CANTON, October 7, 1947—6 p. m.

[Received October 8—6:40 a. m.]

209. I presented officers Consulate General, Staff and Attachés to Governor Soong Monday. Was impressed by his very serious attitude and strong blunt statement he did not like situation in north or Manchuria; that if Communists crossed Yangtze there was nothing to stop them. He appears consider vital reestablish law, order Kwangtung as bulwark to support, defend China against CCP;⁷ states intends bring about unified control direction all local means bandit smuggling suppression and modernize equipment control units without reliance National troops. He feels unsuited, lacking language or local knowledge, says dyke repair conservancy Kwangtung primary urgent problem.

Sent Dept; repeated Embassy 187, October 7th.

BOUCHER

893.00/10-847 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, October 8, 1947—5 p. m.

[Received October 11—1:01 a. m.]

310. Communist sixth offensive continues with Communist plans still uncertain. Nationalists have been anticipating major Communist drives vs. Ssuping, Kaiyuan and Yingkow but none developed. Report received captured Communist officer stated Communist directives this offensive are: (1) seize foodstuffs and crops, (2) destroy lines of communication and (3) attack moving Government units but avoid strong points. While this report unconfirmed, Communist tactics lend credence accuracy. Communists have not made major effort take strong point as they did last offensive in attacks on Changchun and Ssuping. This offensive seemingly lacks coordination and pattern fifth in that it appears be series individual efforts each which carefully planned and timed but with little or no apparent coordina-

⁶ Generalissimo Chiang's Northeast Headquarters.

⁷ Chinese Communist Party.

tion with other actions elsewhere. Unless tactics change, this offensive shaping up as series large-scale raids to cause as much attrition and loss to Government as possible while keeping Communist losses to minimum.

Sent Embassy, repeated Department as 310, Changchun by mail as 300.

WARD

893.00 Manchuria/10-1047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 10, 1947—10 a. m.

[Received October 10—3:35 a. m.]

2056. Embassy suggests Department obtain copy of telegram dated October 8 sent to War Department by Military Attaché Nanking concerning observations of Colonel Dusenbury on his recent trip to Manchuria.⁸ Melby⁹ accompanied Dusenbury and his observations generally confirm above report. He makes the following additional observations:

Both Changchun and Mukden, particularly as compared with a year ago, are largely deserted cities. Physical appearance of Mukden has improved greatly but there is much less sign of activity and streets seem relatively empty. Changchun gives the appearance of being a dead city. Very few troops are observed in streets of either city. Business is stagnant and prices are rising, particularly at present, with what appears to be the initiation of the sixth Communist offensive. Reports indicate that leading military and civilian figures in Changchun have left.

There was no indication of panic among the general populace in spite of the possibility of attack and the departure of leadership from Changchun. Although the larger cities will probably hold out for some months, the coming winter will undoubtedly be cold and hungry ordeal for urban population.

On the return from Changchun to Mukden, October 6, a towering column of smoke was observed in vicinity Fushun. It was not possible to check, but this may indicate hostilities in the area of the coal mines which would cut off fuel supply of Government-controlled areas.

The most notable reaction in Changchun and Mukden which was confirmed by reliable reports was apathy and weariness of general population. This popular reactionary [*reaction to?*] Communist strategy of isolating and starving out centers of population at no cost to themselves. It should be remembered that Manchuria is now fac-

⁸ Telegram not found in Department files. Brig. Gen. Robert H. Soule was Military Attaché in China; Col. C. C. Dusenbury was a member of the War Department General Staff.

⁹ John F. Melby, Second Secretary of Embassy in China.

ing its sixth major Communist attack without prospect of offensive action by the Government which could foretell an end to civil war. Contrary to widely publicized Government reports within China proper, original popular enthusiasm at the appointment of General Ch'en Ch'eng to command in Manchuria is waning. It is generally considered that he has done thorough and effective job of eliminating corrupt civil and military officials but in so doing is now faced with serious shortage of experienced personnel. The main criticism of Ch'en Ch'eng is that his activities have been entirely military and he has so far made no effort in the political field, probably through lack of time, to win the allegiance of the public. Thus, while he has not aroused active public opposition, he has also failed to attract active public support. General reaction appears to be one of doubt of the ability of one man to create any basic change, and of the fear that in general it is too late anyway.

A check of USIS¹⁰ activities in Manchuria indicates very considerable effectiveness of the work which is almost entirely attributable to the excellent work of Messrs. Cochran and Frillman.¹¹ As anticipated, the withdrawal of USIS from Changchun was misinterpreted as indicating American abandonment of that area to the Communists. Extension of activities outside Mukden is limited only by active hostilities, by the time of the director, and by insufficiency of money and materials. Those who come in contact with USIS output believe it is the only impartial source of information available to them.

On the return from Peiping to Nanking, 10 large fires were observed at Pahsien, approximately 50 miles west of Tientsin, which suggested Communist activity in that area.

STUART

893.00/10-1347

*Memorandum by the Director of the Office of Special Political Affairs (Rusk) to the Director of the Office of Far Eastern Affairs (Butterworth)*¹²

UNITED NATIONS ASPECTS OF GUARDIANSHIP OR TRUSTEESHIP FOR MANCHURIA

1. *The General Problem*

This memorandum deals with United Nations aspects of a Great Power guardianship or trusteeship for Manchuria, presumably to be established upon the initiative of the Chinese Government.

¹⁰ United States Information Service.

¹¹ Paul W. Frillman and John K. Cochran, Public Affairs Officer and Assistant Public Affairs Officer, respectively, Consulate General at Mukden.

¹² Forwarded on October 13 by Mr. Rusk to Mr. Butterworth, who noted: "Seen by Gen. M[arshall]".

2. *Possibilities within the United Nations Charter*

The United Nations Charter¹³ offers various possibilities for bringing within its terms a change in the present political status of Manchuria. Subject to the possibility of attack on grounds of the Charter, almost any proposal regarding Manchuria could be related to the United Nations in some fashion. Hence, the problem appears to be essentially a political one. The following are the principal ways in which the United Nations might be related to the matter:

(a) *General Assembly Recommendations.* Under Article 14 the General Assembly might make recommendations to China and to other Governments regarding Manchuria. Such a recommendation would require a $\frac{2}{3}$ vote of the Assembly, but would have neither binding authority upon Members nor automatic means of enforcement. There might be some difficulty in obtaining a $\frac{2}{3}$ vote of the Assembly for a recommendation which would appear to sanction Kuomintang rule in Manchuria contrary to the wishes of the Manchurians. This would be particularly true if the USSR opposed strongly such General Assembly action and attacked vigorously the character of the Kuomintang Government. If the General Assembly were to act under Article 14, a clear expression of Manchurian opinion through elections or plebiscite would probably be called for as part of such Assembly action. If it is desired to obtain United Nations blessing for an arrangement agreed upon by the Great Powers, a General Assembly resolution or recommendation would be the simplest and quickest action.

(b) *Security Council action.* Subject to the domestic jurisdiction clause of Article 2 (7), which presumably could be expressly waived by China, any government may bring the problem of Manchuria to the attention of the Security Council under Article 35, or possibly on the ground that it constitutes a threat to the peace, breach of the peace or act of aggression (Article 39). What action the Security Council could take would depend upon the existence of unanimity among the permanent members.

(c) *Trusteeship.* Manchuria might be offered by China for trusteeship under the Charter, either as an ordinary trusteeship requiring General Assembly approval (by $\frac{2}{3}$ vote), or as a strategic trusteeship requiring Security Council approval (veto rule applying). China might be reluctant to offer Manchuria for trusteeship since the offer would amount to relinquishment of full sovereignty over Manchuria. It should also be noted that the end result of trusteeship would be self-determination of the people of Manchuria, with a choice either of independence or of return to Chinese sovereignty. It should be noted, therefore, that trusteeship might prove to be a device for permanently separating Manchuria from China. A trusteeship would require one or more governments or the United Nations itself to act as administering authority. Further details on this possibility appear below.

(d) *Regional Arrangement.* The Great Powers might establish a regional arrangement under Chapter VIII of the Charter. This might take the form of a Great Power guarantee of the Manchurian settle-

¹³ Signed at San Francisco, June 26, 1945; Department of State Treaty Series No. 993, or 59 Stat. (pt. 2) 1031.

ment contained in the Sino-Soviet treaties of August 1945.¹⁴ If other powers were willing to undertake such commitments, there is no reason under the Charter why the USSR would have to participate in such an arrangement, although the nature of the arrangement and the character of the commitments would depend greatly upon the attitude of the USSR. Although this alternative might be considered as a possibility, there is some doubt that Chapter VIII was intended to cover this type of situation.

3. *Governmental Responsibility under a Trusteeship*

Regardless of the precise character of the arrangement which would be reached, the real issue is which government or governments shall have administrative responsibility for Manchuria. The following indicate the United Nations aspects of the principal alternatives:

(a) *China Alone.* The National Government of China is not now able to exercise authority throughout Manchuria. Since the effective opposition to the National Government in Manchuria consists at present of Chinese communists and not foreign troops, there is little the United Nations as an organization can do to increase its authority and establish it in effective control.

(b) *Five Great Powers.* From the Chinese point of view, a five-power administration of Manchuria might appear to be the best means for retaining Manchuria as an eventual part of China, with the assistance of the western powers, as an alternative to the permanent loss of Manchuria to Soviet control. This advantage would appear great enough to overcome Chinese reluctance to admit the present helplessness of the National Government in Manchuria and suggests the probability of prompt Chinese acceptance of the idea. But it is difficult to see how the USSR could accept such a proposal. There is every prospect that Manchuria will fall completely and permanently under Communist, and therefore Russian, domination if the present situation continues. Further, it is most unlikely that the USSR would willingly permit the United States, the United Kingdom and France to establish themselves in this fashion in the heart of northern Asia. Lastly, such an arrangement would mean a heavy commitment by the United States both in manpower and in material resources if five-power administration is to be successful.

(c) *Four Great Powers (excluding USSR).* An effort to organize a trusteeship for Manchuria including any combination of the great powers excluding Russia as administering authorities would merely increase Russian opposition. With the USSR in opposition it can also be expected that large numbers of Manchurians would actively oppose any such arrangement. Furthermore, the commitments of the participating powers, particularly the United States, would be greatly increased, and the situation thereby created might lead to hostilities with the Soviet Union.

¹⁴ Signed at Moscow, August 14, 1945; United Nations Treaty Series, vol. 10, p. 300.

(d) *United Nations as Administering Authority.* While the United Nations could be designated administering authority, it is not organized to accept direct political responsibility on the scale which would be involved in Manchuria. The United Nations normally acts through its Member Governments. It is yet to be shown whether the United Nations can successfully deal with even such a comparatively minor problem of [as?] Trieste, handed to it by the Council of Foreign Ministers. Any special budgetary arrangement would necessarily involve a heavy commitment by the United States, out of all proportion to the control which the United States could be given through United Nations machinery. It might, therefore, be preferable for the United States to participate directly in the job of administering authority. Moreover, if the United Nations were designated administering authority, the General Assembly and the Trusteeship Council would be faced with the need for, in effect, legislating for the government of Manchuria, thus the United States would be presented with a great burden upon its leadership in securing timely and effective action by those bodies. Any suggestion for placing Manchuria under direct United Nations administration should be rejected as utterly impracticable.

4. *Independent Manchuria.*

It would be reasonably simple to obtain United Nations blessing for a declaration by China proposing the early independence of Manchuria. Such a measure would probably have to provide for elections and a renunciation of any general or special rights in that country now claimed by China and the USSR. This possibility is mentioned to complete the general picture from the United Nations point of view but without regard to its relation to Chinese, Soviet, or American policy or interest.

5. *Great-Power Guardianship.*

A further possibility is Great-Power guardianship under which the Five Powers would agree, in negotiations outside the United Nations, to assume responsibility for administering Manchuria. As this would appear to be an obvious way of avoiding the trusteeship system of the Charter, it would be difficult to relate it to the United Nations and the United Nations could not appropriately be used to press agreement upon any of the Five Powers withholding consent.

6. *Conclusions.*

(a) The decision of the United States upon the general question posed in the problem stated above turns upon the extent to which the United States is prepared to commit United States forces and resources for the purpose of reasserting and maintaining the control of the Chinese National Government over Manchuria.

(b) If China and the USSR are agreed upon a program of international supervision or administration of Manchuria, there would be

little difficulty in relating such arrangements with the United Nations and with the Charter.

(c) On the assumption that the USSR will oppose, the most practicable means for obtaining United Nations approval for the administration of Manchuria by the other powers lies in a trusteeship accepted by the General Assembly. Since heavy opposition could be expected in this case both within Manchuria and from the USSR, such a trusteeship would involve a very heavy commitment of manpower and resources on the part of the other powers, particularly the United States.

(d) On practical grounds, the United Nations itself cannot assume direct responsibility for the administration of Manchuria.

893.00/10-1347

The Ambassador in China (Stuart) to the Secretary of State

No. 1047

NANKING, October 13, 1947.

[Received October 24.]

SIR: I have the honor to enclose a copy of a memorandum¹⁵ of conversation between an officer of the Embassy and Dr. Lo Lung-chi of the Democratic League on October 7, 1947.

It will be noted that in general Dr. Lo expresses no views which are dissimilar to those previously expressed and contained in memoranda of conversations¹⁵ forwarded to the Department under cover of Embassy's Despatch No. 823 of June 20, 1947, and Embassy's Despatch No. 872 of July 11, 1947.¹⁶

It will be noted, however, that Dr. Lo feels that the position of the Government is weakening rapidly and that as social and economic conditions also deteriorate any fear of Communist victory in China felt by the Chinese themselves is largely submerged by considerations of mere survival. Under such conditions Dr. Lo feels that fear of Communist victory in China is something which exists largely in American psychology and is generally non-existent in Chinese psychology. Although the Embassy feels that this view of Dr. Lo constitutes an oversimplification of the situation in China, it is an important factor bearing upon the situation and one which is increasing in importance as the situation further deteriorates. The mere struggle to obtain sufficient food and clothing to maintain life is becoming more important than any political ideology and therefore, the task of the Communists is being made easier.

With regard to the Government's most recent attack upon the Democratic League, the Department's attention is directed to the

¹⁵ Not printed.

¹⁶ Latter not printed.

Embassy's Despatch No. 730 of May 16, 1947, "Probable Course of Central Government Policy Toward Non-Kuomintang Political Groups".

Respectfully yours,

For the Ambassador:
WILLIAM T. TURNER
First Secretary of Embassy

893.00/10-1447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 14, 1947—10 a. m.

[Received October 13—11:50 p. m.]

2068. On October 11 I accompanied members House Military Affairs Committee to call on Gimo.¹⁷ After usual amenities representatives questioned Gimo with regard to Chinese Communists: What relation they had to Moscow, whether they were aided by Moscow, etc. Gimo replied Chinese Communists thoroughgoing Communists working in collusion with and taking orders from Moscow, that even apart from Japanese military supplies in Manchuria made available to them by Russia Gimo believed that they constantly receiving supplies and technical advisers from Russia.

Congressmen then put series pointed questions to Gimo as to needs of China and what China looked to US for; what complaints Gimo had as to American policy and whether AAG¹⁸ as now functioning seemed worthwhile, and whether its usefulness and numbers should be increased. Gimo at first demurred but went on to say that since these questions were asked he would answer frankly. That having equipped troops so extensively with American arms, China looked to US to supply ammunition according to original understanding and that this applied especially to eight and one-third group program; that AAG under existing restrictions had virtually no combat value but that he would wholeheartedly welcome its enlargement and advisory assistance in actual field operations.

When asked how urgent China's needs and how imminent China's danger, Gimo replied especially in case Manchuria situation was extremely critical; that Manchuria was temporarily stabilized but danger was by no means past; that within the Great Wall situation was fairly well under control and at least presented no serious immediate problem.

¹⁷ Generalissimo Chiang Kai-shek.

¹⁸ Army Advisory Group; for correspondence on this subject, see pp. 785 ff.

Gimo referred more than once to predicament in Manchuria as an American responsibility due to Yalta Agreement¹⁹ and remarked that if Nationalists finally defeated it would not be because of Russia or the Chinese Communists but because of China's ally during war and China's trusted friend who failed to give promised assistance at this time of desperate need. There was no tone of bitterness or resentment in Gimo's comments and he seemed reluctant to make them, hesitating several times before he answered.

STUART

893.415/10-1547 : Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 15, 1947.

[Received October 22—11:25 a. m.]

A-207. A summary of President Chiang Kai-shek's October 10th message to the nation (broadcast on the eve of the 36th anniversary of the founding of the Chinese Republic).

The Republic of China is today 36 years old. In commemorating the occasion this year, we most keenly feel its great significance. For, the new Constitution, promulgated on this past New Year's Day, will go into full effect within this year.

[Here follows brief review of developments since 1912, with emphasis on the struggle with the Chinese Communists.]

With the utmost sincerity I present to my fellow-countrymen the following points to guide us in our common endeavor during the coming year.

Politically, we must lay the foundation of democracy and rule of the law. It is especially imperative that the elections be properly conducted and that the standard of general political actions be improved. In this respect, I wish to make two points:

(1) Various electoral laws and regulations have been promulgated, registrations of electors and candidates are being concluded, and campaigns for the general elections are enthusiastically going on. It should be driven home to the voters that the way the present general elections are conducted will determine the success or failure of constitutional government in China. The sacred vote, therefore, should be cast with the utmost scruple, and the candidates should, in the spirit of self-respect, submit their political views for the free choice of the vast voting public. Only through an impeccable performance at the polls will the general elections yield commendable results.

¹⁹ Signed February 11, 1945, by President Roosevelt, British Prime Minister Winston S. Churchill, and Marshal Iosif Vissarionovich Stalin, Chairman of the Council of Commissars of the Soviet Union; *Foreign Relations, The Conferences at Malta and Yalta, 1945*, p. 984.

(2) The basis of constitutional democracy is the rule of the law. With all necessary preparations practically completed, the people should develop law-abiding habits and all officials should pay special regard to the sanctity of the law. This is the way to introduce dignity in the political realm and to insure the rights of the people.

Economically, provisions of the Principle of People's Livelihood must be fully carried out, with special emphasis on assistance to private enterprises. Definite plans must be made for the solution of the land problem. Our economic reconstruction aims at bringing this about through industrialization. In this way agricultural production could be increased and the living conditions of the farmers improved. The increase of purchasing power in the rural areas to provide an extensive market for industrial products should be a prerequisite to prosperity of the urban communities.

In accordance with the said Principle, the Government has adopted an industrial policy to prevent, through a system of state-ownership, the manipulation of the people's livelihood by monopolistic capital, and to safeguard the unhampered development of private enterprises. The Government's taxation system and investment policies of Government banks should all be brought in line. It is my sincere hope that people in the nation's economic circles will cooperate with the Government in enforcing this industrial policy.

Culturally, we must strive for independence in academic research and in thought. Today, two years after the conclusion of World War II, cultural frictions and political crises are both increasing in tempo. The Chinese culture has already felt the impact of the Chinese Communists' struggle for power. Our national spirit, typified by courage and perseverance that was nurtured during the war, is sinking as the result of the damage inflicted by the Communists. What it is particularly heartrending is to see our young intellectuals unable to develop the ability to think for themselves. Some of them have even gone so far as to put themselves under the beck and call of others. Forsaking their early devotion to the acquisition of knowledge, they have become tools in political struggle. We must remember that a nation, though in great danger, can still recover, but if its culture is ruined it will not have a chance to stage a comeback. It is, therefore, a basic principle in cultural reconstruction to achieve independence in academic research and in thought. I hope that our intellectuals will take heed and forge ahead.

In our daily life, we must practice diligence, thrift and fortitude. The recovery of a nation from its battle scars is in itself a difficult undertaking. Since the conclusion of the war, there is not a single nation but is concentrating its efforts on increasing production and reducing consumption. Look at the thoroughness with which Britain

is enforcing her austere economic program. Even a nation of the United States' wealth and strength has asked its people to conserve food. In our own case no sooner had we emerged from a protracted war than we began to suffer additional destructions at the hands of the Communist rebels. With our social structure seriously impaired, our production capacities curtailed, our people in distress and our foreign trade greatly unbalanced, recovery will of necessity be many times more difficult than in the case of other countries. Today, I want my fellow-countrymen to discard all bad habits such as laxity, extravagance, superfluousness and opportunism. On the one hand, we should be frugal, and on the other practice fortitude and perseverance. Extravagance is an enemy of national reconstruction. And the only way to effect China's salvation is through self-help.

To meet the needs arising from the Communist-suppression campaign, the Government has promulgated thrift and production-boosting measures. It is incumbent on our people as a whole to observe the regulations wholeheartedly. Particularly I am desirous for our social leaders to set an example for the others [others?] by practising thrift themselves.

Fellow-countrymen, at this crucial juncture when the Communist-suppression campaign and national reconstruction are being undertaken simultaneously, we must realize that the salvation or ruin of our nation entirely depends upon the extent of our efforts today. Internally, we must lay the foundation for the forthcoming constitutional rule, fully implement the provisions of the Principle of People's Livelihood, strive for independence in academic research and in thought, and practice diligence and fortitude in our daily life. Internationally, to retain our position in this unstable world, we must hold fast to our spirit of independence and initiative, follow a policy of peace and cooperation toward other nations. Only thus can we establish an independent, unified and progressive nation, such as will sanctify the memories of the Father of the Republic and of those who had given their lives to the cause of our National Revolution.

STUART

893.00/10-1947

The Chinese Minister for Foreign Affairs (Wang) to the Secretary of State

NEW YORK, October 19, 1947.

DEAR GENERAL MARSHALL: As I am leaving tomorrow, I must write to you to express my deep appreciation of your cordiality and frank-

ness with which you discussed with me the various complicated issues of our common concern.

It is particularly gratifying to me that on the subject of the Japanese peace conference, you endorse my view as to the extreme difficulties China will be put to in the event of non-participation by Soviet Russia. Therefore I assume that if further action be taken on this matter by either of our two Governments, there will be full prior consultation with each other.

As to the question of Korea, I have made a public statement on the attitude of my Government as I explained to you the other day.

I am hastening to return largely on account of the home situation. I am particularly anxious about the future developments in Manchuria. When I went to Moscow with Dr. T. V. Soong in August 1945, upon the advice of President Truman,²⁰ to negotiate for the Sino-Soviet Treaty, what I had in mind was to make all concessions in order to save Manchuria. I cooperated with you during the whole of last year with the same objective in view. If the present campaign of the Chinese Government should lead to the recovery of Manchuria, it would save China from a permanent threat of war, and might indeed save the world from another catastrophe. It is hoped that, in the midst of such a struggle, China and her friends will not permit her political, economic and military position to weaken lest this struggle might end in disaster.

As soon as I reach Nanking, I will carefully consult my Government on the questions which you discussed with me on the 14th.²¹ After that I will immediately ask Dr. Wellington Koo²² to take the matters up with the State Department. Your continued special attention will be much appreciated.²³

In wishing you good health and success, I must regret that I have not called on Mrs. Marshall. Please convey my best wishes and kind regards to her.

Yours very sincerely,

WANG SHIH-CHIEH

P. S. May I remind you of another matter? When you go to London in November to discuss peace settlement with Germany, I

²⁰ See telegram dated July 28, 1945, to the Ambassador in China, *Foreign Relations*, 1945, vol. VII, p. 950.

²¹ Subjects discussed were the Japanese peace conference and Korea.

²² The Chinese Ambassador.

²³ In a memorandum on November 1 to the Under Secretary of State, the Director of the Office of Far Eastern Affairs wrote: "I do not think this letter requires an acknowledgment, since I saw its author at The Secretary's request after he had dispatched this note, though I did not discuss its contents. . . . the attention of EUR [Office of European Affairs] . . . should be called to the postscript."

hope you will not forget China's stand—that all the five members of the Foreign Ministers' Council must be sponsors of the plenary peace conference for Germany—a stand that the United States, France and the United Kingdom have all endorsed.

893.00 Manchuria/10-2247 : Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 22, 1947.

[Received October 29—3 : 30 p. m.]

A-214. There is set forth below the substance of the remarks of a reputable Chinese official of CNRRA, well known to the Ambassador, who has recently returned from an official visit to the northeast and called on the Ambassador on October 17, 1947 :

The people of Manchuria of all classes are strongly anti-Government because of mistreatment at the hands of Government representatives sent to the northeast after V-J Day. This feeling is to some extent being rectified by General Ch'en Ch'eng, but it is still very strong. Meanwhile the serious military reverses of the Government have made the overall situation extremely critical. Although General Ch'en Ch'eng has improved the military outlook as well as local sentiment to some extent, the exigencies of the situation make it necessary to continue to rely on troops brought from China proper rather than to build up a defense establishment recruited from the local people.

Northeasterners serving in official positions for the Government who have been captured by the Communists are usually held for several months and subjected to a course of indoctrination before being released. Upon their return these people are usually frank in saying that Communist organization, discipline, treatment of peasants, etc., are all better than in Government controlled areas. On the other hand, there is no general tendency among the local people to favor Communism as an ideology.

A number of Manchurians now associated with the Communists in positions of responsibility are not at heart with the Communists, but have been driven into the Communist camp by the attitude of the Government toward them individually or because of general dissatisfaction with Government policies.

STUART

893.00/10-2247

The Ambassador in China (Stuart) to the Secretary of State

No. 1064

NANKING, October 22, 1947.

[Received October 30.]

SIR: I have the honor to enclose three memoranda with regard to current Government activities vis-à-vis the Democratic League. The memoranda express the growing concern of Democratic League leaders that complete suppression of the League as a political party is imminent. In this general connection the Department's attention is drawn to the Embassy's Despatch No. 730 of May 16 entitled, "Probable Course of Central Government Policy Toward Non-Kuomintang Political Groups."

It will be noted from the enclosures that on October 15 the Ambassador took occasion to raise the question of repressive measures against the Democratic League with the Prime Minister who stated that he alone could not make any decision with regard to the request of the Democratic League that it be given opportunity to answer the charges brought against it by the Government through discussion of the problem with Government-appointed representatives. Chang Ch'un did say, however, that he would give careful consideration to the League's proposal and consult with other concerned officials of the Government.

It will be noted from the enclosures that the present leaders of the League are concerned that they may not be able to forestall a drift of the younger and more radical members of the League to the left if current repressive measures against the organization continue. It will also be noted that in a conversation with an officer of the Embassy on October 17, Dr. Lo Lung-chi in adverting to the general question of American aid to China expressed the opinion that no program of American aid could succeed merely on the basis of being anti-Communist; that in order to be successful, a program of aid would have to take into consideration social and economic problems not necessarily related to the current civil war and that if these problems were ignored a purely military approach to the Chinese problem would be doomed to failure. In referring to the Democratic League, Dr. Lo expressed the opinion that it was in the long term interest of the United States to see that an essentially loyal political opposition in China was not arbitrarily suppressed merely because the Government accused it of being pro-Communist without being called upon to prove its case publicly.

Respectfully yours,

For the Ambassador:
WILLIAM T. TURNER
First Secretary of Embassy

[Enclosure 1]

Memorandum of Conversation, by the First Secretary of Embassy in China (Ludden)

[NANKING, October 14, 1947.]

Participants: The Ambassador
 Chang Po-chun }
 Shen Chun-Ju } Leaders of the Democratic League
 Lo Lung-chi }
 R. P. Ludden, First Secretary of Embassy

In accordance with their request the Ambassador received Chang Po-chun, Shen Chun-Ju and Lo Lung-chi, leaders of the Democratic League, on the afternoon of October 14, 1947. At the Ambassador's request I attended this meeting.

The League leaders called to express their misgivings at the current intensification of Government attacks on the Democratic League. The League leaders maintained that they are under condemnation of the Government as agents for the Chinese Communist Party and accused of actively agitating among student and labor groups on behalf of the Communists; they maintain that the Government's attitude stems from falsified reports from the Kuomintang secret police. The League leaders maintain that they are the butt of these accusations and they have no means of defense in as much as they are forbidden the right of publication in China and communications which they have addressed to the Premier and the Generalissimo have been ignored. The Leaguers maintained that they can refute the Government accusation that they are stooges of the Communist Party but they have been given no opportunity to do so. They therefore appealed to the Ambassador to approach the Government on their behalf with a view to having Government appointed representatives meet with the League for the purpose of discussing outstanding issues between the Government and the Democratic League and for the added purpose of carrying out an objective study of the relationship between the Democratic League and the Chinese Communist Party. The Leaguers maintained adamantly that if the Government can establish the fact that there are Communist members of the League actively operating, the League will assume responsibility therefor and expel them publicly from the League. They state furthermore that they are willing, as the responsible leaders of the League, to voluntarily disband as a political party if the Government can show that the League is an agency of the Chinese Communist Party. The

Leaguers suggested that perhaps the Ambassador would care to be a member of any possible Government-League Group appointed to study the question, or that he might at least care to attend its meetings as an observer.

The Ambassador expressed his thanks for the call of the League leaders and said that he was naturally interested in their problems and that he would consider with his staff their request that he appeal to either the Premier or the Generalissimo on their behalf. The Ambassador added, however, that he did not feel that it was within his province to act either as a member or an observer on any group that may be appointed to study the question.

It was obvious from the attitude of all the League leaders that they are gravely concerned about their future position and that they appear to feel that the present attacks on the League are but the forerunner to a decree outlawing it as an organization. They maintained that some of the younger members of the League are considerably more radical than the older members and the League leadership. They also feel that the increased repression which they are now experiencing will inevitably tend to increase this radicalism and the present leadership of the League may be overthrown. They also feel that the outlawing of the League at this time and its being driven underground would merely tend to drive the League membership into the arms of the Chinese Communists. They hold that this would be to the interest neither of the Government nor to themselves as the present leaders of the League. They hold that they are attempting to be a nucleus of public-spirited progressive liberals who would like to attract like-minded people from all elements of the country and who wish only to carry on their activities openly and in a legal manner.

Following their departure, the Ambassador and I discussed their proposal and decided that the League was in fact suffering attacks from the Government which were in large degree unjustified and these attacks appeared to be a definite attempt on the part of the Government to suppress completely the last remaining open political opposition. The Ambassador expressed the view that the Government was on poor tactical ground in acting in a manner which might well drive the League underground and thus swell the ranks of the Chinese Communist Party with many intelligent and politically conscious professors and students. The Ambassador then stated that he would mention the matter to Chang Ch'un on an informal basis because he did not think it was a matter on which to approach the Generalissimo because he felt that the Generalissimo at this time is tending more and more to throw such matters into the hands of the Executive Yuan.

[Enclosure 2]

Memorandum by the First Secretary of Embassy in China (Ludden)

[NANKING,] October 16, 1947.

The Ambassador informed me today that on October 15 he took the occasion of a visit to the Prime Minister to raise the question of repressive measures against the Democratic League and to relate to the Prime Minister their presentation of their case as expressed in an interview with the Ambassador on October 14 (see Memorandum of Conversation of October 14).

The Ambassador told Chang Ch'un that he was speaking informally and more as an old friend of the Prime Minister than as an American official. The Ambassador made the suggestion that the Democratic League request for a conference between Government appointed representatives and representatives of the League be favorably considered primarily for the sake of the Government itself. The Prime Minister admitted having received a letter from the League leaders some two or three days previously but he said that he alone could not make a decision.

The Prime Minister reviewed the grievances of the Government against the League along the lines generally followed by the Government in recent public statements and expressed his personal belief that while individual members or leaders of the League might be different, the party as a whole was so strongly anti-Government and pro-Communist in sympathies that they constituted a serious hindrance to the Government's present efforts and could scarcely be regarded as a constructive factor in any solution of the present internal problems of the country. He said, however, that he would give careful thought to the League's proposal and consult with other concerned officials of the Government.

[Enclosure 3]

Memorandum of Conversation, by the First Secretary of Embassy in China (Ludden)

[NANKING,] October 17, 1947.

Dr. Lo Lung-chi called on me this morning and I informed him that on October 15 the Ambassador in conversation with the Prime Minister had mentioned the desire of the League to be given an opportunity to answer Government charges that they were a tail of the Chinese Communist Party. I said that the Prime Minister had mentioned to the Ambassador that he had received the League's

recent letter to him and the Ambassador had suggested on a purely informal basis that the League's proposal be given favorable consideration.

Dr. Lo expressed his gratitude for this step on the part of the Ambassador and requested that I convey to the Ambassador the appreciation of the League.

Dr. Lo then raised the subject of American aid to China and what had been the recommendations made by General Wedemeyer. I said that I had no information with regard to the Wedemeyer report or any recommendations contained therein. Dr. Lo went on to say that he was convinced personally that aid to the Government would be recommended by General Wedemeyer and that such aid will be forthcoming although he did not know in what quantity. In this connection he expressed the hope that any substantial American aid would be contingent upon substantial reform in the present Government. Dr. Lo averred that if sufficient American aid were forthcoming to eliminate the Communists in China, it would be of no advantage to the United States in the long run if in the course of eliminating the Communists all other political groups in China were likewise eliminated by the Government. He said that in the long run such a course would redound to the disadvantage of the United States by turning the majority of Chinese against the United States even though temporary stability could possibly be achieved in China by totalitarian methods.

Dr. Lo sought my advice as to what the attitude of the League should be in the face of current repressive acts by the Government. He said that neither he nor other leaders of the League feared arrest or imprisonment. He said that this might very well come and come shortly, but they were more concerned that the actions of the Government would tend more and more to drive the League, League sympathizers, and even non-partisans toward the Chinese Communists. He went on to say that he and other leaders of the League felt that no program of American aid to China could succeed merely on the basis of being anti-Communist; that in order to be successful it would have to take into consideration social and economic problems not necessarily related to the current civil war; that if these problems were ignored a purely military approach to the Chinese problems was doomed to failure. He went on to say that it was therefore in the long term interest of the United States to see that an essentially loyal political opposition in China was not arbitrarily suppressed merely because the Government accused it of being pro-Communist without being called upon to prove its case publicly.

893.00 Manchuria/10-2547

The Consul General at Peiping (Clubb) to the Ambassador in China (Stuart) ²⁴

MUKDEN, October 25, 1947.

SIR: I have the honor to refer to the Embassy's instruction of July 9, 1947 ²⁵ directing that a report be made on any existing and potential factional alignments in Communist-controlled areas, and to my despatch of October 20, 1947, ²⁶ and to offer below, on a tentative basis, certain observations in regard to the matter in point.

It would be my general observation that, during any such period as the Communists might be successful along the lines of a certain hypothetical policy, the chances of a split in their leadership are comparatively slight; and that, conversely, if they suffer severe setbacks at any particular time, there will be some elements which will possibly endeavor either to mould a different general policy more in line with their particular trend of thought, or will even split off from the main body. The main problems of policy over which a split might occur would probably be 1) the question of the advisability of continuing with armed insurrection in the hypothetical event that there were offered to the Communists a new opportunity of political development through negotiation (if they have no alternatives but to fight or to be exterminated, they will of course fight), and 2) the question of the political profit gained through, and therefore the desirability of, continuing with an overtly pro-USSR and anti-USA policy. The two problems are naturally intimately related one to the other.

There was obtained at Changchun very little concrete evidence to offer in support of any speculations along these lines, but the comments below are submitted for what they are worth.

1. The leadership in Manchuria is definitely subjected at the present time to what might be called a "Soviet influence", and that influence has real force by reason of the circumstance that the Manchurian Communists are closely tied to the USSR by the character of the mutual trade being carried on between North Manchuria and the USSR. The Communists are in main dependent upon that trade for getting subsistence articles for popular consumption, and perhaps some materials or commodities of use as well for their industrial and even military effort. In practical terms, cut off from non-Soviet sources of supply, they cannot afford, politically, to act other than

²⁴ Copy transmitted to the Department without covering despatch; received about November 12.

²⁵ Not printed; see footnote 79, p. 203.

²⁶ Not printed.

in ways which tend naturally to strengthen those ties, rather than to weaken them.

2. This intimacy of economic relationships, by various unrelated reports, has not resulted in a like cementing of friendship and collaboration between individual Communist leaders and Soviet representatives. There are indications that there have been actual points of friction upon occasion. Those frictions must be viewed as superficial and not affecting basic general policies. There exists nevertheless the basic Chinese feeling of nationalism which tends to give rise to resentment on the Chinese side against any evidence of "foreign interference" with Chinese affairs. This circumstance, together with the fact that, so far as known, the Soviets have not succeeded in introducing into the Chinese Communist leadership any preponderance of Russian-trained Communist leaders of Chinese nationality who would be prepared to do Moscow bidding without question and without consideration for Chinese interests, has tended to keep the Chinese Communist movement politically less than completely integrated into the international Communist movement. This development has been facilitated, in a negative way, by what seems to be a Soviet policy—presumably based on political considerations deemed by the Soviet leaders to be determinative—of refraining from direct politico-military support of the Communist regime in North Manchuria. This refers, of course, to direct intervention, and not either economic exchange or the action of Comintern agents. It is noted in this general connection that the most prominent Chinese Communist who might be considered to be under Soviet influence would be Li Li-san (Li Min-jan).²⁷ Chou Pao-chung, military leader, although subjected previously to Soviet influence, is a former subordinate of the Manchurian "resistance" leader Li Tu, and can probably properly be classified as an autonomist in heart. That category would very probably also include Chang Hsueh-szu (Hsueh-shih),²⁸ who, reputedly, originally sided with the Communists in the fall of 1945 with the idea that he was furthering the cause of Manchurian autonomy. Lin Piao himself, although presumably at the present time in line with the thinking which governs Communist policy in Manchuria, is after all a Yen-an man who can hardly have thrown off his essential Chinese nationalism excepting on grounds of expediency. Wan Yi would seem to belong to the same category.

²⁷ Former head of the Chinese Communist Party, he spent 1931–1945 in the Soviet Union and, on going to Manchuria in 1945 with the Soviet Army, became political adviser to Lin Piao, Chinese Communist general commanding in Manchuria in 1946.

²⁸ Brother of the "Young Marshal", Chang Hsueh-liang, former ruler of Manchuria.

3. Time would ordinarily tend to bring about the development of younger leaders more in line with Comintern thinking, assuming that the Soviets adopted an aggressive, forward policy in respect to Manchuria and Korea. They may adopt such policy. It is nevertheless logically conceivable that, with Soviet interest concentrated primarily in Europe, they would decide to follow a line of "non-intervention" in Asia and thus avoid dangerous dissipation of their energies for a theoretical gain which must inevitably constitute but small direct gain. The available indications thus far have been that the Soviets have steered clear of actual direct involvement in the Chinese civil war. It would appear to be quite within the realm of possibility, especially if they are under American pressure on their main front in the west, that they will choose the prudent course and avoid direct positive commitments in Asia. In those circumstances, there would be less force exercised toward the development of a cadre of Chinese Communists who might be directly subservient to the Moscow command.

4. The Chinese Communists have suffered certain reverses in North China that cannot be other than painful for them to contemplate. The reputed dispatch of Nationalist reinforcements from inside the Wall into Manchuria will inevitably make more difficult for the time being the achievement by them here of their ultimate aim—conquest of Manchuria. The obvious deterioration of the economic and social structure of the country is something which cannot but affect the Communist economy as well as the Nationalist economic structure, for they are integrally related parts of the same whole. The deterioration would be considered by the Communists to have the more significance for them the farther they progress in the political field (in terms of territorial gains as well as political history). In those circumstances they must look to the future—and a future tied to the Soviet Union alone offers them nothing but bleak prospects in terms of obtaining needed industrial and communications materials, and even to a large degree in terms of consumption goods: they cannot subsist entirely on matches, soap, and vodka. The more the Communists develop in China, the more necessary it is for them to look toward the United States for economic goods. Granted that the Chinese Communists are naïve, because inexperienced, in respect to foreign commerce, there are assuredly certain Communists, and particularly such Communists who have attained a certain degree of intellectual maturity, such as Chou En-lai²⁹ and Yeh Chien-ying,³⁰

²⁹ Head of the Chinese Communist delegation during 1946 negotiations with the Chinese Government and General of the Army George C. Marshall.

³⁰ Chinese Communist Party Commissioner of Executive Headquarters at Peiping until 1947.

who realize that, if man does not live by bread alone, the large stock of "inspiration" they get from Moscow will do little toward restoring China's shattered industry and prostrate finances. That they should in those circumstances tend to strain at the Moscow leash, and look with some longing in the direction of American markets, would only be natural.

5. There has to date been no considerable defection, whether political or military, from the Communist ranks. If they had a better direction in which to turn, possibly some elements such as the "Autonomists", or the Mongols, or the Koreans, or sympathetic students and "Fellow-travellers", might desert the Communist ranks. The fact of the matter is, however, that the Nationalist Government has increasingly failed to convince the politically conscious elements in the country that its worn shibboleths offer real hope of political and economic progress for the nation, and that there exists no third Chinese party with the force to make its will felt against the police batons of the Nationalists on the one side and the "liquidation" policies of the Communists on the other. The politically bent must choose between the two armed opponents. It seems unlikely that Communist defeats have yet been sufficient to cause any considerable fraction of the hardened veterans to think of a surrender without a future. The more probable conclusion appears to be that 1) insofar as there is any change, it will be a general change of policy, for reasons of political strategy, on the part of the Chinese Communist Party; 2) that the change will probably be related to overall Comintern policy; and 3) it will, therefore, be designed to embarrass American policies and further Soviet Russian aims in Asia. The particular form such reorientation might take would seem to be along the lines of portraying the Communists to be the true proponents of peace, and the Nationalist Government and any backers to be imperialistic warmongers. That reorientation would have some real political value as distinct from propaganda value, only if it resulted in the Communists' obtaining some concrete advantage thereby. With particular reference to my reference despatch of October 20, it is suggested, purely speculatively, that the following advantages would actually accrue to the Communist side in the event that there were new "peace negotiations", presumably backed up by American mediation, followed by a truce: 1) the immediate pressure would be taken off the Communist positions in North China; 2) the Communists would be enabled to consolidate their gains in Manchuria (very possibly including new gains, still unachieved but planned to be accomplished before a truce really became effective, in the Changchun-Kirin area); and 3) the United States might be embarrassed in the implementation of any project,

such as proposed in some quarters (as has undoubtedly come to the attention of both the USSR and the Chinese Communists) for the rendering of positive aid to the Nationalist Government in the form of military supplies, military instruction, credits for purchase of materials, and the bolstering up of Nationalist finances.

That the National Government might also benefit substantially from a truce that gave its hard-pressed economy a breathing-spell is obvious.

Conclusion.

The United States is undeniably interested in two major things in the Far East: 1) the strengthening of its own position vis-à-vis the Soviet Union, and 2) the making of some contribution to the unification of China and the improvement of the lot of its people. Assuming a Soviet-inspired a [*sic*] move by the Chinese Communists such as outlined above, the opportunity for the United States to further its aims would reside in the chance offered to put a damper on the anti-American propaganda of the Chinese Communists, and to suggest terms of agreement between the warring parties which would, if mutually beneficial, give neither side an advantage tantamount to victory—and would contribute, more than to the political advantage of either party to the dispute, to the general prosperity of the country and its people. It is believed that, while the matter is still on a hypothetical basis, it would hardly be economical of effort to endeavor to set forth now proposed terms of agreement; it is believed, however, that the problem of finding terms which, with a time-limit attached, would be of such a character as to offer to both sides a fair chance of disposing of their differences while giving neither a foothold for new political jockeying in an effort to get the United States to “take sides”, is a subject entirely susceptible of logical solution. That such an approach would be successful of course could not be guaranteed, for the mutual suspicions, ill-will and bad faith which existed between the two sides in 1946-7 have only been deepened in recent months. But the attempt would cost less in terms of materials and money than positive support of one side against the other in a deteriorating economic situation, and might bring political benefits, particularly if the move were strongly backed by a mobilization of public opinion. It is suggested generally that, in the existing circumstances, and having in the background of memory the American experience of Communist-inspired propaganda and of Chinese nationalistic sensibilities during the period of General Marshall's mediation, one tactical approach might be to meet any new Communist move by a proposal to handle the matter either by 1) an invitation to the Soviet Union to consider the problem jointly with the United States and Great Britain, or by 2) bringing the matter before the United Nations

for discussion with the aim of enlisting general support for mediation, even if still by the United States, in the Chinese political struggle.

Such an approach as proposed in the first alternative would place the Soviet Union on record; and if the Soviet Union refused to participate the United States and Great Britain and interested Dominions could consult among themselves; while if the Soviet Union accepted there would presumably be felt no need by the other participating Pacific Powers to adhere to the veto rule in the reaching of any final agreement. As a matter of political tactics, in fact, the first alternative might be tried, and then, in the event of failure, the second alternative be next taken up. The second alternative would offer interesting possibilities of enlisting support for American proposals, and that support would give to subsequent American action both the legal and moral force which would enhance the possibilities of success. Here too, however, if there were failure, the United States would still be in a position to say that it had exhausted the possibilities of action along multilateral lines and now proposed, with the agreement of the two Chinese parties to the dispute, to endeavor once more to contribute to the stabilization of China. The chief cost of this indirect approach would be time (which would be needed for any approach decided upon), but the political gains during that time would, it is submitted, probably well warrant that cost.

It is believed that it would be fruitless, however, to base any new American move on the premise that the Communists would voluntarily either lay down their arms or renounce territorial gains: being Communists, they aim at total victory, and will not give up any fraction of success already gained. Any American move should be with full appreciation of Communist motives and should be designed to serve American ends with superior strategy and force.

Respectfully yours,

O. EDMUND CLUBB

893.00/10-2747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 27, 1947—7 p. m.

[Received October 28—5:20 a. m.]

2146. Recent intensified Government press attacks against Democratic League have convinced League leaders that complete suppression of League is imminent (Embassy's dispatch 1064 of October 22). Nanking garrison command has announced that all members Chinese Communist Party and "persons having relations therewith" must register with garrison command between October 21 and October 31 or be subject to arrest. Democratic League interprets this as measure

directed at it and anticipates wave of arrests commencing November 1.

In conversation with Ambassador on October 26, Dr. Lo Lung-chi stated that he had direct news from Chinese Communist Party and Lo states that Communists are much weakened militarily and politically, the latter due to a more pro-Russian group rising against Mao Tse-tung and other senior Communist leaders. Lo states Communists are ready to resume peace talks with Demo-Leagues [as?] mediator, but not United States unless Russia also included. As previously reported to the Department, Lo reiterates that Demo-League is becoming more disillusioned as a result of recent ruthless methods of CCP and is questioning earlier Communist attitude of cooperation. Demo-League apparently now recognizes that if Communist party should gain the ascendancy the League would have short shrift.

Information available to Embassy does not indicate that CCP has been weakened materially either militarily or politically. On military level, although certain Communist forces, notably in Shantung, have suffered reverses, no major Communist force has been fixed and destroyed; to a large extent, particularly in Manchuria, Communist forces continue to retain the initiative. Politically, continued general deterioration of economic situation tends to play into Communist hands. Furthermore, Embassy has no reason to believe that so-called pro-Russian group is coming to power within CCP, but believes that intensification of civil war is bringing about pronounced radicalization and acceleration of overall Communist program. One example is intensified program of land confiscation announced by Communists October 10. In addition, qualified foreign observers have recently reported increased terroristic methods against landlords and rich peasants in Shantung and Hopeh.

Intensification of civil war has greatly weakened position of Demo-League and Embassy considers it most unlikely that it could act as mediator between Communists and Government. On the contrary there is more reason to believe that the Communists are not interested in any form of mediation except on terms which Central Government could not accept. Government appears convinced, probably with good reason, middle and lower echelons of Demo-League are deviously infiltrated Communists. In present circumstances, League could be of limited use to Government as a façade of freedom of political expression, but current indications are that Government ineptitude will continue to repeat itself in this connection.

Embassy interprets Lo Lung-chi's statement that he has "direct news" from CCP to indicate that he is receiving information from Communist-controlled areas rather than evidence that he is in direct communication with leaders of CCP. In their present extremity, League leaders appear to be seeking American support by endeavoring

to establish themselves as a link between Kuomintang and CCP. It is doubtful that their prestige with either side is sufficient to warrant our outright support, but unrestrained Government action against them, however, unsupported by credible evidence that they are directly involved with the Communist, will tend further to alienate liberal and intellectual opinion against the Government and in such a situation we cannot expect to escape unscathed.

Embassy has already expressed to Prime Minister and members of Generalissimo's household that current repressive measures against the League will tend to obtain bad press for Government abroad and that present strength and authority of League does not warrant such obvious attention from the Government.

STUART

893.00/10-2847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 28, 1947.

[Received October 28—2:03 a. m.]

2149. By official decree Democratic League has been declared an illegal organization. Local authorities have been directed to suppress League activities and to punish illegal activities of League members in accordance with measures similar to those applied to Communists as stated in Government's general mobilization order promulgated on July 4, 1947.

STUART

893.00/10-2847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 28, 1947.

[Received October 28—8:12 a. m.]

2157. Reference Embtel 2149, October 28. Shanghai afternoon papers report Lo Lung-chi, Democratic League leader, hiding in American Embassy. These reports have no foundation in fact.

STUART

893.00/10-2947

The Ambassador in China (Stuart) to the Secretary of State

No. 1073

NANKING, October 29, 1947.

[Received November 10.]

SIR: I have the honor to comment on political trends in China perhaps more as a record of my present impressions than because

of any substantial objective changes. Most of this may therefore be mere repetition of what is already familiar.

Communist Party. There is no evidence of any weakening either in fighting power or in morale. Rather the opposite. They seem to be relatively well supplied with ammunition, money and other material necessities, and to be confident of their ability to carry on for the two or three years which they estimate as the time required to get control of the territory north of the Yang-tse River. They are steadily improving their organization and discipline. Officers and men share the same hardships and have the enthusiasm of those who are devotedly fighting for a cause which transcends all thought of selfish ambition or enjoyment. There is little if any evidence of material assistance from Moscow but there is undoubtedly very close and conscious affinity in aims, methods and objectives. This will probably become more apparent as the rift widens between the United States and the Soviet Union. The hatred against America is said to be more vocal now than even against Chiang Kai-shek. Reports indicate that the younger student type is more unreservedly pro-Russian or international in its sympathies than the older leaders with whom the nationalistic loyalties aroused by foreign aggression still linger. The younger people argue that if America can help the Kmt³¹ why should not Russia be allowed to help them. On the other hand the official pronouncements have always been at pains to disavow any such aid or connection realizing the unfavorable effects of this upon the general public. There are numerous and well-authenticated reports of the merciless cruelty of the Communists, especially in newly occupied areas, and of the terrorism this inspires. There is no slightest question but that they intend to carry on their destructive tactics until the present Government succumbs. They will then agree to any temporary compromise or coalition that will enable them to extend their control until they achieve their goal of a thoroughly communized China. Nor is there any doubt in my mind but that their control will follow the invariable Communist pattern of a police-state, with no freedom of thought or action and with brutal slaughter or expropriation of all who seem to be in their way.

Kuomintang. The corruption and the reactionary forces pervading the Kuomintang are too familiar to call for further emphasis. It should be kept in mind, however, that single-party control always tends to be corrupt, that the period during which this Party has been in power has been one of incessant conflict, that the mounting costs of living have greatly aggravated an age-long tradition in China, and that the mood of defeatism in an increasingly hopeless outlook has

³¹ Kuomintang.

caused a creeping paralysis upon all creative effort. Even so the men at the very top are of high integrity and continue to struggle bravely against terrific difficulties. There are many more like them within and outside of the Government.

Other Parties. The minority parties are rather disappointing. Those now absorbed into the Government are contributing but little and are busily seeking office for their members. The Democratic League continues to arouse suspicion of its communistic proclivities and offers little prospect of serving as a nucleus for liberal action. My chief concern at present is that the Government through ill-advised persecution will discredit itself further for high-handed oppression thus winning sympathy for the League from those who stand for enlightened constitutional procedure, while the League members will be driven further leftist and to underground activities.

Another factor which is becoming more apparent is the infiltration of Communists not only into bodies like the League but also into the Government itself. The seizures in Peiping following the discovery of a Communist headquarters are grim evidence of this. But of the arrests in other cities because of documents found there all but two have been Government employees. With a revitalized program, supported alike by their colleagues and the public, such men could be largely immunized. Otherwise their members and their sinister influence will tend to increase.

The best hope of the country seems to be in her educated youth. This group should be broadened so as to include those who once were ardently patriotic students, have become more or less cynical or discouraged in their depressing environment, but might be expected under better conditions to recover much of their lost enthusiasm. Assuming American aid of the nature which has in general been under consideration, these young people could be enlisted as "shock troops". If we can manage to sublimate our military and monetary aid into a movement to bring peace, freedom from oppression and economic recovery under democratic principles, including the responsibility of the people to take a part in reforming their government, this can win the allegiance of youth and neutralize their suspicions of American imperialism, reliance on force, strengthening an effete regime as an anti-Soviet policy, et cetera. The student class is intensely nationalistic and now thoroughly alarmed. The genius of the Chinese people is naturally democratic rather than communistic. By making our objectives transparently clear we can help toward a resurgent moral awakening aiming at government reform and a better livelihood for all, with students past and present as the animating heart of it. This is what actually happened in the Revolution of 1911 and in the anti-Japanese

resistance. It can come again. The convictions of democratic youth will thus match those of communist youth and which of those of the present generation wins will largely determine the destiny of China. Nor need we fear this if we really believe in the democratic way of life and in its ability to win over its greatest rival in our time when the contest is out in the open as this would be. If this process cannot conquer Communist ideology and machinations nothing else will. But a challenge on this high plane ought to have far-reaching consequences in other parts of Asia.

When I stopped off in Nanking in May of last year to pay my respects to the Generalissimo on my return from the United States, he asked me what I thought of the situation. I replied that it was worse than I had reason to expect from press reports in America but that I believed it could be changed if he would lead whole-heartedly in a new revolutionary movement with the adventurous and unselfish zeal of the Kuomintang when he first joined it, rallying present-day youth as it had done when he was one of them. The rallying cry might well be that of patriotic loyalty expressed now in reforming, unifying and constructive effort, and of treason as consisting in all that hinders these. It would be less easy for him now but with our help I still think of this somewhat visionary solution as in the end the most practical one.

Respectfully yours,

J. LEIGHTON STUART

893.00/10-3047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 30, 1947—5 p. m.

[Received October 30—8: 24 a. m.]

2166. Following is Shanghai's 1714, of October 29, 3 p. m.

“Wang Shih-ming, former deputy Director Foreign Affairs, Bureau of Military Affairs Committee of National Military Council and now chairman Organization Committee of Reform Democratic Social Party, called October 28 on office of Consulate General to voice alarm over Central Government's orders for action against Democratic League and to express hope that American pressure will be exerted to dissuade Government from terroristic course. Wang said his party fears move against League will be extended successfully to other groups who have dared criticize Government and that this party, though including only few who are concurrently members League, is likely to be next victim. According to Wang, police 2 or 3 days ago ordered League to close its Shanghai headquarters. Wang confirmed other reports that several League leaders including Sa Chien-li and

probably Ma Shu-lan have fled from Shanghai presumably for Hong Kong and he fears most prominent liberals and nonconformists remaining here will be either arrested or forced into silence. Wang mentioned incidentally that his party's goal is coalition government which would exclude all members of 'favored families.'

STUART

893.00/10-3047

*The Consul General at Peiping (Clubb) to the Ambassador in China (Stuart)*³²

PEIPING, October 30, 1947.

SIR: I have the honor to acknowledge the receipt of the Embassy's instruction of July 9, 1947,³³ directing me to report on the amount of military assistance, if any, being given to the Chinese Communists by the U. S. S. R.

As noted by the Embassy itself in the reference instruction, the available information in regard to the subject in point is extremely limited. It is believed, however, that even negative information is of a certain amount of value in assessing a matter such as that at hand, and I reply in seriatim below to the various points in the Embassy's instruction.

(a) There has yet been obtained no positive evidence that the U. S. S. R. is supplying the Manchurian Communists with arms, ammunition, or other supplies; excepting, there has been received a report from a Japanese source to the effect that the component chemicals for powder manufacture are received from the Soviet Union and used in Communist arsenals maintained in North Manchuria. There was no indication of the volume of such supplies obtained, but munitions manufacture in North Manchuria cannot be other than in its beginning stages.

In addition, as is generally known, the Communists have in one way or another come into possession of substantial stocks of Japanese small arms supplies, some artillery and mortars, and machine guns, and are using those in the course of their present military campaigns in Manchuria. It is generally suspected, and it seems almost certain, that there was in the beginning (in late 1945 and the beginning of 1946) at least connivance on the part of the occupying Soviet military forces which led to the Chinese Communists' obtaining possession of such arms and ammunition. The Chinese Communists are reported as well to possess a very limited number of Japanese planes which have been rehabilitated and are being used for training purposes on airfields in North Manchuria.

³² Copy transmitted to the Department without covering despatch; received about November 12.

³³ Not printed; see footnote 79, p. 203.

(b) There is no positive information confirming that the U. S. S. R. is producing and stockpiling military equipment and supplies in Siberia for the use of Chinese Communist forces. It would appear, on the basis of logic and past experience, that the more probable Soviet approach to the particular matter of supply of the Chinese Communist forces would be to assist in the development of local sources of munitions supplies. That is, it would appear in logic the more probable procedure, particularly in view of the area now controlled by the Communists in Manchuria, for the Soviets to contribute in one way or another, whether by dispatch of experts or the supply of needed materials, to the erection of arsenals in Manchuria itself. With respect to the use of experts, however, it is to be noted that available Japanese reports indicate that it is Japanese technicians who are being used in munitions manufacturing centers.

It seems possible that the Soviets have stockpiled, either in the Soviet Far East or in Manchuria under their control, certain captured Japanese arms supplies from which current withdrawals are made for delivery to the Chinese Communists in exchange for Manchurian agricultural products.

(c) There is available no information in regard to the use by the Soviets of Japanese tools, dies, and specifications for the manufacture and stockpiling in Siberia of Japanese type weapons and ammunition. Despite the circumstance that this would to all appearances provide a convenient form of Soviet aid to the Chinese Communists, it is unlike the Soviets to expend much effort in the use of antiquated patterns and forms in so far as such use would not serve a useful purpose for the Soviet State. If the reasoning given in the paragraph above is sound, that is, if the Communists themselves are being caused or are able to manufacture their own munitions, those tools, dies, and specifications might be in use in Manchuria but would hardly be in use in Soviet plants in Siberia. Use in Manchuria would adequately serve what might be called the Comintern purpose.

(d) The Consulate General at Changchun has already submitted to the Department, in report form, that information which became available to it in regard to the volume and character of rail traffic from the Soviet Far East into North Manchuria, in regard to road traffic into Manchuria via Outer Mongolia, and in regard to travel conditions across Nationalist-Communist lines. It is pertinent to observe at this point, however, that there is a consensus of opinion that rail traffic over the sometime Chinese Eastern Railway has increased in recent months, and that the Communists themselves subsequent to their "Fifth Offensive" (May-June) reputedly extended their railway net to some degree into the newly occupied areas. This latter phenomenon would indicate a Communist belief that they would be able to hold those areas, and would indicate as well that they possess adequate supplies of railway construction materials. That the latter factor is present derives from the fact that the Communists control practically all of the timber resources of Manchuria and thus are able to manufacture an unlimited quantity of railway sleepers; and that the constriction in the post-VJ period of the extent of the railway network in North Manchuria as well as in those areas held by the Nationalists, has given the Communists a stockpile of rails and other steel materials adequate for restoration of trackage along those

rail lines that they consider to be of primary strategic importance. The Changchun Consulate General had available no information in regard to the character of air traffic from the Soviet Far East into North Manchuria, but the implication of general reports was that it is probably small. Likewise, judging from the inadequacy of highways and the uninhabited character of the area, it is believed improbable that the Communists have any considerable traffic from Inner Mongolia into northern Manchuria. That from the Mongolian People's Republic into Manchuria has been briefly reported upon. In respect to Northern Korea, available reports indicate that rail traffic is carried on through T'umen. The volume of that rail traffic is unknown.

Conclusions: The best available positive information indicates that the Soviets have in the past connived in the obtaining by the Chinese Communist forces of certain war materials, particularly arms and other munitions of a type not especially desired by the Soviets themselves, from stocks left behind by the Kwantung Army at V-J Day. Despite the circumstance that Assistant Military Attachés and American consular officers and others have repeatedly requested the local Chinese military authorities for evidence, including serial numbers, of the supply of arms and other munitions to the Chinese Communists by the Soviet Union, as frequently alleged in the Chinese press, no convincing evidence of such supply has yet been forthcoming. There have been a few occasions where American observers have had the opportunity to view an isolated Soviet tommy-gun or two, et cetera, but those instances have been so isolated as to lead to the logical conclusion that such items may have been sold or lost by, or stolen from, the Soviet forces during the term of their occupation in Manchuria. In respect to American Lend-Lease material now in Communist hands, most observers are inclined to agree, until convincing contrary evidence in form of serial numbers is presented, with General Chang Hsueh-ming's conclusion (in conversation with me at Mukden on October 24) that "the Communists took it from us (the Nationalists)". Likewise, there has been obtained to date no convincing evidence, despite continually recurring reports in Chinese propaganda agencies, of the actual participation of Soviet nationals, either as advisers or in the capacity of combat groups, in the civil war in Manchuria. As has been previously pointed out, all logic would lead one to believe that any direct Soviet participation along such lines would be through the participation of Communists, perhaps trained in the Soviet Union and perhaps even possessing Soviet citizenship, of Asiatic nationality. Such Communists of either Chinese, Korean or Mongol nationality would be readily available to the Comintern for such use.

There have been consistent and recurrent reports of the exchange of agricultural commodities on the part of the Chinese Communists

in Manchuria for consumption goods from the Soviet Union. Kuo-mintang propaganda has frequently suggested that the commodities received from the Soviet Union have included arms and ammunition. No concrete proof of that allegation has yet been adduced by the Chinese National side, but that at least some materials of assistance to the Communists in developing their overall military power are received from the Soviet Union in barter, appears highly probable, if still unsubstantiated by concrete evidence.

In sum, there is good reason to suspect that, because of the sympathy the Soviet Union undoubtedly has for the revolutionary movement in China, they have aided and abetted in indirect ways with the development of Chinese Communist military power in Manchuria. The tentative conclusion to be drawn from available evidence, however, is that, presumably by reason of considerations deemed by the Comintern leaders to be compelling in the international field, the Soviets have stopped short of any direct intervention. This conclusion is drawn from the absence of direct evidence to the contrary. That there may nevertheless be that direct intervention, and that evidence thereof will possibly be forthcoming in due course, is of course a logical possibility. Until that evidence becomes available, however, it is to be concluded that the assistance rendered to the Chinese Communists by the Soviets in Manchuria has thus far been indirect, and limited in absolute amount. The assistance rendered along economic lines naturally bids fair to increase in importance as time goes on—assuming by hypothesis that the Chinese Communists continue to extend territorially and develop their control in Manchuria. Such increase of economic interest between the Chinese Communists and the Soviets would in due course lead naturally to the development of a greater political—and perhaps military—interest as well. This would almost inevitably happen in the event that the domination of Manchuria by the Communists were followed by the establishment in that area of a semi-autonomous “State” operating under some sort of agreement with a Communist regime in North Manchuria and the Soviet dominated Mongolian People’s Republic.

Respectfully yours,

O. EDMUND CLUBB

893.00/10-3147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 31, 1947—11 a. m.

[Received October 31—3 : 28 a. m.]

2169. Government pressure on Democratic League has noticeably eased during past 2 days probably as a result of Embassy’s expressed

interest in matter (see final paragraph Embtel 2146, October 27). Although no arrests have been made, Democratic League leaders at Nanking continue under police surveillance.

Currently situation is briefly as follows: Announcement by Minister of Interior that Democratic League has been declared an illegal organization has not been followed by Executive Yuan decree ordering dissolution of League. In conversation with Lo Lung-chi and Hwang Yen-pei yesterday, the Prime Minister is stated by Lo to have said that he was reluctant to order dissolution of the League and that a directive from the League to its membership ordering cessation of all activities would be acceptable to the Government. League leaders state they are willing to issue such a directive if League members are not required to register with Garrison Commanders as persons connected with Communists, that their personal safety is guaranteed, and they are released from police surveillance. League leaders state they are also willing to relinquish Communist property, of which they are now custodians, to the Government.

Embassy considers that League leaders in Nanking and Shanghai are in no immediate danger, and that Government will take no further action against them pending clarification of American press reaction to original move. Safety of League members in provinces, however, is dubious and it is doubtful that Government has abandoned its effort finally to eliminate the League as an organization. In the meantime Embassy continues to be importuned by League leaders for protection against the Government. Thus far the Ambassador has pointed out to the Prime Minister, the Minister of the Interior, the Foreign Minister and the Generalissimo's personal secretary the adverse publicity abroad and further alienation of internal opinion which the Government risks in following its present course, and, in the absence of specific instructions from the Department, will take no further action. In the circumstances however an expression of the Department's views would be advantageous.

STUART

893.00/10-3147 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 31, 1947—7 p. m.

1332. Action taken by you (urtel 2169 Oct 31, 11 a. m.) pursuant Chinese Govt action against Democratic League fully approved. You may also in your discretion inform Govt leaders that course upon which Govt embarked discourages China's many friends in the US particularly coming as it does such short time before elections in

which Chinese people were to have had opportunity freely indicate their choice among candidates Kuomintang and various third parties. Step recently taken also embarrasses efforts those who seek means extend China greater US assistance.

LOVETT

893.00/10-3147

The Ambassador in China (Stuart) to the Secretary of State

No. 1079

NANKING, October 31, 1947.

[Received November 10.]

The Ambassador has the honor to enclose a copy of a memorandum of conversation between two Embassy officers and Dr. Lo Lung-chi of the Democratic League on October 28, 1947. The memorandum expresses Dr. Lo's concern over the National Government directive outlawing the Democratic League and a reiteration of his over-all plan for a coalition government as the only feasible solution to China's immediate problems. In this general connection the Department's attention is directed to the Embassy's Secret Despatches No. 823 dated July 11 [*June 20*], 1947 and No. 972 [*872*] dated July 11, 1947,³⁴ both entitled "Transmission of Memorandum of Conversation Between Dr. Lo Lung-chi and an Officer of the Embassy".

It will be noted in the enclosure that Dr. Lo, through the Ambassador, proposed to find out from the Government the exact status of the League and its members; i. e. whether only the League is outlawed or whether the members of the League are also to be considered as Communists. The Embassy has been informed that the present order does not call for the arrest or detention of the League members, but only for the cessation of activities of the Democratic League as a political entity.

[Enclosure]

Memorandum of Conversation, by the Assistant Attaché of the Embassy in China (Anderson)

NANKING, October 28, 1947.

Participants: Dr. Lo Lung-chi, Democratic League
John F. Melby, Second Secretary of Embassy
Robert Anderson, Assistant Attaché

Dr. Lo Lung-chi came to lunch on October 28, 1947, on which date the National Government outlawed the Democratic League. His house was under surveillance, all telephone wires had been cut, and

³⁴ Latter not printed.

he was released from house-arrest shortly after 10:00 A. M. The purpose of his visit to the Embassy was to request the help of the Ambassador in making contact with high government officials to sound out what was to be done with those members of the League who might be arrested. Dr. Lo tried several times, without success, to contact Shao Li-tze and Chang Li-shen, Minister of the Interior, from whose office the order had originated.

Dr. Lo did not wish to return to his residence as he would then lose all contact with the outside. He believed that he would be in danger if he did leave the Embassy, and hence was most anxious for the Ambassador's intervention. When it was suggested that he would not be harmed because of his wide foreign connections, particularly with Americans, he stated that Chinese politics were so unscrupulous and unlike Western ideas that the military would not hesitate to take drastic action. (For a man who was in such seemingly imminent danger, Dr. Lo appeared most calm and spoke in a rather academic, impersonal manner).

Dr. Lo went on to state that he could not understand why the Government had taken such action in view of the possibility of a United States loan when it was obvious that his organization could have nothing to do with the present civil war as it had no army and was composed entirely of students, professors, merchants, and the like. In this connection he stated: "What could the League do militarily even if it wanted to?"

Dr. Lo repeated several times that he wished to find out from the Government whether only the League was outlawed as a political entity or whether the members of the League were also to be considered as Communists. In addition, he made it quite clear that it was the League's desire to have any specific accusations made public in the form of open, non-military trials, thereby giving the League an opportunity to defend itself. When asked if the order had most probably come with the Generalissimo's approval, Dr. Lo replied that any order with such far-reaching effects would have had to come from the Generalissimo and, further, that it was probably not a mere coincidence that the Generalissimo had departed from Nanking two days prior to the order.

Dr. Lo then turned to the question of the much-discussed loan to China, and stated that he did not favor any loan; but if there had to be one, it should by all means have foreign supervision to prevent corruption and graft similar to that seen in the UNRRA-CNRRA China program. He then expressed the opinion that in event of a Nationalist victory, China could expect nothing but a fascist state headed by "this Generalissimo"—a situation which in the long run

would be disadvantageous to the United States inasmuch as all other political groups in China, as well as the Communists, would have been eliminated.

Dr. Lo next launched into his rather nebulous idea of a coalition government which would involve the Third Party elements in China reaching an understanding with the Communists and with influential members of the present government. He felt that certain military figures not personally allied to the Generalissimo would join such a coalition thereby giving his group its most essential weapon to assume power, namely, an army. (When asked to give specific names of the prominent military, Lo was rather indefinite.)

Biographic Notes Derived from Dr. Lo's Conversation:

1) Dr. Lo has not been in contact with Harold Laski³⁵ except for the one exchange of correspondence when he was in Kunming during the war.

2) Dr. Lo's last trip to the United States was in 1927. During the war, he tried several times to obtain a Chinese passport but was refused by the government.

R[OBERT] A[NDERSON]

893.01/10-3147

The Consul General at Mukden (Ward) to the Secretary of State

No. 58

MUKDEN, October 31, 1947.

[Received November 13.]

The Consul General has the honor to refer to the enclosed English translation³⁶ of an extract from the October 26, 1947, issue of *Ho Ping Jih Pao* (*Peace Daily*), Mukden, the press organ of the President's Northeast Headquarters, setting forth the regulations promulgated by the Chinese Government on October 21, 1947, governing the organization of the Political Affairs Commission of the President's Northeast Headquarters.

While not so stated in the enclosure under reference, this Commission is replacing the Economic Commission (commonly called "Northeast Economic Commission") and the Political Commission (commonly called "Northeast Political Commission"), both of which have been integral parts of the President's Northeast Headquarters. The Economic Commission was headed until early in 1947 by Chiang Chia-ngau,³⁷ and since that time by Kwan Chi-yu, the latter having departed from Mukden several days ago enroute to Nanking, where he will assume his new position of Vice Minister of Food Supply.

³⁵ British Socialist author.

³⁶ Enclosures not printed.

³⁷ Chang Kia-ngao, then governor of the Central Bank of China.

Wang Shu-han has been Chairman of the Political Commission and is now Vice Chairman of the Political Affairs Commission. General Chen Cheng, Director of the President's Northeast Headquarters, is concurrently Chairman of the Political Affairs Commission.

It will be noted that Article 2 of the enclosed Regulations provides that, in addition to a Chairman and a Vice Chairman, the Commission will be composed of 17 to 23 members, from among which latter 3 to 5 will be selected to serve as standing members. In so far as can be ascertained at this time, the members of the Commission have not been selected *in toto* (such selection being made nominally by the Executive Yuan, but actually by General Chen Cheng), but those members who will serve as the Standing Committee have been designated—Messrs. Kao Shih-ping, Wang Chia-ching, Feng Yung, Chu Huai-ping and Chow Tso-hua. Biographical notes on these five members of the Standing Committee appeared in the October 29 issue of *Ho Ping Jih Pao* (*Peace Daily*) and are appended hereto in English translation.

The establishment of the Political Affairs Commission has been awaited eagerly by the politically-minded people of the Northeast, it being their hope that this Commission would provide an effective instrument toward initiating a return of the administration of the Northeast to Northerners. The reaction of the Northerners thus far to the Commission has been spotty, many persons feeling that it is a constructive step, but the more politically acute feeling that while it can, if so permitted by the Central Government, develop [as] an effective instrument, its status is actually that of an advisory group which may go unheeded as do so many of the advisors and other advisory groups.

It may be that the Commission will not be able to act constructively, even in its advisory capacity, for the reason that it will "act under the orders of the President of the Executive Yuan and the instructions of the Director of the President's Northeast Headquarters" (Article 2 of Regulations).

Pending an opportunity to observe the functioning of the Commission, it must be admitted that the Government has done well to establish such a body and to withhold from manning it (thus far at least) with *Nanmantze* ("Southern Chinese", a colloquialism used in Manchuria to designate southerners and particularly those Government officials from the central and southern parts of China given to rapacious practices). Four of the members of the Standing Committee are Northerners and one is a Southerner, from Hupei Province. The formation of this body should lend some encouragement to the Northerners, at least to the less sceptical portion thereof, of a

promise of greater participation in the affairs of Manchuria by North-easterners. The provision in the Regulations for the possible establishment of a Mongolian Banner Rehabilitation Committee within the Commission is a good move, if implemented effectively, but the Regulations by the use of the phrase "may establish" in Article 9, instead of "will" or "shall establish", do not indicate that it is intended that the Commission do much toward conciliating the Eastern Mongols in the Northeast.

The recent recall to duty in Manchuria of five native Northeastern officers of general rank, who have been serving with troops in intramural China, together with the establishment of the Political Affairs Commission with a Standing Committee predominantly Northeastern, gives rise to the belief in some quarters that both of these moves, coming as they do on the heels of Bullitt's article on China³⁸ and perhaps just prior to the release of the Wedemeyer report on China,³⁹ may be in effect little more than window-dressing with a view toward building up favorable public opinion in the United States.

893.00/11-147 : Telegram

The Vice Consul at Changchun (Siebens) to the Secretary of State

CHANGCHUN, November 1, 1947—5 p. m.

[Received November 3—7:43 a. m.]⁴⁰

247. Indications are culmination Communist sixth offensive taking place in present battle for Kirin which has increased in intensity for past 10 days. General Wen Shiao-shang, Commander 30th Division New First Army presently in charge Changchun garrison in absence New First commander Pan Yu-kun, told me in interview today that Commies now have 19 divisions of which 9 are up to strength (average full Communist division 7000 to 8000 men) concentrated at Kirin and that reinforcements still coming from troops withdrawing from southern areas. He further stated defenders presently outnumbered 6 to 1.

ReContel 433, 31st to Embassy, press review military situation.⁴¹

Wen stated, however, that to date defenders had not lost one strong point in outer defense periphery and professed that situation well in hand. Core of Kirin defense force is National 60th Army, a force which Assistant Military Attaché reports as about 10,000 supported

³⁸ William C. Bullitt, former Ambassador in the Soviet Union and in France, author of article in *Life* magazine.

³⁹ September 19; Department of State, *United States Relations With China*, (Washington, Government Printing Office, 1949), pp. 764-814. See pp. 635 ff.

⁴⁰ Notation: "Message delayed in transmission."

⁴¹ Not printed.

by 10,000 miscellaneous PPC⁴² and other militia. 60th Army previously reported by Assistant Military Attaché as possibly poorest in Manchu[ria] and equipped with only moderate amount American equipment.

Decisive factor in battle to date has been National Air Force based at Mukden which has been reported and observed from here to be making comparatively large number sorties to Kirin. Both General Wen and mayor of Changchun, who knows Kirin well and states he has been in communication with mayor Kirin, admit that without air force situation Kirin would be extremely grave. Both also admitted that should 2 consecutive days' bad weather keep air force grounded, outcome of defense might well be disastrous. Chief function air force reputed to be prevention Commies concentrating, hampering of daylight movements and attacks on artillery.

Commies by all reports have been making considerable use artillery against Kirin. General Wen stated they had three regular artillery [units?] there (Military Attaché and I agree this exaggeration and that probably Communists have no more than 20 or 30 guns of 70 mm caliber) but discounted effect this force since major targets few and hard to locate. He further opined chief effect artillery was on civilian morale.

General opinion in military circles here supported by all appearances is that Kirin is sixth offensive equivalent of Ssuning in fifth offensive. Though Kirin is poorer defensive strategy possibly than Ssuning from point view nearness National Air Base, Mukden and sources relief forces, and though situation there subject to possible rapid change for worse, believe city's chances holding out reasonably good in view following factors:

(1) Natural defenses city good. Location west bank Sungari River in a bend and with facilities adjacent to Communists can be attacked only in limited section comprising west 180 degrees compass.

(2) Air force which was decisive factor at Ssuning continues by all reports to be very effective, and generally good weather this time year makes possibility slim that force will be grounded for any length time.

(3) Morale defenders which reputed initially low is rising with successful defense.

(4) 38th and 50th Divisions returning Changchun and main strength that force scheduled be in Changchun 2nd when Commanding Officer New First Army scheduled return. As intimated by General Wen in interview, present main disposition Communist forces to east in Manchu would permit elements New First Army proceed to relief Kirin.

⁴² Peace Preservation Corps.

(5) Communists have been in campaign for past month covering considerable territory and cannot be considered to be as effective as they would be fresh.

(6) Communist tactics in past still of guerilla type as necessitated by nature their forces indicates that if they anticipate cost of continued attack on Kirin to be excessively high they will break off engagement even though sustained offensive might result in capture of city.

Repeated to Embassy, Nanking, Peiping as 12 and Mukden by mail.

SIEBENS

893.00/11-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 5, 1947—6 p. m.

[Received November 6—7:33 a. m.]

2198. North Shensi news broadcasts for 2-week period ending October 15 were devoted mainly to war propaganda and to depicting American foreign policy as an imperialistic plan for expansion and for colonization of China.

Much emphasis in war news was placed on alleged victories of southern expedition armies of Generals Liu Po-cheng and Chen Keng. Accounts of these successes were said to have spurred people of "liberated areas" on to exerting even greater efforts in production of food and clothing for new counter-offensive. Strike of communications workers in Shanghai was contrasted to alleged enthusiasm of workers in Communist areas. Specific instances were cited in which many peasants were reported to be voluntarily donating most of their wheat crop, which was grown on land they acquired under land reform, to army. So-called autumn offensive of General Lin-Piao's army in Manchuria was hailed as important development of war. There were several articles dealing with "sagging morale" of Kmt troops and kind treatment Kmt captives were receiving at hands of Communists.

American foreign policy was consistently interpreted as proof of imperialistic plan for colonization of China and eventual world domination. One editorial considered US program of aid to Europe as scheme to force European countries to sacrifice their independence and sovereignty by permitting American interference in their domestic affairs in exchange for US loans. Bullitt's loan proposal evoked such comment as "American imperialists value Chinese people at \$3 apiece as cannon fodder" and "US warmonger Bullitt proposes to purchase China's 450,000,000 people for 1,350,000,000 American dol-

lars to fight for US under MacArthur's command".⁴³ Bullitt's proposal was reported to have won immediate applause from Chiang Kai-shek "thus nakedly exposing both butcher face of American imperialism and servile countenances of Chinese traitors."

The remainder of broadcasts were devoted to violent denunciation of Canadian Govt as reactionary "for its criminal conduct of aiding Chiang in civil war" by selling 150 planes to Central Govt; publication of full text of Agrarian law which will be made subject of separate report; issuance of 67-slogan directive to military and political leaders on anniversary of Double Tenth which followed general line of "strike down Chiang Kai-shek and build a new China"; renewal of attack on UNRRA on occasion of General Rooks'⁴⁴ arrival in China, expressing skepticism as to whether "UNRRA is going to change its erroneous policy of one-sided aid to Chiang Kai-shek's civil war or whether it is going to continue to play the accomplice to Chiang".

Dept please repeat to Moscow.

STUART

893.00/11-647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 6, 1947.

[Received November 6—4:23 p. m.]

2201. At weekly press conference held on November 5, 1947, Dr. Hollington K. Tong, director Government Information Office, made following statement regarding Democratic League:

"On account of manifold illegal activities of Democratic League, Government finds that it is no longer possible to continue to recognize it as a lawful party.

"However, policy of Government will be not to make any arrest of members of Democratic League or to require mandatory registration by them.

"Members of Democratic League will continue to enjoy full protection of law so long as they do not commit any further acts against laws of nation.

"Orders to this effect are being issued by Government to all local governments.[""]

STUART

⁴³ General of the Army Douglas MacArthur, Supreme Commander, Allied Powers, Japan.

⁴⁴ Lowell W. Rooks, Director General of UNRRA.

893.00/11-647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 6, 1947—2 p. m.

[Received 10:53 p. m.]

2206. The Foreign Minister has just informed me that he regretted that the action of the Government regarding the Democratic League had reached the state it had before his return.⁴⁵ (ReEmbtel 2169, October 31). He reported my opinions on the matter when he saw the Generalissimo at Kuling. The Government has now decided that it will take no further action against the Democratic League as such nor will it insist on its dissolution or the closing out of its headquarters. The leaders of the League have assured the Government that they themselves will dissolve the organization. The Government's position is now that the League has placed itself in a position of illegality. All members of the League will be entirely free from interference and there will be no trials except of individuals charged with treasonable activities, regardless of whether they are members of the League or not. Such trials will be as prompt and public as possible and the charges and decisions will be made public.⁴⁶

STUART

893.00/11-647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 6, 1947—4 p. m.

[Received 5:14 p. m.]

2208. Meisling,⁴⁷ Assistant Military Attaché, reports from Shantung as follows:

Government occupation major towns Shantung peninsula remains precarious; garrisons inadequate guarantee prolonged occupation and reinforcements cannot be spared from other areas. For example, Weihaiwei only half occupied with heavy Communist pressure from south. Unconfirmable reports state Communists massacred 3,000 civilians unprotected sections Weihaiwei and that similar reprisals reported from Pingtu and elsewhere. Such reprisals probably indicate new and ruthless Communist policy liquidation civilians for failure to oppose Government occupation, and there is considerable apprehension among populations newly occupied Government areas. Eco-

⁴⁵ Wang Shih-chieh had been in the United States.

⁴⁶ For report on outlawry of the Democratic League, see despatch No. 1087, November 5, from the Ambassador in China, *United States Relations With China*, p. 836.

⁴⁷ Maj. Vaughn F. Meisling.

conomic situation reoccupied points worsening with widespread panic. Laiyang closest reoccupied point to Tsingtao cut off by intervening Communists. Chefoo reported only stable point under competent Government commander but with growing refugee problem.

STUART

893.00/11-747 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, November 7, 1947.

[Received November 7—4:39 a. m.]

2589. Following summarizes announcement by Democratic League published November 6 in all local Chinese papers as Central News Agency release and also carried in front page column by *Ta Kung Pao*.

While we have consistently maintained our stand for democratic peace and unity, intensification of war has made impossible our serving nation effectively.

Forced to discontinue activities as result of outlawing by Government, we sent Huang Yen-pei to Nanking as our negotiator and obtained Government's offer following terms: League to dissolve voluntarily, Government properties loaned to League and CP properties in League's custody to be taken over by Government, but League properties and private residences to be left undisturbed. Huang replied League would meet these terms but requested League be permitted to dispose of its own properties; League members be exempted from registering with Government and guaranteed civil liberties to which entitled; those arrested be tried according law and when held for alleged but unproven Communist affiliations they not receive treatment prescribed for Communists. To this Government replied if League formally declares voluntary dissolution and cessation activities, members can be exempted from registering and assured freedom within law. Individuals still engaging in illegal actions will be tried according law. Measures prescribed for treatment Communists will not be applied to Leaguers arrested and found not Communists or working for Communists. Points regarding properties will be carried out. Above is record of negotiations.

We hereby notify all League members to stop political activities as from today. All our General Headquarters personnel will resign in bloc and General Headquarters will dissolve as from today. Signed Chang Lan, Chairman Democratic League.

Full text being mailed.⁴⁸

Sent Department, repeated Nanking as 1748.

DAVIS

⁴⁸ See *United States Relations With China*, p. 834.

893.00/11-847 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, November 8, 1947—5 p. m.

[Received November 12—10:17 p. m.]

343. Communists continue disrupting Mukden[-Peiping?] and Mukden-Dairen railways. Their tactics in general, excepting in Kirin sector, consist harassing activity, destroying communications and powerlines and attacking moving Government troop columns. Government has sent 9 divisions reinforcements Manchuria since beginning sixth offensive mid-September of which 4 divisions have been annihilated or captured. Most recent loss was 1 Government division proceeding Chinchow to Peipiao which was surrounded and surrendered to Communists.

Only major effort against important strong point thus far this offensive being made Kirin where 2 Communist columns engaged. Some observers believe Communists have shifted focus attacks northward while awaiting freezing Hulutao and Yingkow ports next month. Government naval strength in Liao River too devastating to enable Communists take Yingkow at present but situation there will favor Communists when river ice causes withdrawal gunboats. Necessary [*Necessity?*] capture Hulutao will vanish when port freezes. Communists will undoubtedly continue cutting Mukden-Peiping railway which task will be facilitated upon their capture Yingkow as railway will then be subject attack from both east and west.

Ample evidences sixth offensive proceeding satisfactorily to Communists who have suffered light losses and at same time made successful strides toward disrupting economy and communications north Great Wall. They have killed or captured large number Government troops, seized large stocks recently harvested cereals and food sorely needed by Government forces and captured considerable quantities military supplies and equipment. Some Government units still incapable meeting Communist troops in frontal attack.

Civilian morale, which improved when General Chen Cheng named director PNEH, again deteriorating rapidly. Government troops gouging civil population less than prior arrival Chen but southern officials, after acting with restraint during early days Chen regime, are again exploiting civilians mercilessly. Cost living has risen unprecedented level, food scarce, fuel and clothing practically unobtainable, value local currency tumbling rapidly and everyone aware life will be desperate struggle this winter. Many formerly loyal northeasterners losing their will to resist Communists and others less loyal, but nevertheless formerly anti-Communist, now feel that life under Communists cannot be less attractive than under Kmt regime.

Notwithstanding his glowing early promises Chen has accomplished little, if anything, toward removing basic causes of discontent and Communist propaganda therefore has lost none its magnetism. Nothing has been done toward suppressing unfair and discriminatory practices against foreign business firms.

Hopes American aid, which were high during and immediately after Wedemeyer mission visit, continue to wane. Such waning contributing deterioration civilian morale. If aid forthcoming, early indication thereof would have stimulating effect. Without hope such aid, situation is not promising. At same time, however, without Governmental reform in NE regime and removable basic causes discontent, it can be successfully argued that such aid will prove temporary palliative only.

Sent Nanking, repeated Department as 343 and Changchun.

WARD

893.01/11-1347 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, November 13, 1947—3 p. m.
[Received November 13—12:31 p. m.]

346. General Lo Cho-ying, formerly Governor [of] Kwangtung, arrived Mukden November 11 as Vice Director President's NE Headquarters, altho some sources state he has been appointed as Director. Persistent rumors Chen Cheng, who has been ill with stomach ulcers, will be relieved and replaced by Lo. Chen may remain as titular head for time, but many observers believe actual replacement will be made as soon as possible without causing loss face by Chen.

Sent Embassy, repeated Department as 346 and Changchun.

WARD

893.00/11-1447 : Telegram

The Consul General at Tsingtao (Spiker) to the Secretary of State

TSINGTAO, November 14, 1947—10 a. m.
[Received November 14—8:21 a. m.]

119. With Communist capture of Pingtu November 8, refugee problem here has become acute. Mayor reports 200,000 refugees now in Tsingtao and more than 100,000 enroute from interior. Ruthless treatment of civilians by Communists in areas recaptured from Government forces is spreading terror throughout peninsula.

Sent at 146 to Embassy, Nanking, and 119 to Department.

SPIKER

893.00/11-1447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 14, 1947—4 p. m.

[Received November 14—8:18 a. m.]

2236. Present indications are that despite rumors to contrary the Government intends to go through with its plans for holding elections to the national and local governments the middle of November. The Kmt in last few days has announced its list of candidates for various offices. No agreement, however, has yet been announced concerning the division of public offices between the Kmt, the Youth Party and Social Democrats. Reports received in the Embassy say that the difficulty involves local administrations rather than positions in National Government in which the minor parties appear to have largely a token interest.

During recent weeks there has been an increasing amount of agitation in vernacular press designed to stimulate interest in the elections and get out the vote. The results of elections already held in such places as Peiping, as well as the tone of confidence of official editorial comment, strongly suggest the growing popular belief that outcome will in all probability be a Kmt landslide. Embassy inclined to believe that this popular feeling is not without foundation.

STUART

893.00/11-1747

The President of the Chinese Executive Yuan (Chang) to the Secretary of State

[NANKING,] November 17, 1947.

[Received November 28.]

DEAR GENERAL MARSHALL: At this moment when you are shouldering the heavy responsibility of formulating the initial plans for aiding Europe and China, I feel compelled to send you this message for your personal consideration.

For over six months I have been in charge of the Executive Yuan. While I am in no wise in despair of the eventual outcome of the fight which the Generalissimo and my colleagues are putting up, I must frankly admit that both the military and economic situations are today far more critical than at the time when I assumed office. Though the Government forces have re-taken the Shantung Peninsula, thereby depriving the Communists of one of their strongholds and bases of supply, the dislodged and scattering Communist units are now operating in more and wider areas than before. This not only calls

for greater military efforts but also for fresh and urgent economic measures. Furthermore, the Government position in Manchuria, if allowed to remain too long on the defensive, may become out of control, politically as well as militarily. This explains why there is such an outcry on the part of the Chinese public to see China given both emergency assistance and a long-range aid program. I am sure that in whatever form or language this desire may be expressed, you will regard it with understanding and sympathy. In sending these words to you, I am fully conscious of my own responsibility in helping China merit the effort which you have so generously exerted in the past and which you are continuing to exert now.

With warm personal regards,

Yours very sincerely,

CHANG CHUN

893.00/11-1847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 18, 1947—3 p. m.

[Received November 18—8:15 a. m.]

2255. We have been reliably informed that Minister of National Defense ⁴⁹ reported to State Council [on] November 15 that Central China now most important area of military operations. All reports reaching Embassy tend to confirm that for time being at least critical military foci have shifted from Manchuria to intramural China.

In Shantung Government hold on reoccupied areas is nebulous and although situation there is at present relatively quiescent renewal Communist activity and pressure may be anticipated (Embtel 2208, November 6). Shantung situation has not been improved by necessity to airlift one division from Weishien to reinforce Hsuehchow where forces under command of Chen Yi have moved to within approximately 5 miles of city and cut communications along southern section of the Tsin-Pu railway (reEmbtel 2246, November 17 ⁵⁰).

West of Hsuehchow Communist forces under command Chen Yi have destroyed major portion Lung-Hai railway between Hsuehchow and Kaifeng by removing steel and burning ties and there are reliable reports that through the gap thus created Communist troops and supplies from southwestern Shantung are moving to Honan and Anhwei to reinforce troops of Liu Po-cheng.

Liu Po-cheng, operating from bases in the Tapieh Shan, apparently unlocated by Government, holds complete initiative over wide area

⁴⁹ Gen. Pai Chung-hsi.

⁵⁰ Not printed; it reported the withdrawal from Hsuehchow of an Army Advisory Group school because of the military situation (893.20 Missions/11-1747).

of Anhwei and Honan and, with the Lung-Hai line successfully disrupted by Chen Yi, now has capability of interdicting north-south communications on both Tsin-Pu and Ping-Han lines and disrupting river traffic between Hankow and Kiukiang. Chinese G-2 has admitted to Military Attaché that it will be necessary for Government to mount major offensive from Yangtze line in order drive Communists north of Yellow River.

In Hopei Government loss of Shihchiachuang and current critical situation in Paoting area has further sapped Government military power in the north. Vernacular press currently reporting evacuation provincial officials from Paoting.

In Manchuria Government prospects for coming winter are grim and reported appointment of Lo Cho-ying as deputy commander northeast (Mukden's 346 to Department⁵¹) cannot be expected to do other than deepen prevailing pessimism.

Communist sixth offensive Manchuria appears to have been checked for time being. Government losses, however, exceeded those of Communists and Communist acquisitions large quantities grain and other stores and disruption coal and power production will add to burden of Government not only with regard military operations but in civil administration as well during coming winter. Ports of Hulutao and Yingkow will be ice-bound after mid-December leaving Government dependent upon tenuous line of communication along Pai-Ning railway which continues vulnerable to Communist disruption. Furthermore general consensus is that Communists have withdrawn no major forces north of Sungari and will probably renew offensive operations during December. Currently the canker of attrition is acting on the military position of the Government in all areas of active hostilities and as this process develops the Government's overall military control is becoming increasingly tenuous.⁵²

STUART

893.00/11-1847 : Telegram

The Consul General at Tientsin (Smyth) to the Secretary of State

TIENTSIN, November 18, 1947—7 p. m.

[Received November 19—5:04 a. m.]

266. Communist capture Shihchiachuang has caused much nervousness among local Chinese military civil officials particularly in view fact several Government divisions sent late September-early October from North China to Manchuria. Possible threat to Tientsin, Pei-

⁵¹ November 13, 3 p. m., p. 363.

⁵² Notation by the Assistant Chief of the Division of Chinese Affairs (Rice): "A bleak sit[uation]. ER"

ping creates demand among many Chinese here for recall these divisions which, however, badly needed Manchuria.

Local nervousness increased by transfer now in progress between 62nd Army in general Tientsin area and 92nd Army in Tangshan area. 62nd is well trained, equipped but 92nd not highly regarded. Explanation offered that 92nd is defensive army which can protect Tientsin while offensive 62nd Army needed guard KMA⁵³ mines and vital railway Chinwangtao. Local officials fearing attack during transfer set back curfew midnight to 10:30 November 15. No breaks have occurred so far in November on Tientsin-Chinwangtao railway and KMA coal shipments have averaged 13,000 tons per day. Troop transfer now cutting shipments. Trains Tientsin-Peiping delayed somewhat past week by Communist action near Wuchingsien. One Government regiment [transferred?] Paoting to Lang[fang?] area to protect railway.

According KMA officials, railway now operating Shanhaikuan to Chinchow.

Many Chinese here more pessimistic Government ability hold North China. This stems comparison present Government military position with only 1 year ago when Government held greater area and was planning to rush [*crush?*] Communists. Government officials' psychology here mostly defensive. Most high Government officials here, but not all, express belief Tientsin-Peiping and possibly railway to Chinwangtao can be held unless Manchuria collapses.

Sent Nanking as 300, repeated Department as 22 [266]. Peiping, Mukden November 18.

SMYTH

893.00/11-1947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 19, 1947—9 a. m.
[Received November 19—4:02 a. m.]

2259. From various sources there come to me increasing evidences of a realization among high Chinese officials of the critical stage of developments in China [and?] of the urgent need for assistance from the United States. I have considered the possibility of calculated action to impress upon me and through me upon the Department the need for prompt action but my considered judgment discards that idea. I do not believe they are merely trying to put pressure upon us; they are really disturbed and despondent.

I have learned in strictest confidence, for example, that immediately following my conversation with the Generalissimo re supreme mili-

⁵³ Kailan Mining Administration.

tary adviser (our 2241, November 15⁵⁴) he called together his closest military subordinates and informed them of his request of me, thus anticipating the growing discontent which is arising and the tendency to blame the United States.

Also at luncheon the other day where Sinkiang Governor Chang Chih-chung had invited me to meet Dr. Wang Shih-chieh, Minister Foreign Affairs, Gen. Wu Ting-chang, secretary-general National Govt, Gen. Wu Tieh-cheng, Secretary General Kuomintang, Mr. Shao Li-tse, member State Council, and Dr. Kan Nai-kuang, secretary-general Executive Yuan, discussion after luncheon turned inevitably to the critical internal situation. There was talk of the possibility of still reaching some agreement with the Communists and the suggestion that the elections be postponed, as to hold them now might destroy the possibility of successful peace talks. Shao Li-tse had advocated such action before the State Council, he said, but had been voted down. The Generalissimo remained firm, he said, in his desire to hold the elections as a necessary step toward constitutional govt.

Dr. Kan spoke frankly of the gravity of the military outlook and its bearing on the elections. North of the Yangtze it would be difficult for those elected to attend the national convention and [*as?*] they would be in danger of Communist reprisals. Able-bodied men had been drafted for fighting and crops were suffering. Delegates could only come from the large cities which would affect the possibility of securing a quorum. The Communist spearhead had already penetrated south of the Yangtze and would aim to recover their former stronghold in eastern Kiangsi. They were active in Kwangtung and Kwangsi. They were operating chiefly in country districts where lie the sources of production with resulting shortages in the cities. Munitions for China came from America, Japan or Chinese arsenals. Japanese supplies were pretty well exhausted. They had American guns but no bullets and Chinese arsenals had only limited capacity. In Manchuria he said the Govt was losing; Shihchiachuang had been lost and Peiping and Tientsin had been threatened.

There was talk of the unpatriotic behavior of Shanghai merchants whose profits were in conflict with national welfare. It was an unhealthy situation which the Govt appeared powerless to rectify. It was this feeling of powerlessness to a T [*sic*] which dominated the discussion which ended with a sobering awareness of impending crisis. To me who knows them all intimately it seemed clear that these gentlemen all spoke with a sincerity and obvious despondency which was arresting.

STUART

⁵⁴ *Post*, p. 1219.

893.00/11-1947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 19, 1947—10 a. m.

[Received November 19—8:52 a. m.]

2260. Foreign Office official has informed Embassy officer that under instructions from Generalissimo, Ministry of National Defense has requested Foreign Office to take up with British Government question of suppressing Democratic League in Hongkong. This Foreign Office official professed certain indecision as to what should be done because he said he is quite certain British will refuse to accede to Chinese request.

This is the first reliable confirmation Embassy has received of previous reports that Chinese Government was contemplating requests to various other governments that they follow Chinese lead in outlawing the League.

Sent Department 2260, November 19, 10 a. m., repeated Hongkong 63. Department please repeat to London as Nanking's No. 3.

STUART

893.00/11-2047

The Minister-Counselor of Embassy in China (Clark) to the Director of the Office of Far Eastern Affairs (Butterworth) ⁵⁵

NANKING, November 20, 1947.

DEAR WALT: I hope we have not been playing too many variations of the tune that Chinese officialdom is now chastened and appearing willing to clean house. If it were not for the fact that I find others of long residence here agreeing that an opportunity is now offered which should not be missed I would be inclined to think I was nearly Pollyanna and reading into things more than there is there.

Most fortuitously I ran into Arthur Young ⁵⁶ the day I landed in Shanghai and found him ripe with suggestions for improving the internal situation in China. He had come back temporarily on the understanding that he would not be expected to stay unless China was prepared to take effective action and felt himself in a strong position to make unprejudiced suggestions to the Chinese authorities. He works, of course, through Chang Chia-ngau. As you know by now he finally prepared a memorandum of his thoughts which he handed to the Ambassador in Shanghai and which we transmitted with the first telegram ⁵⁷ upon my arrival in Nanking. I say that

⁵⁵ Date of receipt not indicated.

⁵⁶ American adviser to the Chinese Ministry of Finance.

⁵⁷ See telegram No. 2223, November 10, 4 p. m., from the Ambassador in China, p. 1205.

the crystallization of Arthur Young's ideas came fortuitously because I found in Nanking such a growing realization of the acuteness of the crisis that on all sides I have been getting indications that the Gimo may, repeat may, at last be willing to take the requisite action. The Ambassador is convinced of this as he is convinced that the Gimo still has the authority to act if he takes the decision. The Gimo and other high ranking officials seem very reluctantly to have come to the conclusion that they must accept active American guidance and they are doing their best to bring themselves to take the requisite action. I hope by the time you have received this we will have been informed in more detail of the current thought in the Department on this problem. From here the time seems very opportune for a "Marshall" approach to the Far East analogous to that made to Europe. Wellington Koo is being instructed today to approach the Department⁵⁸ with a definite request for financial aid coupled with an undertaking to accept American guidance in the various fields where reform is necessary to bring some order out of the existing internal chaos. This decision was taken with the full approval of the Gimo and Arthur Young insists that he impressed upon Chang Chia-ngau the importance of not taking this action unless the Chinese Government intended to carry through with its implementation. It is, I am convinced, a present intention of the high officials to "sail the course now charted" but the Chinese are still Chinese and there is going to be many a pitfall. Our thought at the moment is that if the Department accedes to the Chinese request the American advisers sent should be paid by the United States Government and loaned to China, their expenses in China including housing, transportation, etc., being paid by the Chinese Government. The advisers would thus retain more freedom of action, greater prestige, and give us more control over their activities.

If there are favorable developments to this *démarche* by the Chinese Government one element would of necessity appear to be a real activation of AAG along lines to meet the practical situation existing in China today and in this event I am wondering whether we should not have a stronger man heading that group. A name that occurs to me is that of an old friend of mine whom I believe you also know, who is now General Timberman.⁵⁹

I am off to Peiping November 25th and will visit Mukden and Tientsin, at the same time calling Siebens⁶⁰ down from Changchun. Immediately upon my return I plan to go to Tsingtao and if possible

⁵⁸ See memorandum of November 24 from the Chinese Embassy, p. 1223.

⁵⁹ Brig. Gen. Thomas S. Timberman, formerly American Director of Operations of Executive Headquarters at Peiping.

⁶⁰ Allen C. Siebens, Vice Consul at Changchun.

before Christmas will make the circuit: Taipei, Hong Kong, Canton, Hankow. I have been advised to delay my trip west until the arrival of the converted flying fortress which has been promised the Air Attaché. When I have completed my tour I shall be in a better position to speak regarding China. At the moment I don't dare open my mouth without the advice of counsel.

I find even greater need for a plane for the Ambassador than I had envisaged from Washington and we will be sending a telegram on the subject immediately upon my return from my northern trip.

With the very best regards [etc.]

LEWIS CLARK

893.00/11-2447

The Ambassador in China (Stuart) to the Secretary of State

No. 1119

NANKING, November 24, 1947.

[Received December 3.]

SIR: I have the honor to comment further on some of the spiritual or human factors in the Civil War as they are revealing themselves more clearly in the midst of rapidly deteriorating military and fiscal trends. The Communist organizers have a fanatical faith in their cause and are able to inspire their workers and to a large extent their troops and the local population with belief in its rightness, practical benefits and ultimate triumph. As against this the Government employees are becoming ever more dispirited, defeatist and consequently listless or unscrupulously self-seeking. This of course still further alienates the liberal elements who ought to be the Government's chief reliance. Even the higher officials are beginning to lose hope. The effect on military morale is disastrous. In this drift toward catastrophe they clutch at American aid as at least postponing the inevitable. This is all that such monetary aid can do unless there is also among the Kmt leaders a new sense of dominating purpose, of sacred mission, of national salvation, expressing itself in challenging slogans, arousing them to fresh enthusiasms, leading them to forget their personal fears, ambitions and jealousies in the larger, more absorbingly worthwhile cause. It seems to me that this idea can be urged upon them under two emphases.

(1) *Freedom*. There can be absolutely no freedom of thought or action under Communist rule. The contentment that comes from a measure of economic security is conditioned on mute acceptance of party dictation. The zeal is generated by what is in large measure false and malicious indoctrination. If the Kmt could appreciate the propagandist value of exposing this and go to the opposite extreme in guaranteeing freedom of speech, publication and assembly, at what-

ever seeming risk of subversive activities, it would win the loyalty of the intellectuals as nothing else could. The really harmful agitation of Communist agents in newspaper offices, schools or even in Government bureaus, could be safely left to the constructive elements in each unit concerned. An aggressive ideological warfare over this issue by the Kmt might be made tremendously effective. But the Government would have to take an adventurous leap and cease to rely upon its secret service and other suppressive agencies.

(2) *The People's Livelihood.* The third of the famous *Three Principles* is being constantly honored in speeches and published articles. The Communists have gone a long way toward its realization but the Government shows up lamentably in comparison. True, it has had incessant foreign and domestic conflicts, but making all allowance for its difficulties the record to date has been extremely discreditable. If, however, all who do not want China to be communized could be enlisted in a movement to support the Government in effecting better local administration, there might well be a resurgent revolutionary movement that would attack at once graft and inefficiency among Government officials and the wantonly destructive policy of the Communists. Both could alike be described as the present form of treasonable or unpatriotic activity, to be resisted and eliminated as they would a foreign foe by all who love their country.

American aid could be based on the desire to help the populace in Government territory to have the twin benefits of the freedom essential to democracy and the economic welfare which is the only protection against Communist penetration. If conditioned upon hearty Government determination to achieve these two objectives for its people, it would first of all supply the new hope without which the leaders could scarcely recover from their depression of spirit and would give us the strongest leverage in furnishing the desperately needed aid as at each stage there is evidence of progress or in stopping it whenever the forces of reaction or of corruption assert themselves.

As I have been observing President Chiang the impression grows upon me that his controlling fear is of Russia and that this goes a long way toward explaining his behavior. Conversely if he could feel assured that American assistance in its various forms would protect him against this threat I am convinced that he would gratefully agree to almost any conditions we might impose. The two emphases mentioned above he has accepted in principle and, as I believe, sincerely. This is of course the crucial issue for us also. I sympathize intensely with you as you are struggling with the baffling complexities of this as a global problem and I have unwavering confidence that whatever decisions you make will be wise and right. But it may be of some help to you to have this restatement of the Chinese aspect of the total problem in the light of our earlier conversations and my previous despatches.

Respectfully yours,

J. LEIGHTON STUART

893.00/11-2447

*The Consul General at Mukden (Ward) to the Ambassador in China
(Stuart)*⁶¹

No. 47

MUKDEN, November 24, 1947.

The Consul General has the honor to transmit herewith a memorandum entitled "Objectives and Success of Communist Sixth Offensive" which was prepared today by Vice Consul Fred E. Hubbard.⁶²

As Vice Consul Hubbard states, the objectives of the Chinese Communists in their sixth offensive have been achieved; but at the same time the Chinese Government can state with truth and conviction that its objectives in this offensive have been achieved—the difference between the objectives of the two antagonists being that those of the Communists were positive (i. e., destruction of lines of communication, seizing of food supplies, and attacking the moving columns and isolated bodies of troops), whereas those of the Government were negative (i. e., to avoid loss of any large city or any strongpoint of sufficient importance to endanger the immediate security of the Government tenure in the Northeast). Notwithstanding that the Chinese Government has lost no large city or important strongpoint thus far in the sixth offensive, the Government has suffered smarting and demoralizing defeats in that it has suffered serious losses in men, area, communications, industry (coal mines and electricity supply), economy (food supply and continued demoralization of currency) and prestige.

The failure of the Communists to follow through some of their military successes (for instance, Mukden was wide open to attack and possible capture during the early days of the offensive, particularly the first days of October) may have been the result of poor leadership, insufficient striking force, or inadequate supply, but there were indications that such reticence was planned and not the result of unpreparedness. Time, supplemented by "hit and run" tactics and the constant attrition of Government troops and morale in the Northeast, is favoring the Communists vastly more than the Government.

If time itself is not the reason for such reticence it is interesting to seek further reasons therefor. One of these reasons (and in this the Consul General differs from Vice Consul Hubbard) may be that the Chinese Communists are practicing restraint until it is made known whether the United States will grant large scale military aid to China—in which case the Communists will then hope to receive direct and open aid from the Soviet Union, if they have not already received assurance of such aid in case the United States gives large scale aid

⁶¹ Copy transmitted to the Department by the Consul General at Mukden without covering despatch; received December 4.

⁶² Not printed.

to China. Another of these reasons (and in this the Consul General and Vice Consul Hubbard are in agreement) may be that the Communists are withholding large scale military action against the Government troops until it is learned whether or not large scale American aid will be forthcoming to China, and in the event such aid will not be forthcoming on a scale generous enough to appease the Chinese Government the Communists will then attempt to capitalize on the probable pique of the Chinese and offer to enter into negotiations with the Chinese Government looking toward the acquisition of Manchuria by the Communists in return for concessions to the Government in Intra-mural China.

893.00/11-2547 : Telegram

The Vice Consul at Changchun (Siebens) to the Secretary of State

CHANGCHUN, November 25, 1947—3 p. m.

[Received December 2—10:06 p. m.]

252. With gradual withdrawal past 10 days [of] main Communist force, estimated by New First Army G-2 as 12 divisions surrounding Changchun on 10 to 15 miles periphery and reputed return to "normally [*normalcy?*]" at Kirin, believe Communist sixth Manchurian offensive at least in Changchun-Kirin area terminated. General observations re offensive in area follow:

1. Changchun was never attacked in force, and even forementioned encirclement appears to have been in nature economic tactics over military, completion grain seizures and *coup de grâce* to Kirin railroad rather than preparation for attack on city.

2. Sixth offensive (which began in late September) did not gain momentum in area until relatively late, when part of Communist forces in south moved to attack on Kirin, which lasted from approximately October 20 to November 4. (ReContel 434, November 1, 5 p. m., repeated Department,⁶³ Mukden, Peiping.) 38th and 50th Divisions New First Army were able to leave Changchun between September 27 and 29 for Ssiping in swift move to reenforce to south when Communist main drive began crystallize that direction with initial actions in Chihsi sector. These divisions, backbone of Changchun defense, returned only November 1 as attack on Kirin reaching climax and continued northward movement Communist forces rumored. Possible interpretation Communists' lifting siege Kirin and encircling Changchun shortly after return main force to permit completion forementioned economic depredations and lack desire engage forces which General Pan Yu-kun, C. O. New First, informed

⁶³ Telegram No. 247, p. 356.

me were prepared proceed to relief Kirin in event siege there continued.

3. Chief accomplishments Communists during offensive were:

(a) Redestruction Changchun-Mukden railway which reported in press and confirmed by me in course low level flight in observation aircraft over entire length line 2 days before, redestruction to have been within approximately 10 days reopening. Nationalists had expended tremendous sum in repairing line since May offensive and exhausted all remaining available railway construction supplies in area.

(b) Large scale destruction to Kirin-Changchun Railroad, this line particularly vital to Changchun and Kirin fuel economy (re-Condés 97 and 98, November 11 to Department,⁶⁴ copies to Embassy, Mukden, Peiping.)

(c) Widespread and reputedly complete seizure 1947 crops.

(d) Infliction of severe losses on already deficient Kirin garrison (extent of losses not yet known this office) and, according to statement New First Army Chief of Staff, of overall losses of Nationalists in Manchuria larger than overall losses incurred until reputed "annihilation" of Communist seventh column in Hsinmin area about November 3 balance[d] losses in Nationalists' favor.

(e) Tightening of noose around Changchun by establishment firmer hold on positions in towns near Changchun such as grain centers Nungan and Tehhui.

(f) Serious damage to electric line ex [out of] Hsiao Feng Man to Changchun, leaving Changchun without current (re refCondésps).

As evidence, position Changchun and Kirin substantially weakened as result offensive. Both centers still completely isolated except by air. Changchun in critical economic plight, especially as regards food and fuel, and Kirin reputedly little better off. Changchun food stores for civilian and military needs estimated by Mayor at 6 months and by garrison commander at 3 months with no visible source future accessions except by air from south. Changchun garrison substantially weakened when crack New First 30th Division flown there between November 15 and 18, according to New First C. O. to serve there as nucleus for formation new Nationalist army. This division to be replaced by recruits from China proper flown into Changchun to train with New First.

Re future, believe Changchun secure at least for winter, when extreme cold deterrent to ambitious campaigns, and barring unforeseen outside aid to Communists, for spring, when large scale Communist campaign probable, and when Nationalists themselves may be forced launch an offensive. Despite weakening of garrison city still defended by force estimated by Assistant Military Attaché at 40,000 with some good New First Army troops as nucleus, is strongly fortified, and is

⁶⁴Despatch No. 97 not found in Department files; despatch No. 98 not printed.

within easy range Nationalist air force based at Mukden. During winter at least Communists would presumably see little advantage in attacking strong point in force after experience at Ssuping in May and Kirin in October–November, especially when that point already economically strangled. Heckling raids now being carried out and can expected continue. To date Nationalists give no indication weaken Changchun further or abandon city (Mukden's Conf tel 445, October 14, to Embassy, repeated Department as 314 ⁶⁵), a tactic which, apart from political considerations and being a hazardous undertaking would seem uneconomic logistically in view apparent improbability successful all-out attack on city and stores and housing held by army in situation where both in acute shortage in Nationalist-held Manchuria. (However, note for information that New First Chief of Staff informed me in "strict confidence" that present munition stocks Changchun sufficient for only 2 weeks in event all-out attack, and that additional munitions would have to be flown in.) While economic situation hazardous, feel that army will fly food in if necessary and that population under martial law will struggle through winter without revolt but with extreme hardship, including some deaths from cold and starvation.

This forecast based in part on assumption Nationalists will maintain present tactics.

Re Nationalist tactics directed by Chen Cheng as observed from Changchun, opine that on whole they were reasonably well carried out, especially in comparison those under Tu Yu-ming and Hsiung Hsi-hui ⁶⁶ during fifth offensive.

Thirty-eighth and fiftieth Divisions New First were moved promptly and without loss to Ssuping when majority Nationalist forces that point sent Chihhsi area, and returned Changchun in 2 days' march (82 miles) when services were no longer needed at Ssuping and reinforcement to north became desirable. Well corroborated fact that these forces completely surprised 1,500 Communist troops at Kungchuling and that substantial Communist forces closed Ssuping–Changchun corridor close behind Nationalist columns would indicate that time of expected move [was] well-guarded secret (in comparison to many Nationalist moves which in past have been rumored and demonstrated to be known to Communist intelligence before they occur) and that swiftness of move foiled possible Communist intentions use favorite tactic attack forces in transit. Kirin defense, concerning which most observers justifiably pessimistic, was successful in face determined siege and attack. Few Nationalist groups were isolated and destroyed

⁶⁵ Not printed.

⁶⁶ Former Chinese Government general commanding in Manchuria and director of Generalissimo Chiang's Headquarters in the Northeast, respectively.

piecemeal as in past. Nationalists lost no strongholds. Conversation yesterday with Japanese hospital corps[men] impressed in Communist service and escaped November 7 after 18 months' service with troops in Manchuria would indicate losses inflicted on Communists substantial (despatch re information given by these men being prepared).⁶⁷ In summary Communists considering badly deteriorated condition Nationalist position Manchuria, opine that in spite losses sustained and signal success Communist campaign economic attrition, from purely military viewpoint at least defense Kirin-Changchun indicate Nationalists have learned some lessons from past, and that Communists still essentially guerrillas.

Sent Nanking 445; repeated Department as 252, Mukden as 23, Peiping as 27.

SIEBENS

893.00/11-2647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 26, 1947—2 p. m.

[Received November 26—7:45 a. m.]

2297. Military Attaché⁶⁸ has returned from Manchuria and his verbal report to Embassy depicts grimmer picture Govt prospects Manchuria during coming winter than reported in final paragraphs Embtel 2255, November 18, 3 p. m.

Critical situation south of Peiping in Paoting area has required recall to North China of units recently sent to reinforce Manchuria. American trained and equipped units from Changchun have been withdrawn to Mukden area. These units have been replaced at Changchun by Fukienese recruits who are moving up without equipment. Military Attaché doubts that there is sufficient equipment in Changchun to supply these replacements. In any event Communist forces Changchun-Kirin area are believed in sufficient strength, possibly 16 divisions, to take either city at will.

At both Changchun and Mukden situation with regard to fuel, light and water is critical. Govt commanders assert there are sufficient food supplies for garrison forces for from 3 to 6 months. Govt officials at Mukden assert there are food supplies for civil population sufficient for 30 days under siege conditions. Ward,⁶⁹ however, doubts

⁶⁷ Possibly despatch No. 101, December 21, not printed; it was based on the observations of Japanese hospital corpsmen and reported on the status of Japanese hold-out troops in Manchuria and the efforts both of Chinese Communists and Nationalists to win the support of these troops (893.00 Manchuria/12-2147).

⁶⁸ Brig. Gen. Robert H. Soule.

⁶⁹ Angus Ward, Consul General at Mukden.

that there is more than 8-day supply. At Mukden there are already evidences of starvation among civil population. In addition there are large numbers of refugees from Communist areas estimated in excess of 100,000 who are inadequately clothed and constitute an added drain upon limited food supply. Similar conditions prevail at Changchun. The Peiping-Mukden railway is operating on as far as Chinchow and continues vulnerable to Communist attack. Govt military authorities Mukden state it will be necessary to launch campaign to widen area of control throughout entire length railway line in order supply troops in Mukden area during winter; this will be particularly important after port of Hulutao freezes about mid-December.

Govt commanders freely admit that sixth Communist offensive was completely successful from Communist point of view. Communists achieved two major objectives—to disrupt and destroy surface communications between Mukden and Changchun and Changchun and Kirin and to obtain grain supplies for their own use and at same time deny such supplies to the Govt and urban populations.

Central Govt commanders agree that sixth Communist offensive at least for time being has been halted but there now appears to be no question but that Communists have permanently established themselves in important areas south of the Sungari River.

STUART

893.00B/11-2647 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, November 26, 1947—5 p. m.

[Received December 1—8:09 a. m.]

367. Summary conditions Northeast following Communist sixth offensive:

Part 1. Military: Informed foreign observers and Chinese military officers believe main effort Communist sixth offensive has been spent. Difficult determine whether present lull with its small-scale activities [is] preparatory period for regrouping, etc., incidental to seventh offensive. No responsible Government official doubts ability Communists wage seventh offensive. Observers' opinions vary as to when large scale operations will be resumed, one expecting heavy attacks December while others feel cold weather will preclude heavy attacks until immediately before spring thaws. In any event Government intelligence of Communist plans again ineffective and without information when or where next heavy blow will fall. Government has been weakened militarily by sixth offensive. Government openly

admits 28,000 casualties but this figure believed very low. Can be assumed Government has only few more troops in Northeast now than at beginning sixth offensive even tho 9 divisions reinforcements sent Northeast during past 2 months. Changchun sector being weakened by removal 2 divisions crack New First Army to Mukden area and replacement by green, poorly-equipped Fukienese troops.

Altho Government alleges sufficient food and clothing for all troops Northeast, neutral observers have noted acute shortage adequate winter foot and hand gear necessary this area. American Military Attaché informed ammunition shortage exists Mukden area.

If Communists start heavy offensive within next several months, Government will be hard pressed to withstand.

Conditions intramural China preclude reinforcement northeast [at] present. Only reinforcement possible now is movement within northeast from one area to another where possibly greater need exists. No reserves available. Situation northeast will be still further weakened by reported forthcoming removal troops to Paoting area in Hopei. All prospects Government counter-offensive this year (mytel 405, September 20, to Embassy ⁷⁰) now appear gone as Government admits 15 additional divisions required make such offensive.

Renewed efforts being made recruit local troops. Such efforts not successful past and no reason believe will be successful now. At best these troops will not be effective until next summer.

Strategically Communists better located now than at opening sixth offensive. Have not had withdraw from Mukden-Changchun, Changchun-Kirin or Mukden-Dairen rail lines. Their present positions constitute potential threat to Changchun, Kirin, Szepingkai, Anshan and Yingkow. Perhaps even more important is that Communists hold sufficient portion Mukden-Dairen line to enable them supply by rail at will large scale attack on either Anshan or Yingkow.

Communist losses recent campaign impossible assess but, notwithstanding Government alleges Communist casualties 90,000, likely casualties among Communists were less than among Government troops. Communist attacks consisted hit-and-run tactics which conserve manpower. Is known Communists had large units which were not in action during offensive.

Part 2. Economic: Most devastating effect Communist sixth offensive has been on northeast economy. Communists seized or destroyed large percentage crops. Now control 95% area northeast. Population this area greatly exceeds food supply therefrom. Rise in prices partly attributable unscrupulous officials and speculators but believed supply and demand more responsible.

⁷⁰ Repeated to the Department as No. 273, September 29, 11 a. m., p. 287.

Effective Communist destruction rail lines has precluded entry civilian supplies to northeast. Only high profit commodities such as tobacco being imported in quantity. Industry has been paralyzed by Communist disruption electric power lines from Fushun, Chihsi and Hsingcheng, Manchuria. Destruction coal mines and lines communication has curtailed use thermal electric units Chihsi and Changchun.

Poor planning and corruption has resulted acute coal shortage area where coal normally plentiful with resulting extreme discontent among common people.

Part 3. Political: Much of Government weakness in northeast issues from corrupt political system. Chen Cheng's early promises political and economic reform and cleanup corruption northeast thus far empty. Lo Tso-ying, former Kwangtung Governor, known for unbridled corruption, has arrived Mukden assume duties as Vice Director PNEH. Troops at Fushun, only coal mine now accessible Mukden, exacting so much squeeze impossible small business men profitably move coal Mukden. Black market, particularly coal and foodstuffs, continues under aegis Government officials. Indifference and defeatism among people becoming more apparent. Believed majority people this area indifferent whether Communists or Government in control, but if Government's maladministration continues during coming cold and hungry months passive attitude may well change into active desire for and assistance to Communist regime.

Sent Embassy, repeated Department as 367, Changchun 346, Peiping 79.

WARD

893.00/12-147 : Airgram

The Consul at Hankow (Bacon) to the Secretary of State

HANKOW, December 1, 1947—noon.

[Received December 11—10:33 a. m.]

A-54. Communists successes north of the Yellow River were accompanied by increased activity in Honan and Hupeh. While the Government was successful in clearing the north bank of the Yangtze of Communist elements, so that early in the month the conveying of shipping could be discontinued, Communist troops in western Honan captured Linju and Paofeng on November 4; and by the end of the month Nanyeng, Sinyeh, and Laohokow were seriously threatened. Rumors of their fall were denied by the Wuhan Headquarters.

Guerrilla operations and banditry in northern Honan has reached such proportions that members of an UNRRA agricultural mission at Yencheng, which commands an important bridge on the Pinghan Railway, were notified late in the month by the local authorities that their safety could not be guaranteed after November 30; and one missionary society is preparing to remove valuable equipment from its hospital at that point. The constant movement of large bodies of Government troops in southern Honan with attendant disorganization of local police administration has resulted in frequent appeals for protection from missionary stations, the members of which are in some cases returning to the coast.

In spite of increased Government troop concentrations in Hankow, on November 22 the 2nd, 5th and 7th CP ⁷¹ Brigades attacked Huangpei, 20 miles to the north, in a surprise attempt to destroy an entire Government division occupying the town, and in conjunction with other CP troops to cut the Yangtze immediately below Hankow, in the vicinity of the Anglo-American petroleum installations. The attempt was unsuccessful, and many hundreds of Communist prisoners taken, some of whom were marched through the streets of Hankow; but the gravity of the situation was signaled by re-instituting curfew, the arrival of Defense Minister Pai Chung-hsi on November 26 for consultations of interprovincial defense measures, and the commencement of new fortifications about the city, including a moat along its northern boundary. As in Changsha and other cities, a "Bandit Suppression" militia is being organized at Hankow, to be equipped by the National Army and fed and paid by citizens' contributions; and for this purpose three British and American firms have been requested to make immediate "loans" of sums ranging up to CN\$500,000,000, which they have declined on the advice of their respective consulates.

Elections to the National Assembly were held November 21-23 without public incident or interest. The Kmt candidates for the 8 places allotted to the Hankow municipal District received a total of 299,000 votes, of which 51,000 were women's; an additional 25,000 were cast for an unsuccessful Young China candidate, and 2100 for 3 unaffiliated independents. No Social-Democratic ticket was offered. One woman independent is known to have been warned to withdraw her candidacy on election eve, on threat of kidnapping. The list of candidates "approved" by the Election Commission was published only 5 days before the balloting, resulting in 1) total absence of campaigning; 2) surprise shared almost equally between the public and the aspirants themselves.

BACON

⁷¹ Chinese Communist.

893.00/12-247

The Ambassador in China (Stuart) to the Secretary of State

No. 1136

NANKING, December 2, 1947.

[Received December 10.]

SIR: I have the honor to forward the enclosed communication from Dr. Lin Tung-hai⁷² as requested. It is a touching description of the plight in which liberals find themselves. Another Chinese friend has called on me (December 1) to report a trip to Manchuria and North China from which he has just returned. His description of the physical suffering of the population and of their dejection, accentuates the gravity of the situation. He told me that certain non-partisans in the north are attempting again to effect a resumption of peace talks with some hope of success. I feel, however, very dubious. The Communists would certainly make stiffer demands than hitherto and the Government would regard any consideration of these as in effect appeasement or surrender to which any other fate would seem to them to be preferable.

Within the Government the CC Clique has been steadily gaining in power since last September and now controls most of the Government economic and financial agencies. Although President Chiang had indicated to me in early September his readiness to have Dr. Chen Li-fu go abroad yet he has apparently succumbed to the strong pressure constantly on him which fits in too well with his own earlier predilections. Premier Chang was too much involved with other members of the Political Science Clique in joining with the CC Clique against T. V. Soong and in other deals to be able to oppose them openly. In fact he is largely responsible for allowing them to have their men in the leading Government financial institutions. In a certain sense there is no CC Clique, but rather a permeation of the whole Party machinery by the Chen brothers whose control of patronage and of the secret police gives them immense power. They are fanatical in their conviction that the Communist Party must be crushed and that its agents, often disguised as Kmt members or as liberals, are everywhere carrying on subversive activities. There is enough evidence of this to justify their fears if not their methods. The liberals themselves, while anxious to be of use, are thwarted or intimidated, and are only feebly organized, if at all. In the prevalent

⁷² Not printed; it was a lengthy exposition of the political situation from the point of view of one of the splinter-group "liberal" parties, the National Liberal Party, of which Dr. Lin was one of the chief spokesmen.

dispirited mood and the more rapid drift toward catastrophe the reactionaries are even hostile to the liberals as such. This is perhaps due in part to the reckless folly that is bred by a sense of impending disaster—"whom the Gods destroy they first make mad"—in part also to the illusion that, with American aid to be counted on because of our fear of Soviet aggression, they can use this to their own advantage without being hampered by what they regard as the visionary ideas of the liberals. This large and potentially very influential class are likely therefore to suffer almost equally whether the extreme reactionaries or the extreme radicals win.

As you are considering the possibilities of aid to China I venture to comment once more on the place of advisers in this program. Civilian advisers for the specialized functions Mr. Blandford⁷³ might help to determine, appointed by us at the request of the Chinese Government, would be able to recommend to you such concrete assistance as would from time to time seem wise as well as to ensure that this was being used as intended. President Chiang has already renewed his request for such a group so that from that standpoint there need be no delay. The same holds true of the Civil Aeronautics Adviser recommended in the memorandum prepared by General McConnell⁷⁴ last winter. In this connection would it be desirable to broaden the directive for his successor, General Thomas,⁷⁵ so as to include some of those functions? It seems to me quite worth-while also to arrange for three or four agricultural experts to advise that Ministry as to how to put into effect the more immediately needed items in the Report of the Sino-American Commission of a year ago.⁷⁶ This might well include a modest amount in any future loans. This should be of value in helping distracted Government leaders to fight Communism at the grass-roots. I hope to forward more specific suggestions on this matter but am now raising the question in principle.

I hope that these thoughts of mine may be of some slight help as you are pondering a problem the perplexities of which I can to some extent imagine. My heartiest sympathy as you pass from other baffling issues to this one.

Respectfully yours,

J. LEIGHTON STUART

⁷³ John B. Blandford, American financial adviser to the Chinese Government.

⁷⁴ Brig. Gen. John P. McConnell, then Commanding General, Air Division, Nanking Headquarters Command.

⁷⁵ Brig. Gen. Charles E. Thomas.

⁷⁶ Entitled *Report of the China-United States Agricultural Mission*, published by the Department of Agriculture as International Agricultural Collaboration Report No. 2, May 1947. For correspondence on this mission, see *Foreign Relations*, 1946, vol. x, pp. 1268 ff.

893.00/12-347 : Telegram

The Consul General at Tsingtao (Spiker) to the Secretary of State

TSINGTAO, December 3, 1947—4 p. m.

[Received December 3—12:36 p. m.]

126. Reliable source reports loss of Kaomi, 40 miles northwest of Tsingtao, to Communists about November 27, with capture or casualties of entire garrison and all civil officials. Same source predicts imminent loss of Laiyang and Haiyang, both now under strong Communist attack. If lost, only cities in Government hands will be Lungkow, Huanghsien, Penglai, Chefoo and Weihaiwei. No overland communication exists between these points and Tsingtao, or between Chefoo and other cities.

Repeated Nanking as No. 149.

SPIKER

893.00/12-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 4, 1947—11 a. m.

[Received December 4—5:28 a. m.]

2333. Generalissimo's personal secretary, Shen Chang-huan, has informed me that attempt to assassinate Generalissimo was made on November 29 outside west gate Peiping while Generalissimo was en route to airfield. Apparently only one shot was fired which passed thru Generalissimo's vehicle just above heads of occupants. Gen. Sun Lien-chung⁷⁷ is stated to have jumped from car and captured the would-be assassin.

Shen offers as explanation that Generalissimo had ordered court martial of Gen. Mou Ting-fang, formerly Commander Nine [*New?*] Fourth Army, on charges of grafting. This is said to have angered Gen. Mou's followers, some of whom planned the ambush.

The official Government story is that a Chinese Air Force Lieutenant discharged a fire-arm at a wild fowl approximately 8 minutes before Generalissimo's car arrived at scene. The lieutenant was arrested, an investigation held and lieutenant released.

I talked with Generalissimo on evening of December 2 and it was my impression that he was in a more depressed state of mind than I have ever known him. Generalissimo made no mention to me of attempt on his life.

⁷⁷ Chairman of the Hopei provincial government.

Sent Dept 2333, repeated Peiping 280, Tientsin 177, December 4, 11 a. m.⁷⁸

STUART

893.00/12-547 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 5, 1947—7 p. m.

1478. Please make following reply on Secy's behalf to President of Executive Yuan:

"Personal and Confidential. Dear General Chang: Thank you for your letter of November 17, in which you give me your views on the present situation in China. As Dr. Wang Shih-chieh doubtless told you, we are taking steps to complete the 8-1/3 Group Program⁷⁹ insofar as the equipment is still available and are making arrangements for China to be able to purchase ammunition from supplies in the Pacific Islands as well as from manufacturers in the United States.

A program to provide economic and financial assistance to China is being prepared for presentation to the Congress.

I am confident that despite the special difficulties which you face and the enormity of China's needs, you will appreciate that we are endeavoring to be of all possible help within the limits imposed by existing conditions in China, the United States and elsewhere.

I send you my warm personal greetings with assurance that I will do within my power all that I can to be of assistance. Faithfully yours."

LOVETT

Nanking Embassy Files, Lot F-79, 800 China : Airgram

*The Consul at Shanghai (Pilcher) to the Ambassador in China (Stuart)*⁸⁰

SHANGHAI, December 5, 1947.

A-52. Carsun Chang's Attitude Towards Elections. In a conversation with the American secretary of Carsun Chang, a member of this

⁷⁸ In his telegram Telmar 37, December 4, to the Secretary of State at London, the Acting Secretary of State repeated Ambassador Stuart's No. 2333, commenting, "In view of official explanation and fact that Gimo felt he would lose face even to mention occurrence to Dr. Stuart it is not recommended that you send a message expressing gratification at his escape."

⁷⁹ For correspondence on this subject, see pp. 785 ff.

⁸⁰ In a memorandum of December 12 the Chief of the Division of Chinese Affairs (Ringwalt) invited the attention of the Secretary of State to this airgram. A subsequent notation, undated but probably about January 7, 1948, by the Assistant Chief of the Division (Sprouse) read: "Dr. Chang has seen the Secretary." (893.00/12-1247).

Consulate General's staff gained the following impressions in regard to Chang's attitude towards the elections.

Carsun Chang is now convinced that the Democratic Socialist Party will have only a voiceless, ineffectual and token representation in the new Government, which is destined to be "coalition" in name only because of the Kuomintang's determination to relinquish none of its control.

Some months ago Chang stated privately that the Kuomintang had placed agents in his party who worked to aggravate internal dissension and were to a considerable extent responsible for the party split which followed the convocation of the party's national congress in August.

Chang holds little hope that his party will fare better in the Legislative and Control Yuans' elections than it did in the National Assembly elections in which it failed by an estimated 25 to 40 seats to obtain its "allocated quota". He feels keenly his party's weakened position and its loss of prestige. The local Kuomintang "mosquito" papers, especially those controlled by the C.C. Clique, have taken considerable delight in playing up the failure of the Democratic Socialist Party to make a showing even with the support it extorted from the senior party. Chang has indicated privately that he will make no public protest in regard to the outcome of the elections. The last two issues of the party's weekly publication *Rebirth (Tsai Sheng)* carried no comment on the NPA⁸¹ election returns.

In his negotiations with the Kuomintang over what he considered a fair geographic distribution of seats, Chang held out for an allocation of election districts in which the Kuomintang had long been firmly entrenched and refused to consider the proposal that he direct his efforts toward winning support for his party in the Northwest where the Kuomintang's influence has not been strong. The outcome of the elections clearly shows that Kuomintang district leaders have no intention of permitting minority party men to replace them, instructions from the Central Kuomintang notwithstanding.

Ambitious Democratic Socialists who sought election have complained that Chang showed them little personal consideration in the recent elections; that he made no effort to rally support for them, directing no publicity campaign in their behalf. (Chang admitted that he had neglected to cast a ballot in the recent elections.) The Democratic Socialist candidate defeated in the Shanghai district elections reportedly told the press that his defeat was partially due to lack of enthusiasm on the part of his party, which should have given him stronger support.

⁸¹ National Assembly.

In spite of the pressure being put upon him, Chang is determined not to enter the present Government, apparently having little confidence in its ability to survive and fearing that his participation in it would jeopardize his future political career. His colleagues feel that he is exhibiting unseemly haste in his insistence upon leaving the country by December 17, as the winter term at the University of Washington, where he has a teaching engagement, does not commence until January 10. However, Chang apparently feels his presence in China during the coming elections will serve no purpose, and there appears to be a strong possibility that it is his intention to proceed directly to Washington for the purpose of presenting his views and recommendations to the American Government.

PILCHER

893.00/12-647

*The Ambassador in China (Stuart) to the Secretary of State*⁸²

No. 1144

NANKING, December 6, 1947.

[Received December 17.]

Subject: Assessment of Current Military Position of Central Government and Suggested Application of American Military Assistance.

SIR: I have the honor to observe that for some time we have considered the possibility that our periodic messages concerning certain isolated phases of the military position of the Government may not convey to officers of the Department a complete impression of the over-all military situation in China. Even though the Department will have noted that few, if any, messages from the Embassy or Consulates bearing upon the military position of the Government have been optimistic in tone, it has remained a fact, until the fall of Shih-chiachuang in late November, that the major urban centers have remained in Government hands and the Government from time to time has given wide publicity to the recapture of such points as Kalgan, Yen-an, and Chefoo as triumphs of Government arms.

It has long been our feeling, however, that the mere retention of urban centers in a nation such as China has not reflected accurately the military strength of the Government. In a predominately agrarian society such as China's, the occupation of an urban center is of continuing military value to the occupying force in proportion to the degree of full and free economic and political intercourse obtaining between that city and its adjacent countryside after the occupation

⁸² Drafted by the First Secretary of Embassy (Ludden) and the Attaché (Schultheis).

has taken place. If this condition does not obtain, the mere military occupation of a city, in the sense that the occupation denies it to the enemy forces controlling contiguous rural areas, becomes a source of weakness to the occupying force.

In the prevailing situation in China the inter-relation between military, political and economic developments is more marked perhaps than in any other area of the world. Assuming, as we do, that the Department is currently studying methods whereby there may be created in Eastern Asia conditions of greater stability than now prevail, we believe it desirable at this time, and largely in non-technical terms, to assess the military position of the Central Government of China with a view to determining whether or not its position has deteriorated to a critical point, to express our opinion with regard to certain of the causal factors involved in this deterioration, and to suggest action which may serve to improve the situation.

The Department will recall that some months ago the Central Government established at Hsuehchow an advanced military headquarters under the command of General Ku Chu-tung, Commander-in-Chief of Chinese Army Ground Forces, assumably for the purpose of coordinating all military activity in connection with the Government effort to clear North Kiangsu and Shantung of Communist forces. More recently the Department will have noted the centralization of Government military activity in the central Yangtze Valley area in a similar headquarters at Kiukiang under the command of General Pai Chung-shi, Minister of National Defense, to halt the incursion of the Communist General Liu Po-cheng into Central China.

More significantly, however, the Central Government on December 1 announced the formation in Peiping of a North China General Bandit Suppression Headquarters under the command of General Fu Tso-yi. This headquarters, according to preliminary accounts, is charged with the direction of all Government military activities in Suiyuan, Chahar, Hopei, Jehol and the area through which the trace [*track?*] of the Peiping-Liaoning Railway passes. The establishment of all of these headquarters indicates to us the growing concern of the Government with the deterioration of its military position. In the case of the establishment of the headquarters at Peiping, we consider it to be an indication of the Government's real, if belated, appreciation of the realities of the military situation, particularly because of the appointment of General Fu Tso-yi to a position of great command responsibility. Without attempting to discuss at length General Fu's competence it is our opinion that he is an able and aggressive commander whose technical reputation among American commanders familiar with China is of a high order. Laudable

as this appointment may be, it seems more significant to us that there has been appointed an officer who has not been noted for his close associations with the dominant military cliques close to the Generalissimo and in making the appointment, granting command responsibility over such a large and critical area, the Generalissimo appears to have proceeded contrary to his previous custom of dividing and diffusing, rather than concentrating and delegating, military power and responsibility.

The current military position of the Government cannot be appreciated without a review of developments immediately following the surrender of Japan. On V-J Day the Central Government was presented with the primary objective of the reestablishment of its authority in North China and Manchuria. The Government attempted to do this by the military occupation of the larger cities in these areas and the interconnecting land-lines of communication within the areas themselves and between these areas and the Yangtze Valley. At higher Chinese staff levels, in theory at least, there was an appreciation of the necessity to establish governments in reoccupied cities sufficiently effective to attract wide popular support from contiguous rural areas. At that time it was the opinion of the then American China Theatre Headquarters that, failing the establishment of popular and effective civil administrations, the military resources of the Central Government were inadequate for the purposes of the operation. In particular, it was held that any attempt to occupy Manchuria would so deplete the strategic troop reserves of the Government that a Government-Communist military stalemate would result both north and south of the Great Wall and that this stalemate would slowly resolve in favor of the Communists.

This estimate of the situation then prevailing has been borne out by subsequent developments. American advice to the contrary, the Government committed itself to a purely military reoccupation of Manchuria without consideration for long established regional sentiment in the Northeast. It is undeniable, as the sum of American reporting of developments in this period shows, that the Central Government administrations in all reoccupied areas was immediately welcomed. However, the development of malfeasance and misfeasance in office usually alienated rather than gained popular support for the Government. Stemming from this initial blunder, or ineptitude, the Government military position during the past 24 months has steadily deteriorated.

In the first 6 to 12 months after V-J Day Government armies possessed the capability for offensive operations against the Communists in so far as they were able to move large bodies of troops—of divisional

strength or greater—through Communist-dominated territory, and assault and occupy Communist-held cities. In North China and Manchuria this capability diminished rapidly in direct proportion to the distance large formations maneuvered from their bases. The Government forces involved soon became irrevocably committed to the garrisoning of occupied cities and the guarding of lines of communication. In so doing, they lost the capability of offensive sweeps through the countryside contiguous to these garrisons with the aim of preventing the consolidation of Communist military strength in rural areas. They failed as well to create governments in their zones of occupation which could attract popular support either in the cities or in the surrounding countryside. Following Government victories at such places as Kalgan, Shan Hai-kuan, Changchun and Ssuping-kai, the Communists recognized the extent and character of the Government capability and abandoned large scale positional warfare except where Government formations at the end of long supply lines became vulnerable to attack. In other words, by mid-1946 Government armies were committed to a strategic plan which involved the sacrifice of mobility and the Communists fitted their strategy and tactics to meet this situation.

In retrospect it now appears that Communist planning involved the following: (*a*) the isolation of the North China and Manchurian battlefields from the lower Yangtze Valley through the interdiction and seizure of land communications; (*b*) the development of their own military resources through the distribution of stocks of former Japanese military equipment and captured supplies in areas under their control and through the recruiting and training of new units; (*c*) the isolation of the various sectors of Government military operations north of the Yellow River; (*d*) the development of military operations between the Lung-Hai railroad and the Yangtze, in order to prevent the reenforcement of the North from the Yangtze Valley; (*e*) the progressive isolation and reduction of Government garrisons north of the Yellow River, beginning with those points furthest removed from major bases; (*f*) the development of a program of psychological warfare and clandestine activity in Government garrisoned centers in order to weaken Government control.

In recent weeks the effectiveness of Communist planning has become increasingly apparent. Government forces north of the Lung-Hai railroad are virtually immobilized at garrison or line of communication guard duty. In most areas Communist strength is sufficient to prevent the Government from weakening the garrison at any given point in order to launch offensive forays or to move to the assistance of an adjacent garrison which may be under Communist attack. The loss of Shih Chia-chuang and the impending loss of Yuan Shih, and

the imminent threat to Paoting are examples of the efficacy of the Communist strategy of compartmentalizing the area of battle along the northern sector of the Peiping-Hankow railroad. In effect the Communists have gained the capability to mobilize large formations and utilize them offensively against the Government. Furthermore they possess the capability to concentrate these formations against the Government without serious hindrance, while the Government lacks the capability to move in opposition. In short, in most areas north of the Lung-Hai railroad the offensive initiative has passed to the Communists.

The position of the Government might be alleviated in some degree were it possible for it to reinforce any of the northern sectors from the south. The recent incursion of Liu Po-ch'eng, however, south of the Lung-Hai, through the Ta Pieh-shan, and on to the northern bank of the Yangtze River constitutes a sufficient potential threat to the security of Government control of the Yangtze Valley to prevent any diminution of its present Government garrison. Furthermore the threat of civil unrest in Southern and Southwestern China forbids any large reduction in the already meager forces garrisoning those areas. In view of these circumstances there is no likelihood that the Government will be able to find any significant number of reinforcements for North China or Manchuria except in the form of impressed and untrained replacements for a portion of its battle losses.

As suggested above the Government has attempted to meet the situation by the formation of new command organizations in certain large area—Ch'en Ch'eng, the Chief of Staff, for Manchuria; Fu Tso-yi, for North China and the line of communication to the Northeast; Ku Chu-tung, Commander in Chief, Ground Forces, for the Eastern Lung-hai area and Shantung; Pai Chung-hsi, Minister of National Defense, for Central China. There is no evidence to suggest that this reshuffle of command responsibility will have any pervasively beneficial effect. On the contrary all reports received by the Embassy indicate that there exists in all Government headquarters, at all echelons, both at Nanking and in the field, the deepest pessimism with regard to the possibility of any improvement in the Government's military position. Of late this pessimism is tending more and more to become abject defeatism. This state of mind is in large degree the result of the Government's strategy of static defense of fixed positions. Physical stagnation has brought about mental paralysis in command echelons and on troop level any desire to join with the enemy is rapidly disappearing. It will be recalled that at the outset of the second Burma campaign in 1943 it was with considerable difficulty that American officers instilled the offensive technique into selected

Chinese divisions, but once those units became confident of their own ability and that of their leaders they performed creditably against an enemy before whom they had been retreating for six years. At the present time American trained and equipped units of the Chinese army have been permitted to abandon their previous rudimentary but effective training in the American concept of finding, fixing, and destroying the enemy and are subject to the dry rot of immobility. As has been pointed out above, the Communists' capabilities have developed to the point where Government forces can take effective offensive action only with great difficulty, if at all.

In the light of the foregoing it is our considered opinion that the Government military position, particularly in North China and Manchuria, has reached a critical stage. Evidence of the deterioration is plentiful and need not be dwelt on at length in this despatch in as much as it has been the subject of previous reporting from the Embassy and from the Office of the Military Attaché.

It remains, then, to assess the precise degree to which the deterioration has progressed. As has been pointed out above, the initiative has now passed to the Communists, who now have the capability of further reducing the Government's military strength by attrition and by direct assault. The Government high command is aware of this situation. It is also aware that it is totally incapable of restoring the military situation to its own advantage. Since this is the case, the deterioration of the Government military position at an increasingly rapid rate may be expected. A collapse of any significantly large sector in North China or Manchuria will inevitably result in the rapid development of a military crisis which cannot be isolated. The factors which will make for this crisis are already in operation, and the initiative is in the hands of the Communists. In a very real sense the complete collapse of the Government military position in North China and Manchuria depends on the timetable of the Communist high command.

The military crisis now besetting the Chinese Government has the closest possible interdependent causal relationship with the political and economic crises in present day Chinese society. This is a fact so generally recognized as to require no further elaboration here. It will suffice to state that a general, profound, and long-term improvement in the military situation can only come through economic and political reforms, and that no profound improvement in the economic and political crises can come without a corresponding improvement in the military situation. However, there is much evidence to support the view that, of these three crises, none is immediately more grave than that in the military sphere, and none is more likely to develop suddenly into a situation beyond repair. The certain effect

of any large Government military catastrophe on the political and economic positions of the Chinese Government need only be suggested. For these reasons, we incline strongly to the view that, for the moment, the stabilization and improvement of the Government military position holds priority over the solution of the economic and political crises.

While it is our conviction that any measures taken to guard against a Government military collapse must be adopted promptly, we further believe that they must stem from a consideration of two demonstrable facts; the first, that the Government is completely incapable of restoring the military situation to its own advantage without outside assistance; and, the second, that despite the admittedly severe matériel shortage of the Government, its adverse military position stems far less from this factor, in which it is certainly no worse off than the Communists, than from its commission of a series of politico-military blunders of the first magnitude. If the first of these facts calls for a comprehensive program of military aid in the interest of restoring stability in China, the second demands that such aid as is given be so contrived and directed as to retrieve the politico-military blunders already committed and to guard against and prevent similar blunders as the aid is deployed.

As indicated above, we are in accord with views expressed elsewhere to the effect that military aid to the Chinese Government should include the furnishing of stocks of military supplies and equipment. We further believe that the current program of the AAG is properly a part of such a program. However, we are of the firm opinion that assistance of this character, no matter to what degree it may be augmented, cannot be in any sense efficacious unless some means can be found to insure its application in accord with sound military and political principles.

From consideration of the factors involved, it is our belief that the key to the effective application of military aid to the existing Chinese Government lies in the creation of an American Planning Group to work with the Chinese General Staff but having direct access to the Generalissimo. This Group could nominally be a part of the existing Army Advisory Group but in effect operating independently thereof. Such a Group would have the primary function, in accordance with the prevailing politico-military situation in any given area, of developing the necessary strategic plans essential for Government reoccupation and of making tentative allocations of the matériel necessary for the execution of the plan. Any plans developed would necessarily have to receive the concurrence of the Chinese High Command. The personnel of this Planning Group should be small, including officers with War Department planning experience, officers

with field experience with Chinese troops and civilian personnel, qualified in terms of knowledge of Chinese society, to plan and advise on military government techniques for application in reoccupied areas. The Group should have available to it intelligence facilities to keep it apprised of the capabilities and military situations of both the Government and Communist forces at all times. The Group should also have available to it field parties with Sino-American personnel having the responsibility of explaining the developed plans to the higher echelons of the Government's field commands and reporting to the parent group whether any given plan was being energetically implemented. If we were able to demonstrate that we were prepared to carry forward operations which would eventually redound to the advantage of the civilian population, it is probable that to the field parties could be attracted numbers of highly intelligent and progressive Chinese civilians with a knowledge of local administrative problems superior to that of any Chinese military leaders or alien experts.

We believe that a program developed along the lines suggested in this despatch offers a feasible means of assisting the Chinese Government in its present military extremity. This statement is made with the qualification that such a program, if it is to be effective, will depend on the good faith with which the Chinese Government provides cooperation. In making the foregoing suggestions we do not ignore the past inconclusive results of American advisory efforts in all government spheres, but if this or some similar plan were made the price of material military assistance it would serve to convince the Chinese Government that no program of overall American assistance can be expected unless the Chinese themselves are willing to provide concrete assurances that aid is being deployed in useful and productive channels.

Respectfully yours,

For the Ambassador:

LEWIS CLARK

Minister-Counselor of Embassy

893.00/12-847

*The Minister-Counselor of Embassy in China (Clark) to the
Secretary of State*

No. 1147

NANKING, December 8, 1947.

[Received December 17.]

SIR: I have the honor to enclose as of interest a copy of a memorandum of conversation between the Ambassador and Premier Chang

Chun regarding the influence of the CC Clique from which it will be noted that Premier Chang Chun claims great credit for the Chen brothers for their early recognition of the Soviet menace.

It will be noted that Premier Chang is sanguine that when the new constitution is put into effect measures can and will be undertaken which ought to result in improvement of the situation.

Respectfully yours,

LEWIS CLARK

[Enclosure]

Memorandum by the Ambassador in China (Stuart) of a Conversation With the President of the Chinese Executive Yuan (Chang)

NANKING, December 6, 1947.

I called on Premier Chang Chun with the thought of bringing to his attention some of the obstacles to American aid within the Chinese Government. I singled out two of these for which the CC Clique were generally regarded as responsible: (1) the increasing power of the CC Clique as seen in their control of most of the Government economic and financial institutions; (2) the intimidation of liberals through the irresponsible activities of the Party secret police giving the widespread impression both within China and abroad that there are no human rights as promised in the Constitution and as essential to real democracy, such as freedom of speech and publication.

He replied at length in an interesting historical and philosophical comment on the Kmt since its origin, its heritage and difficulties, with special reference to the place of the CC Clique as an almost inevitable feature of the process. After the break in 1927 between Chiang Kai-shek and the group which remained loyal to the Soviet advisers Russia tried in various ways to hinder the progress toward national amity. It was then that the Chen brothers came into prominence as the skillful and determined opponents of Russian machinations. Chen Li-fu has remarked, quoting a phrase from Mencius, that those who are now denounced as reactionaries were the true prophets, the so-called liberals have only recently awakened to the Soviet menace, and the Democratic League has not yet made the discovery. These brothers are narrow and bigoted but their realization of the Communist danger and their courage in meeting it have not been without value to the national cause. As to the evils mentioned by me he and his colleagues are quite aware of these but the situation is now so critical that any attempt to correct them would precipitate internal disturbances which a tottering edifice could not stand. When the Constitution is put into effect measures can—and he is convinced will—be undertaken which ought to result in fairly rapid improvement. If the date fixed for

this (December 25) cannot be kept he thinks that the delay will not be for long and that the subsequent procedure can be expedited so as to be concluded by about the middle of March. Meanwhile he would keep the matter in mind and try at least to avoid any further aggravations.

The conversation lasted for over an hour and a half and was perhaps worth-while.

J. L.[EIGHTON] S[TUART]

893.00/12-947 : Telegram

The Chargé in the Soviet Union (Durbrow) to the Secretary of State

Moscow, December 9, 1947—4 p. m.
[Received December 9—12: 17 p. m.]

3337. Most direct attack Kmt Government and fulsome praise Chinese Communists to appear Soviet press during recent months contained significant *Pravda* article December 6 "Upsurge of People's Liberation Struggle in China" by K. Evgeniev, well-known commentator Chinese affairs. As pointed out Embassy A-1240, November 19,⁸³ Soviet Press caution in treatment Chinese Central Government was broken by *New Times* November 12; present article continues attack but gives unusual emphasis to strength virtues Chinese Communists.

Evgeniev views optimistically "People's Liberation Army" offensive and quotes President Executive Yuan as having informed National Political Council October 18 that Central Government now controls only 9 percent territory Manchuria, 91 percent held by "democratic" authorities. Authority describes Chinese economic crisis, labor troubles, peasant revolts, student strikes, demonstrations, police terror, defections within Kmt party and November 23 "elections" "boycotted by overwhelming majority Chinese workers".

On contrary conditions Chinese "liberated areas" said to be quite otherwise. Anna Louise Strong⁸⁴ quoted on CP numbers, area and land reform. Regime being elected "from people and for people". Workers actively support local democratic governments and initiator democratic regimes: Chinese CP.

Concluding on usual note that Kmt policy transforms China into colony American imperialism and weapon US aggressive aspirations, article affirms Chinese CP calls all Chinese to unite single national

⁸³ Not printed.

⁸⁴ American journalist and former editor in Moscow.

front and organize "democratic coalition government". "In spite US aid and unrestrained police terror Kmt government powerless suppress movement for democratic revival China, which is evidence that Chinese reaction and American imperialists have no future in China."

Embassy believes *Pravda* article one more indication constant and increasing Soviet interest Chinese developments perhaps presaging more open intensified encouragement in all forms to Chinese Communists in struggle for Manchuria and North China.

Sent Department 3337; Department pass Nanking 25.

DURBROW

893.00/12-1047

The Minister-Counselor of Embassy in China (Clark) to the Director of the Office of Far Eastern Affairs (Butterworth)

NANKING, December 10, 1947.

DEAR WALT: For what they are worth, I outline below my reactions to the situation in North China and Manchuria following my recent visit to those regions.

If it were not for the fact that miracles happen in China, I should say Manchuria is gone. General Ch'en Ch'eng is a sick man. The best diagnosis I can get is perforated ulcers which require an operation (at least he is bleeding internally) and there is no surgeon available. Ch'en says he will be up and about in a few weeks but he tired very quickly during my conversation with him and the environment in which he is living doesn't seem to me one conducive to curing perforated ulcers. He has gathered around him a bunch of thieves who can be expected to take full advantage of the fact that he is confined to his bed. I gathered that the appointment of Lo Cho-ying as deputy was at Ch'en's specific request. Ch'en is said to have great faith in Lo's administrative ability and an unwarranted belief that he can control Lo's graft. Certainly the evidence is against him.

I don't believe the Manchurians want communism, but the Government doesn't seem to offer an alternative. It is venal to the core and the communists have seized and kept the initiative. If Manchuria is to be reconquered it is essential that new spirit be instilled into the native population as well as into the armed forces, and there is no evidence that this is being done. The only bright spot I saw in the picture was Wang Hua-yi, who seemed sincere in his belief that he could rally the native Manchurians against the Communists if General Ch'en would give him the green light and adequate equipment.

Ch'en was withholding assistance from Wang, however, because, according to Wang, of his deep-seated fear that Hsiung Shih-hui had left such bitterness behind him that any native Manchurian force if armed might reasonably be expected to turn immediately against the Government. Dave Barrett⁸⁵ thinks a couple of divisions or so of reinforcements from south of the Wall would enable Ch'en to take the initiative and handle the situation, yet basically I can't believe the area can be pacified for long with other than native Manchurian troops. The southern troops have come as conquerors, they speak a different language, and their presence is bitterly resented. The native Manchurian front men, installed in office by Ch'en, are busily engaged in gleaning what was left by Hsiung Shih-hui and the populace sees nowhere else to turn than to communism.

I am enclosing, in this connection, a copy of Dave Barrett's report to the Military Attaché on the results of our trip.⁸⁶

As I said above Ch'en is a sick man confined to his bed who should be in a hospital and who could not conceivably direct a campaign with real efficiency. He seems of high moral character—was freezing in his bedroom because others in Mukden had no coal—but he must be oblivious to the complete carpetbagging graft that is going on around him or would put a stop to it. His henchmen impressed me as “carpet-baggers” of the first order; window dressers or front men to greet the guests and pretend that Manchurians have something to do with the administration of the area.

General Chin Chen, Mayor of Mukden is a typical old war lord assuming a civil office. He entertained me at luncheon in a foreign style residence, garishly furnished, his table laden with food despite the austerity program and with his number 4 concubine by his side. He is obviously a grafter and seemingly proud of it. Wang Shu-han, Deputy Director, Political Affairs Commission, Northeast Headquarters is much of the same ilk. Dr. Chang Chien-fei, Special Commissioner for Foreign Affairs in the Northeast, speaks Russian and seems quite an efficient person although I don't believe he has any authority.

Black as the situation appeared to me, the casual visitor, every official with whom I talked expressed complete confidence that the Communists had suffered disastrous losses in the fighting last Autumn and would be easy to handle come Spring. Every official of whom I inquired expressed no concern over the ammunition situation, the

⁸⁵ Col. David D. Barrett, Assistant Military Attaché in China.

⁸⁶ Not printed; Colonel Barrett led off with the statement, “My general impression about the situation after this trip is confusing.”

relief situation, or the food situation in general for that matter. They have obtained one large and one small ice breaker from Tientsin to keep the port of Hulutao open; they have agents purchasing grain in the Yangtze Valley and seem to have supreme confidence that Hulutao and the railroad from there to Mukden will be kept open and that everything is going to be hunky-dory.

I am not convinced that the Communists plan to attack Changchun and Kirin this winter but if they do I am inclined to agree with Dave Barrett that there is a 60-40 chance those places will be lost. The key to the situation seems to be the airfields and I gather they will be difficult to defend. I came away convinced that General Ch'en intended to defend Mukden come what may and he may be able to do so. Certainly he evidenced supreme confidence in his ability to do so.

North China

The Generalissimo, it seems, got really frightened when the Communists captured Shihchiachwang without hardly firing a shot. His removal of General Sun and the appointment of Fu Tso-yi tended to increase confidence in North China momentarily. I found in Peiping, but particularly in Tientsin, complete disgust with the present Government, and almost a hopeless prayer for some change other than to communism, although in Tientsin, I was told, certain businessmen were already trying to visualize how they could operate under a Communist government. I found the importers in Tientsin complaining because Government allocation of quotas discriminates against them, the Government statistics having included in Shanghai imports all those which in normal times, although cleared in Shanghai, were destined for Tientsin. The exporters complained because the Government did not permit them to barter with the Communists. The Communists apparently have ample supplies and will gladly barter, but merchants on the Government side of the line are not permitted to do so. Communist action in North China seems to have resulted in almost a complete economic strangulation of that area. Typical, it seems to me, is the fact that the Government is transporting cotton from Paitingtzu to Tientsin by air so as to keep the Government mills in Tientsin occupied and prevent unemployment there. It is an uneconomic transaction which could take place only in the Soviet Union or in present day China.

Peiping seemed shoddy like the down-at-the-heel student awaiting that day when peace in China will make it once again a great cultural and tourist center.

Faithfully yours,

LEWIS CLARK

893.00/12-1147

The Consul General at Peiping (Clubb) to the Secretary of State

No. 137

PEIPING, December 11, 1947.

[Received December 18.]

SIR: I have the honor to enclose, as of possible interest, a memorandum⁸⁷ of conversation between General Hsiung Shih-hui, who recently came to Peiping in the company of Generalissimo Chiang Kai-shek in relation to current political organization in this area, and myself on December 5, 1947.

It will be noted that the conversation in main turned around the subject of the general political situation in China. General Hsiung dealt with the subject in some detail, with the patent purpose of indicating that the political situation was not really as serious as sometimes viewed by persons not intimately acquainted with the China scene. It will be noted that General Hsiung, even as others, was prepared to contend that all of the Chinese currency in circulation could be purchased for a comparatively small sum of American dollars. In this connection the obvious criticism to be made is that, so far as known, no person excepting a very small number of officials high in the National Government actually knows the total amount of Chinese currency in circulation. General Hsiung himself made another observation that springs to mind at first reflection—that the essence of the problem is actually the National Government's failure to balance the budget, and not the question of the total amount of currency in circulation.

It will be noted further than General Hsiung indicated his belief that the Chinese military situation was not one basically difficult with which to deal. The factors which would have conditioned General Hsiung's contention were not expressed by him, but it is to be recalled that the Chief of Staff of the Ministry of National Defense in the spring of the present year predicted categorically that the Communist armies would have been essentially wiped out in the course of six months; but that, in fact, instead of developments having followed the line of his prediction the Communist armies are now active and apparently generally have the initiative in the following areas: Manchuria, North Shensi-Shansi-Hopei-Shantung belt; the Honan-Hupeï front from which there seems to be developing a threat to Szechuan; and there is reported to be an increase of unrest in the Kwangtung-Kiangsi-Hunan border region and in South Kwangtung and Hainan Island. It is respectfully submitted that, although General Hsiung did not in the short period of time of our conversation have a real

⁸⁷ Not printed.

opportunity to set forth his ideas in detail, he seemed on this occasion, as during his tenure in Mukden as Director of the President's Northeast Headquarters, to give insufficient weight in his thinking to the enormity of the economic problems confronting China at this time.

Respectfully yours,

O. EDMUND CLUBB

893.00 Manchuria/12-1147

The Consul General at Mukden (Ward) to the Secretary of State

No. 49

MUKDEN, December 11, 1947.

[Received January 5, 1948.]

The Consul General has the honor to transmit a memorandum dated December 10, 1947,⁸⁸ entitled "Soviet Participation in the Sino-Communist Conflict in the Northeast", which has been prepared by Vice Consul Fred E. Hubbard.

While the subject of the reference memorandum has been the subject of much controversy, and no little amount of speculation, Vice Consul Hubbard's statements parallel those which have been made repeatedly by this office to the effect that while indications of intangible Soviet aid to the Chinese communists abound in the Northeast no incontrovertible proof has been advanced by the Chinese Government of concrete military aid. Among the intangibles not mentioned by Mr. Hubbard is that of Soviet instruction and direction. Much of the strategy and some of the tactics used by the Chinese communists in the Northeast are not Chinese and smack strongly of the Russian, which causes the observer to come to the belief that the Soviet Union has aided the Chinese communists materially through military training, perhaps in military academies in the Soviet Union—if not through the medium of military advisers in the Chinese communist headquarters staff. Furthermore, the Chinese communists have developed a powerful propaganda machine sufficiently potent to warp, as Mr. Hubbard brings out, the attitude of the people in the communist-dominated area towards the United States. This too, there is reason to believe, can be attributed to the inspiration and guidance of the Soviet Union, where propaganda, particularly the inimical brand, has been developed with such success—in any event, the intensity and effectiveness of such propaganda causes one to doubt that it springs from Chinese origin.

The Consul General admits the validity of Mr. Hubbard's statement in the penultimate paragraph of his memorandum, in which he advances the thought that the Russians are not eager for the Chinese communists to assume control of all the Northeast until these com-

⁸⁸ Not printed.

munists have become "sufficiently indoctrinated in the Soviet form of communism", but it is his (the Consul General's) opinion that the Soviet Union would also welcome the early seizure of the Northeast *in toto* by the Chinese communists if such seizure can be effected without the active and apparent military aid of the Soviet Union prior to the time when the Russians feel that there is no longer need to conceal such military aid as may be given by them to the Chinese communists. If the communist seizure of the Northeast follows the pattern of Soviet-inspired communist regimes elsewhere during the past few years, it is more than likely that once the new regime is "in the saddle" the pro-Moscow elements therein will begin their liquidation of untrusted and anti-Moscow factions and persons.

893.00/12-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 12, 1947—5 p. m.

[Received December 12—8:38 a. m.]

2389. I have been discussing military command situation in Government circles and believe following represents the picture in respect to Chen Cheng.

Problem of Chen's illness is complicated by political and military considerations. He wishes to leave Manchuria but if he should return to Nanking as Chief of Staff it would embarrass Pai Chung-hsi who is at last having the opportunity to carry out his own strategy against Communists in Yangtze River provinces. Pai stresses recruitment and use of local populations, whereas Chen places greatest emphasis on professional soldiers.

If impossible come Nanking, Chen would like to be in Peiping but here again there is danger of tension between him and new functions of Fu Tso-yi in that area.

Chen is a man of highest integrity and a strict disciplinarian but is unpopular with field commanders because of what they claim to be his rigid and narrow ideas as to military operations. Lo Cho-ying, a former subordinate of his, was assigned to Manchuria at Chen's specific request, his belief being that he could leave Lo in charge, Chen's organization being adequate to prevent Lo from grafting. He is said to have high regard for Lo's ability as field officer.

The Generalissimo is aware of these issues and is determined to keep Chen in Manchuria. Generalissimo I understand plans early trip to Manchuria in this regard.

Clark when recently visiting Manchuria found Chen in bed a really sick man (perforated ulcers) and gathered distinct impression it would be long time before Chen could assume active field command.

Sent Department as 2389, Mukden 158, Peiping 289, Tientsin 181, December 12.

STUART

893.00/12-1547

*Memorandum by the Ambassador in China (Stuart)*⁸⁹

NANKING, December 15, 1947.

Governor T. V. Soong told the British Ambassador in confidence that he felt very pessimistic both as to the provincial and the national outlook. The former because of (1) dykes badly needing repair, (2) insufficient rice with consequent popular discontent and perhaps starvation, (3) wide-spread banditry. The latter seemed to be getting rapidly worse. Governor Soong's own health seemed to have improved.

For some reason the new assignment for Chang Fa-kuei does not seem to be taking effect and he is quite disgruntled, sulking in his tent like Achilles.

J. L[EIGHTON] S[TUART]

893.00/12-1647 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, December 16, 1947—noon.

[Received 11 : 04 p. m.]

387. Communists evidently maneuvering forces begin winter offensive. Brunt early attacks against Peiping-Mukden rail line. Six Communist Divisions reported astride line at points between Hsinmin and Shanhaikwan. Govt initial resistance again unsuccessful. Troops spread too thinly for adequate rail protection. Groups within area considering advisability abandoning Changchun-Kirin, thus relieving troops maintain corridor from intramural China. Continually increasing Communist pressure south of Mukden may force adoption this strategy.

Market panicky with speculation and hoarding governing. Commodity prices rising hourly. Black market selling US dollar now 22,000 tungpei⁹⁰ dollars against 14,000 December 8.

⁸⁹ Received in the Department about December 29.

⁹⁰ Currency used in the northeast area of Manchuria.

Despondency and demoralization populace increasing. Chen Cheng's presence which initially aroused hope but never enthusiasm of people, now having reverse effect on populace who feel if man important as Chen has failed no other Govt leader can be expected achieve success. As hope and confidence diminish and economy of area deteriorates, people reverting more frequently to their oft-times expressed desire return Chang Hsueh-liang. Feeling growing Government unable stem Communists and only hope is Chang with his ability arouse support of Near [*North*] East.

Desire separation Near [*North*] East from China and establishment as independent entity again being expressed openly (mytel 172, paragraph 2 to Nanking, Department as 100, June 18). This attitude certainly not held by majority people and not consolidated, move therefore not serious threat. Furthermore Government secret police sufficiently strong arrest any such organized movement at will.

Sent Embassy, repeated Department as 387, Peiping as 98, Chang-chun as 373.

WARD

893.00/12-1747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 17, 1947—noon.

[Received December 17—4: 12 a. m.]

2408. Carson Chang left Shanghai Dec. 13 by air for US. Reliable American controlled source close Chang states Chang's only purpose present visit is attempt interview Secretary State and George Kennan⁹¹ and that he is using University Washington lectureship as blind. Source further states Chang asserts to Chinese friends only posts he would accept in Chinese Govt are President or Vice-President.

STUART

761.93/12-847

*The Assistant Chief of the Division of Chinese Affairs (Rice) to the Director of the Office of Far Eastern Affairs (Butterworth)*⁹²

[WASHINGTON,] December 18, 1947.

Subject: Factors Presently and Prospectively Working for and Against a Sino-Soviet *Rapprochement*

Reference: Mr. Butterworth's Memorandum of December 8, 1947,⁹³ requesting that a study be made on the above subject.

⁹¹ Director of Policy Planning Staff.

⁹² Initialed by the Chief of the Division (Ringwalt).

⁹³ Not printed.

Summary and Conclusions: On balance, it appears unlikely that a *rapprochement* between China and the Soviet Union will eventuate while Chiang Kai-shek and like-minded leaders retain substantial control of the Chinese Government. A genuine *rapprochement* would have to be based upon a substantial common ground of political, economic, or military self-interest. As will be seen from the following discussion of the chief factors involved, the regimes in power in the two countries have few mutual political interests and are not economically interdependent. While the USSR did extend a measure of aid to the Chinese Government when both countries were menaced by Japan, the utter defeat of the latter power has served largely to destroy the military usefulness of the Chinese Government to the Soviet Union. Conceivably, the present Chinese Government might seek a *rapprochement* with the USSR, despite the considerations referred to above, if under sufficiently strong domestic or foreign pressure to do so. However, a time when the Chinese Government faces so desperate a situation that it must clutch at the straw of Soviet aid is precisely a time when the Chinese Communists might most easily seize power. That consummation probably would please the USSR more than would the concessions to be had in exchange for aid to the Chinese Government. The fact that no lasting *rapprochement* with the USSR resulted from the Sino-Soviet Treaty of 1945, which was negotiated by China under foreign pressure, is likely at once to make China's foreign friends unwilling to suggest another attempt and to render the Chinese Government unreceptive to such suggestion were it to be made.

While the Government of Chiang Kai-shek appears unlikely to effect a *rapprochement* with the USSR, it appears that the substance of power is slipping from the grasp of that Government. As the forces to the left of the Government are apparently gaining ground at its expense, the most likely assumption is that it will be succeeded either by a Communist regime or by a coalition in which the Communists will exercise much power. A Communist regime would almost certainly seek to ally China with the USSR; a coalition government which included the Communists probably would seek a *rapprochement* with the USSR (end of Summary and Conclusions).

I. Factors Tending To Encourage Sino-Soviet *Reapprochement*

1. *Similar Views With Respect to Japan.*

It is clear from the numerous Chinese official statements and press comment on the subject that there exists a well-nigh general Chinese fear that Japan may again become an aggressive and powerful nation capable of posing an economic, political, and military challenge to

China. It will be equally evident from a consideration of Russo-Japanese relations over the past half century and from post-war Soviet maneuvers, that the USSR seeks to prevent the renaissance of Japan as a non-Communist military power. Similarly, the USSR and China share a common interest in forcing Japan to pay as heavy reparations as possible in order that Japan may be more nearly neutralized thereby and in order that each claimant may receive a larger total amount of Japanese reparations.

Accordingly, on the question of treatment of Japan, China and the USSR find themselves aligned side-by-side against what they apparently conceive to be the position which the U. S. is in the logic of circumstances bound to assume.

2. *Consciousness of Chinese Impotence vis-à-vis the USSR and Chinese War-weariness.*

The borders of the USSR encircle China through an arc of 180 degrees; China would be unable to repel any large-scale invasion from across this long frontier. There remains in existence no power other than the U. S. sufficiently strong to serve the Chinese as a substantial counterweight against the Soviets. Accordingly, should it appear to Chinese leaders that the U. S. is not a factor in the situation of sufficient weight to counterbalance the USSR, China might be expected to consider whether (1) to seek additional counterpoise by appealing to the UN, or (2) to seek a *rapprochement* with the Soviets. Chinese will recall, in this connection, that their appeals to the League of Nations in a somewhat analogous situation in 1932 proved vain.⁹⁴ Therefore, Chinese Government leaders, in the event that their position vis-à-vis the Soviet Union and the Chinese Communists becomes clearly desperate, might conclude that they have no recourse but to seek a *rapprochement* with the Soviets. The more intelligent Government leaders would fully realize this to be a policy of grasping at straws. However, such action might appeal to some who believe China's civil strife to consist primarily of an extension of the world struggle between the US and USSR,* and to the many

⁹⁴ For invocation by China against Japan of article 11 of the League of Nations Covenant, see telegram No. 118, September 21, 1931, 5 p. m., from the Consul at Geneva, *Foreign Relations*, 1931, vol. III, p. 24. For invocation by China of articles 10 and 15, see telegram No. 50, January 29, 1932, 9 a. m., from the Consul at Geneva, *ibid.*, 1932, vol. III, p. 90. Correspondence regarding the part played by the League of Nations in the hostilities between Japan and China, during 1931 and 1932, is scattered through chapters on the Far Eastern Crisis, *ibid.*, 1931, vol. III, and 1932, vols. III and IV.

*Thus Minister for Economic Affairs, Chen Chi-tien, is quoted as having on December 13, 1947, described China's civil war as "an international struggle preceding a third world war."—Tsinan, China, A. P. despatch of December 13. [Footnote in the original.]

war-weary Chinese who would hope thereby to be removed from between the upper and nether mill-stones of Government-Communist civil strife.

3. *Likelihood that Present Chinese Government Will Be Succeeded by One More Friendly to the USSR.*

It is clear that the position of the Chinese Government is deteriorating and that it may either fall or be reduced to the status of a regional regime; it is also manifest that President Chiang is not immortal. The leaders who succeed Chiang Kai-shek may be as anti-Soviet as he is, but they may also be distinctly less so. If the next Chinese Government is Communist, we may expect it to ally China with the Soviet Union. If the Chiang Government is succeeded by one composed principally of leaders of the Democratic League and of such ex-militarists as Feng Yu-hsiang, Li Chi-shen and Tsai Ting-kai, we might expect it to attempt to obtain understandings with the CCP and with the USSR. As already indicated, such attempts might find wide support among the many war-weary Chinese who think that Sino-Soviet *rapprochement* might end civil war and prevent China's becoming a battleground in a third world war.

II. Factors Tending To Prevent Sino-Soviet *Rapprochement*

1. *Relationship of CCP to USSR.*

Perhaps the most important factor presently creating antagonism between China and the USSR is the Chinese Communist Party, which Chinese Government leaders identify with the Soviet Union. The role of the USSR in encouraging that Party's growth is, of course, well-known to Chinese Government leaders: it will be recalled that Russian agents directly participated in CCP actively in the 1920's; that CCP leaders were in touch with the Comintern during the 1930's;† that during the occupation in 1945 of Manchuria by Soviet forces, entry into that region of CCP forces and their access to arms were facilitated; and that many Chinese Government leaders are convinced that the USSR is presently giving active aid to the CCP and its armed forces. The deadly bitterness which Chinese Government leaders feel toward their Chinese Communist enemies is naturally extended to the USSR in direct ratio to the measure of blame which they apportion to the Soviet Union for the existence and activities of the Chinese Communist Party.

2. *The Soviet Attitude Toward Chiang Kai-shek.*

So long as Chiang Kai-shek remains in power, the Soviet leaders are bound, in considering possible changes in the Soviet policy toward

†Snow, *Red Star Over China*, pp. 414-415; 421-422. [Footnote in the original.]

China, to give substantial weight to the basically anti-Soviet attitude of Chiang Kai-shek. It will be recalled that Chiang Kai-shek was the leader of the rightest coup of 1927, following which Russian agents were killed or driven from the country, and that during the succeeding decade he pursued a strongly anti-Communist domestic policy. The Soviets are also well aware that Chiang Kai-shek employed a German military mission, during most of that decade, which exercised a substantial anti-Communist influence. They may also know that Chiang sought a Sino-German alliance directed against the USSR, which failed to materialize because Hitler preferred the alliance with Japan.‡ In any case, they know that he is anything but an enthusiastic friend of the Soviet Union.

Soviet aid to the Chinese Government during the Sino-Japanese war was of course based upon Soviet desire to see Japan kept militarily occupied in China in order that it might be less likely to launch an attack on the USSR. The utter defeat of Japan virtually destroyed the usefulness to the USSR of the Chinese Government; that they now would be pleased to see it overthrown is indicated by the numerous propaganda blasts which in recent months have been directed against it from Moscow. This Soviet propaganda, and China counter-propaganda, are primarily the results of other divisive factors in Sino-Soviet relations, but they themselves leave an increment of enmity.

3. *Soviet Imperialism.*

Among the prime factors creating antagonism between China and the USSR are the history of Russian expansion at China's expense and fears that further expansion of that nature may be anticipated. It will be recalled that: (1) Tanna Tuva, formerly claimed by China, was about two years ago made an *oblast* of the USSR after having passed from Chinese control and through a period of "independence"; (2) China, at the instance of the USSR, on January 5, 1946, recognized the "independence" of Outer Mongolia, which China formerly claimed;⁹⁵ (3) the USSR controlled Sinkiang Province during the period 1934-1942 and bears a measure of responsibility for the present situation in that Province; (4) the USSR has since 1945 exercised unilateral control over the Port Arthur naval base area and Dairen, and that protracted Sino-Soviet negotiations for the establishment

‡This is an instance of the favorite Chinese strategy of "Allying with those that are afar to defeat those who are near," which enabled the first Ch'in Emperor to consolidate China's feudal kingdoms and found the Chinese Empire. (cf. Berlin's secret despatch no. 2007, Feb. 18, 1946, on subject, "Transmission of Chinese Document from Marshal Chiang Kai-shek to Adolf Hitler.") [Footnote in the original; despatch not printed.]

⁹⁵ *Foreign Relations*, 1946, vol. x, p. 1223.

of a Chinese administration there thus far have proved fruitless;⁹⁶ and (5) the USSR, by virtue of the Sino-Soviet Treaty of August 14, 1945, has exacted from China economic concessions with respect to Manchuria which might be expected to impede full exercise of Chinese economic control and political sovereignty over that area. § (In fact, a reading of that Treaty conveys the impression that it has made for China more problems than it solved and that attempts to implement it may be expected to create much Sino-Soviet friction and ill-will.)

In view of Korea's past subordination to China and the strategic role which it has at various times played as buffer against or bridge for conquests, China is bound also to regard with concern present Soviet efforts to dominate that country.

4. *The Residue of Mutual Ill-will Created By Soviet Behaviour In Manchuria 1945-1946 And By Chinese Reprisals Against Soviet Citizens.*

It will be recalled that Manchuria's industrial establishment suffered direct damage, during Soviet occupation of that area in 1945 and 1946, estimated by the Pauley Mission at \$858,100,000—much of it as the result of Soviet removal of equipment. ¶ According to numerous reports, the Chinese officials who entered areas of Manchuria occupied by Soviet forces in order to establish an administration there as provided by the Sino-Soviet Treaty and Agreements of August 14, 1945, found themselves mortifyingly impotent in the face of Soviet obstructionism. It will also be recalled that acts of depredation carried out by Soviet troops against the populace of Manchuria during the same period produced a hatred of Russia affecting most classes in large sections of that area. This bitter antipathy in turn resulted in savage reprisals by Chinese troops and civilians against Soviet citizens in Manchuria. ¶ These developments have left in official and non-official quarters a heavy residue of mutual ill-will which may be expected for some time to come to exercise a substantial divisive influence between the two countries.

5. *Lack of Substantial Economic Inter-dependence.*

There is basis for close and important economic relationships between the Soviet Union and areas of Manchuria and Sinkiang adjacent

⁹⁶ For correspondence on this subject, see pp. 481 ff.

§CF. OIR Report no. 4519, Oct. 1, 1947, "The Chinese Changchun Railway Agreement as a Basis for Soviet Expansion in Manchuria". [Footnote in the original; report not printed.]

¶Dept. of State Press Release no. 907, Dec. 13, 1946. [Footnote in the original; see Department of State *Bulletin*, December 22, 1946, p. 1154.]

¶Embassy's report 126, Sept. 17, 1946, and despatch 319, Dec. 6, 1946, respectively transmitting Mukden's despatch to Nanking no. 31, Aug. 30, 1946, and Changchun's despatch to Nanking no. 11, Nov. 20, 1946. [Footnote in the original; despatches not printed.]

to the USSR. Such areas, however, are for the most part held by Chinese Communists or by Sinkiang rebel elements. Areas under the control of the Chinese Government are in general not dependent upon the USSR as a market for their produce or as a source of essential commodities. (While the USSR has in recent years taken substantial quantities of Chinese tea, wool, tungsten, and other raw materials, a large proportion of these materials were accepted in payment for war matériel supplied China early in the war.)

While two politically incompatible regimes may find that their economic interdependence makes mutual tolerance desirable, such a motive would appear to be largely lacking in the relations of the Chinese and Soviet Governments.

893.00/12-1947 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 19, 1947—8 p. m.

1542. Following among statements attributed Dr. Sun Fo by Scripps-Howard correspondent Farnsworth despatch bearing Dec 10 Nanking dateline "Either America must help us in an all-out way and assure the future of China or China will fall into the Soviet orbit. With piecemeal help China cannot withstand pressures that have been developing both inside and outside China, and China will have to ally herself with the Soviet Union against the rest of the world."

Emb will recall (Urtel 1990 Sept 26)⁹⁷ that this is but most recent of several interviews this tenor allegedly given by Sun Fo and that he in Jan 1942 made analogous remarks about doubtful wisdom China's continuing fight Japan if US and UK determined concentrate their main forces Europe in effort first achieve victory that Theater operations. Nevertheless it would interest Dept to know whether Sun actually made statements attributed him this most recent interview and that cited Reftel whether ChiGovt is quietly pleased with them and extent to which they represent trend opinion substantial group.

LOVETT

⁹⁷ Not printed; it was a lengthy report on the China press for the week ending September 20, with a reference to "the sensational interviews by Doctor Sun Fo which strongly suggested that should agreement between the United States and China acceptable to China fail to materialize, China would have no alternative except to work out some kind of close *rapprochement* with the Soviet Union." (893.9111RR/9-2647)

761.93/12-1947 : Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 19, 1947.

[Received December 31—9:28 a. m.]

A-275. In a conversation this morning on Sino-Soviet negotiations over Dairen, Dr. George Yeh, Vice-Minister of Foreign Affairs, said that the Soviets have recently, in general, shown a tendency to be more conciliatory without making any significant concessions. The principal channel of this "flirtation" has been a group of high ranking officers in the Ministry of National Defense, particularly in G-2, who were trained in the Soviet Union and who all speak Russian. This group, though by no means the predominating clique in the Chinese Army, does have a certain entrée because one of its members is Chiang Ching-kuo, son of the Generalissimo.

Dr. Yeh added that in recent weeks the Soviet Military Attaché has been most active in entertaining these officers and in other ways cultivating them. The Soviet Military Attaché has been using the argument that a military settlement of the Communist problem is impossible but that a political settlement is wholly feasible. He has, on occasion, even suggested that the Soviet Union could possibly be useful in this respect. Dr. Yeh said these Soviet efforts have not been wholly without success and that there is increasing talk in the clique that a political settlement with the Communists is the only solution and that a closer understanding with the Soviet Union is both desirable and necessary.

STUART

893.00/12-2047 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, December 20, 1947—3 p. m.

[Received December 21—4:17 a. m.]

394. **Communists adopting new tactics Mukden area. Infiltrating Government outer defense lines with small groups attacking towns, holding until counter-attacked and then abandoning positions. These tactics have succeeded causing constant shifting Government troops, anxiety Mukden civilian population, continued disruption economy and blockade foodstuff to Mukden. Government tactics are to withdraw into outer defense perimeter circle approximately 30 miles around Mukden and counter-attack Communist infiltrations. Communists captured Hsinlungtien, 20 miles west Mukden. Government counter-attacked and recaptured December 19. Communists attacked**

Suchiatun and Hsoho, 15 miles south Mukden, on Mukden-Dairen rail line December 20. Rail traffic terminates Suchiatun. Government abandoned Chungku and [apparent garble] on Mukden-Changchun rail line, 30 miles north Mukden. Heavy fighting at Hsinlitun on Fuhsin rail line.

Rail line open Mukden-Chinchow with exception bridge over Taling Ho. Communists captured, destroyed machinery and then abandoned Yentai coal mine. Government alleges Penhsi coal mine still held by them. Communists recaptured Haicheng, south Anshan, and are moving in force southward towards Tashinchiao.

Communists now have 11 columns instead of 9 as at end fifth offensive. Rumors emanating from PNEH indicate Government may abandon NE. Although Cheng Tung-kuo, Chief State [of Staff] PNEH, denies Government will withdraw Changchun and Kirin, information today from men [man?] verified usually reliable source states Communist offered allow Government withdraw forces Changchun and Kirin and Government has accepted offer.

Sent Embassy (please inform Clark), repeated Department as 394, Changchun 380, Peiping 102.

WARD

893.00/12-2247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 22, 1947—noon.

[Received 2:44 p. m.]

2436. On December 20 General Chang Chih-chung⁹⁸ told me that Generalissimo had that day sent for him for lunch and the only other person present was Generalissimo's son Chiang Ching-kuo. Chang said he remonstrated with Generalissimo over continuing and ineffectual military struggle in which he was being worsted and during which social, political and economic disaster was threatening the nation. He urged upon Chiang that only solution lay in resumption of PCC agreements,⁹⁹ and when Generalissimo remonstrated that he could not take the initiative in proposing renewed negotiations Chang stated that he had reason to believe the Communists were ready to respond to such a proposal. Generalissimo had then told him, he said, to go ahead very carefully in an effort to bring this about. For the first time in his experience, he said, Generalissimo listened to him quietly and without disputing the force of his argument gave him permission to go ahead.

⁹⁸ Chairman of President Chiang Kai-shek's Northwest Headquarters.

⁹⁹ January 31, 1946; *United States Relations With China*, pp. 610-621.

In talking with me, Chang recalled a remark of Chou En-lai¹ when they went with you to Manchuria.² He had proposed to Chou that Russia be brought into the Manchurian settlement, but Chou had replied at once and vehemently that this would never do for it would make the issue much more troublesome.

General Chang also informed me that prior to his conversation with Generalissimo he had approached the Soviet Embassy here in an effort to get help in persuading Chinese Communists to resume peace talks. He had warned the Soviets that Chinese could never be won over to Russia against America and that continued chaos and misery in China would not benefit the Soviets. He insisted, he said, that in aiding China America had no ulterior motives against Russia and that the Soviets were misled by their own suspicions. He said the Soviets seemed impressed and asked what he wished them to do, to which he had replied that they might advise Chinese Communists to cease fighting and consider some better solution.

Chang authorized me to inform you of the above but otherwise he requested I observe strict secrecy. He is still not well, but hopes to report developments within the next month.

The above seems to us a further manifestation of the deterioration of the Government's position. The Communists are winning on all sides and it is inconceivable to us they would accept peace negotiations at this time. It may be, of course, Communists might agree to negotiate in hope of discouraging extensive American aid to China program and of hampering any such program upon which we might embark. The fact that Chang approached Soviet Embassy causes us concern, particularly as we find it difficult to believe that he take such a step without authority.

STUART

893.00/12-2347 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, December 23, 1947—3 p. m.

[Received December 24—9:31 a. m.]

397. Lull in Communist attacks first 2 weeks December when Communists regrouped and shifted troops. Government used lull move troops Chinchow-Shanhaikwan sector to areas south Wall where immediate need more urgent and repair Mukden-Peiping rail line. Middle December Communists deployed troops and renewed attacks. First objective, disruption Mukden-Peiping rail line, accomplished by

¹ Head of the Chinese Communist Party and delegation during 1946 negotiations.

² For North China trip of the Committee of Three, February-March, 1946, see *Foreign Relations*, 1946, vol. ix, pp. 341 ff.

effective destruction Alingho bridge near Chinchow. Next objective economic blockade Mukden and Chinchow. Tactics employed differ two cities. Chinchow area Communists attacking in force, taking and holding major strong points surrounding city. Believed Communists realize Government force Mukden area too strong and concentrated for successful direct assault. Consequently Communists small mobile units guerrilla fighters, wearing white outer garments, infiltrated Government positions striking with intention miss heart Mukden. No attempt by Communists hold any position inside Mukden outer defensive lines. Government forced abandon all holdings outside defense perimeter and adopt strict defensive. Communist move has created acute uneasiness Mukden civil population. War has moved to vicinity Mukden for first time since Government occupied NE. Anticipated Communist blockade caused heavy purchase already short supply foods. Result prices rising more rapidly than currency is depreciating and civil population approaching panic because food and fuel shortages. No immediate danger Communist seizure Mukden likely since no units sufficient size massed or being massed in vicinity. Continued economic blockade anticipated. If blockade maintained, civil rioting will increase.

Three crack divisions Government troops within city probably will be able handle rioting unarmed mobs. May not however be able handle both rioting and concentrated Communist attacks. Infiltration Communist units probably will be able prevent an appreciable amount food entering city from countryside which will necessitate Government procuring food elsewhere. Only logical source supply over Mukden–Peiping rail line where insufficient Government troops now concentrated maintain traffic. Most logical source immediate military manpower isolated garrisons Changchun and Kirin. Continued blockade may force withdrawal these troops maintain supply line Mukden.

Sent Embassy, repeated Department 397, Changchun 383, Peiping 107.

WARD

893.00/12-147 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 23, 1947—6 p. m.

1564. In view highly fluid state present hostilities and evidences increasing Communist efforts arouse anti-American feeling, Emb requested consider advisability instructing Consular Offices caution

American citizens residing interior points their Consular Districts dangers residence close proximity areas hostilities and probable inability Consulates give last minute warnings and effect evacuations.

Dept aware of probable adverse affect on morale local Chinese and on ChiGovt such warnings accompanied by wholesale evacuation Americans and hesitates urge such action except as necessary precautionary measure. In view situation however believe matter deserves prompt and careful consideration. Inform Dept views Emb and action taken.

LOVETT

893.00/12-2447 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, December 24, 1947—2 p. m.

[Received December 25—8:55 a. m.]

399. Communists have 27 divisions. Triangle formed Mukden, Chinchow and Faku. These divisions in position attack Mukden, Fushun, Chinchow or Chinhsi.

Heavy fighting Chowkuenpu, 30 kilos southwest Mukden.

Communists captured Kaochiao, southwest Chinchow, cuts rail communication Mukden-Hulutao and Fushun now only source coal for Mukden.

Tsu Chi-chun, commander Mukden defense Headquarters, in Kalgan via Peiping discuss with Fu Tso-yi possibility sending reinforcements NE.

Military circles believe Government sufficient hold Mukden, but not sufficient drive Communists out Mukden-Faku-Chinchow triangle.

Considerable significance being placed on visit Cheng Tung-kuo, PNEH Chief Staff, to Peiping. Believe Generalissimo may travel Mukden with Cheng when latter returns.

Food rioting becoming serious question. Problem one of unequal distribution rather than shortage. Businessmen estimate 2-month civil food supply in Mukden if equitably distributed.

Government consolidating Mukden defenses by withdrawing troops Kaiyuan area to Tiehling area where Govt anticipates heavy fighting.

Lo Cho-ying, Vice Director PNEH, informed reporters evacuation Changchun and Kirin may be considered when situation around Mukden becomes really [serious.]

Sent Embassy; repeated Department as 399, Changchun 384, Peiping 108, Tientsin.

WARD

893.00/12-2447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 24, 1947—3 p. m.

[Received December 24—2: 17 p. m.]

2453. ReDeptel 1542, December 19, 8 p. m. Dr. Sun Fo did, in fact, make the statement attributed to him by Scripps-Howard correspondent on December 10, as well as previous ones in somewhat similar vein. Most of his statements received fairly general dissemination throughout China, though they have not been the subject of editorial comment.

The Embassy's first reaction was that they certainly could not have been made without the prior knowledge and at least tacit consent of Gimo. It was our belief, particularly with reference to earlier statements, that they were part of a more or less organized Chinese Government plan to exert pressure on US to expedite an aid program by waving a Russian herring under the American nose. There has never been any public evidence which would contradict this belief. Several of the more reliable American correspondents, however, with excellent Chinese connections, have finally come to conclusion that Sun Fo made these statements on his own initiative and responsibility and entirely without reference to general Government or Kuomintang policy. These correspondents are convinced Sun Fo has been reprimanded for them and particularly in case of December 10 statement that Gimo was furious and in no uncertain terms warned him that repetition of such actions would have serious consequences for him.

The above should not be taken to mean, however, that Sun Fo does not necessarily have a certain amount of following in the Government. In this connection reference is made to Embassy's top secret telegram 2436, December 22, noon, and Embassy's secret airgram 275 of December 19.

. . . In this connection, it should be recalled that Percy Chen³ is currently associated with Sun Fo in financial transactions as well as in political affairs and is known to have contacts with Soviet circles in China. Embassy is convinced, however, that any such views are shared by only minority of the Chinese Government.

Further complicating the problem is movement in CC clique with what appears to be the objective of relieving Sun Fo of his jobs of Vice President of the Republic and President of Legislative Yuan. Unquestionably, the struggle between the two factions has been at least partially responsible for postponement of the convocation of

³ Son of the late Eugene Chen, Chinese Minister for Foreign Affairs at Hankow, who left for Moscow in the summer of 1927; he served again later when Sun Fo headed the Government, December, 1931.

National Assembly and of elections to Legislative Yuan and would certainly have some effect on Sun Fo's course of action since his personnel ambitions are the dominant force in his activities.

STUART

893.00/12-2447 : Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, December 24, 1947—4 p. m.
[Received December 25—7:20 a. m.]

400. Increased criticism being aimed Chen Cheng method handling military situation since arriving Mukden. While praising Chen personally for his honesty and good intentions, question his judgment and leadership. Chen has no effective contact with subordinates, consequently does not have their confidence and does not have an integrated military machine so imperative present time. Chen even being blamed for his corruption suppression activities under which corrupt but capable military men were displaced without being effectively replaced. Some contend Chen should have wielded efficient military machine and then, when Communist situation dealt with, started his anti-corruption campaign. Chen planned win westerners' confidence by his anti-corruption program but was either incapable or unwilling to go full extent with corrective measures and thus win people's confidence. He now enjoys confidence of neither people nor his official associates.

Sent Embassy; repeated Department as 400, Changchun 385; Peiping 109.

WARD

893.00/12-2647 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, December 26, 1947—5 p. m.
[Received December 28—3:47 a. m.]

401. There are indications that Nanking's projected political and military reorganization North China, designed to strengthen Nationalist position this area, if going forward is nevertheless falling somewhat short of desired result. Note in this connection following phenomena.

1. Hopei Provisional [*Provincial*] Government still remains in disorganized state.

2. Fu Tso-yi in taking over new post has assumed obligations which are perhaps beyond powers of his own politico-military organization to handle.

3. Demands of Manchurian situation, where Government is evidently still endeavoring prop up tottering structure by dispatch reinforcements, will probably make further incursions into military strength on which Fu relied originally and

4. There seems logical grounds for belief that neither Li Tsung-jen nor local troop commanders will extend to Fu same wholehearted cooperation that he could expect from his own troops (reContel 375, December 6⁴). One local official told me recently that Shansi chairman Yen Hsi-shan has already informed local authorities that all troop dispositions Shansi will be made by himself (Contel 377, December 6⁴). With reference mooted formation of people's militia for local defense, informed me earlier in response to my question that it was unnecessary give those militia forces arms, that essence of CIA⁵ plan was to set up good system of intelligence re Communist movements with military action to be undertaken by mobile regular troops drawn from central reserve. Since Nationalist Government from 20 years' experience has been unable evolve satisfactory tactics for catching up with fast-moving Communist forces which scatter in all directions before advance of superior force, it seems unlikely that Fu has discovered superior new tactics. My impression is that Fu proved powerful enough to control situation in hinterland and is superior tactician in comparatively limited operation, may have been drawn into situation beyond his political and military departments [*talents?*] when he was given charge of operations five provinces. Fact that major proportion of territory those five provinces is in Communist hands and area subject Fu's authority is therefore more limited than appears from nominal jurisdiction given him, represents aggravation instead of diminution of his difficulties. Fu's own troops, adequate for Inner Mongolian border lands, will be spread very thin in 5 provinces.

Believe that comparative quiet of Communist forces West Hopei and Shansi-Suiyuan-Shansi border region can hardly be adjudged by Nationalists to be cause for assurance that lull will long continue; it appears likely that Communists are presently making dispositions in anticipation that new opportunities will be offered them by reason of Nationalist troop movements and that they will strike new blows soon. Evident intention of Nanking to reinforce Manchuria by drawing on North China would appear to fit into Communist calculations. Attack of Communists on all fronts on present scale can only be predicated upon their twin belief that Nationalist control is crumbling in important sectors of Manchuria and North China, and that they have sufficient strength to overcome remnants of Nationalist strength there.

Sent Department as 401, repeated Nanking as 533, paraphrase to Tientsin.

CLUBB

⁴ Not printed.

⁵ Possibly Chinese Intelligence Administration.

893.00/12-2947 : Telegram

The Consul General at Peiping (Clubb) to the Secretary of State

PEIPING, December 29, 1947.

[Received December 30—1:39 p. m.]

403. Resulting from informal meeting Ambassador Stuart had yesterday with certain former students at Yenching alumni association, local Peiping *Chronicle* today published new[s?] report stating in part: Judging from the present situation in China neither the peace consultation between the Kuomintang and the Communist Parties will be possible, nor will the continuation of the civil war in this country yield any result. To solve the present difficult problems, foreign factors are essential but they will be of no avail unless the people of China are absolutely determined to help themselves. The above are some of the salient points voiced by Dr. J. Leighton Stuart, U. S. Ambassador to China, at a reception held in his honour by the Yen- ching alumni association yesterday afternoon in the social center, Tung Tan.

The Ambassador expressed that the American people are willing to aid China only under certain conditions. To aid China means to benefit all the people of this country, not a small part of them. Dr. Stuart believed that the aid China plan of General George C. Marshall would be passed by Congress in January. The present problems of aid to China involve no principle but practice. The Ambassador also emphasized that China needs aid not just along the economical line and from only one country.

Dr. Stuart hoped that democratic spirit would be fully realized in China and all the intellectual class of the country would be brave enough to stand up and lead the people. To make proposals to the Government and to engage foreign technical advisors are all considered important. Requested by local foreign correspondents for confirmation or clarification of report, Ambassador Stuart made following statement for their information:

“With reference to the reported interview in the Peiping *Chronicle*, I was speaking to a group of former journalism students of mine in response to their questions on what seemed to me what hope there was in the present situation in China. Therefore, in what was intended as a suggestion to them as to the possibilities in their profession and as a message to the Chinese people, pointed out that the constitution had now been put into effect but that many people doubted whether it could be anything more than a paper constitution. That seemed to me to depend upon the people of the country. The great mass of these are not interested and are chiefly concerned with their daily livelihood, but the intellectuals, the non-partisan liberals and most of all the journalists should stand for both the rights and duties

of citizenship in a republic. The Government alone could not make the constitution work nor could it on its own initiative do very much to effect the reforms which are needed, but with freedom of speech, press and assembly, with properly carried out elections, the people can by democratic processes bring about the reforms which many within the Government itself are anxious to see effected. Under these conditions American aid could help in this time of emergency both by inspiring new hopes and by supplying technical advices and certain forms of material assistance. The American Government and people want precisely what most Chinese desire for their country—unity, peace, economic recovery, and a truly democratic government—and this combination hold out hopes if heartily undertaken by all concerned. In response to an inquiry as to when and how American aid would be given: I replied that the Department of State was busy now in preparing a program to be presented to Congress next month, there was a good deal of sympathy for China throughout the country, and a program that seemed to insure that any money given would be used for the purposes intended had a good chance of being approved by Congress but it was too early now to say anything more definite.”

Repeated Nanking as 537.

CLUBB

893.00B/12-3047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 30, 1947—3 p. m.

[Received December 30—2:41 p. m.]

Following is substance of Changchun's 454, December 22 to Embassy: Generally serious position Government forces Manchuria have [*has?*] increased rumors Government contemplating abandon Changchun and Kirin. To date no concrete evidence to support these rumors and Commanding General and Chief of Staff New First Army make categorical denial.

Changchun defense reorganized with formation New Seventh Army consisting New First Army, 38th Division and two Peace Preservation Corps divisions. 38th Division up to strength equipped completely over-age US material. PPC divisions one-third of authorized strength equipped with miscellaneous Chinese, Japanese, US material. Total available strength approximately 25,000 men. Government plans re Kirin not ascertained. Impression is Government plans hold city as long as possible, if necessary sacrificing poor troops there but not at price sending aid from Changchun. Believe Kirin will fall when Communists able make determined attack especially in winter months. Air support deemed essential to attempt defend city but it is believed air support no longer available and such force as could be assembled no longer a reliable factor.

Army morale Changchun low, not paid past 2 months due reorganization confusion, lack of air transport for bank notes, and possible malfeasance high circles delaying funds for speculative use. Unusually extreme cold reputed to have swollen casualty lists to 30 per cent effectives. Unit commanders Changchun reputed to have refused send troops clear up Changchun-Kirin railway in spite of light Communist resistance on grounds troops unable withstand cold weather.

Economic crisis Changchun increasing daily but as yet no breaks in civilian discipline. Small amount barter trade with Communist area permitted by both sides. Army competing for food and fuel on market. No electricity except for few grain mills and almost no city water past 6 weeks.

In general situation reduced to one of survival. Communists can offer to reopen communications with countryside thus bringing in food and fuel. There is increasing percentage population hoping for arrival Communists to end that economic crisis be alleviated.

Apparent decision Nationalists hold Kirin-Changchun for present perhaps based three assumptions: (1) Mukden area can be maintained with troops presently being assigned that purpose (remains to be seen whether Communists yet able take Nationalist strongholds or willing make sacrifices necessary do so), (2) while Kirin and Changchun now doubtful assets to Communists, Nationalist hold Kirin hampers Communist north-south movement that area of north-south railway and Changchun-Ssuning east-west movement, (3) in spite serious Nationalist military position North China and Manchuria, hopes of successful spring offensive, if only limited in scale and which alone can gain time for Nationalists in Manchuria, apparently still held some quarters, and Changchun-Kirin being held as future springboards. This would appear unsound under present conditions, especially in view continued psychological inability Nationalists make aggressive use still respectable forces their command and inability inspire enthusiasm and loyalty in native troops. These failings plus geographical nature Nationalist position Manchuria have tended make Communists look stronger than they are.

Present Government strategy seems hold Changchun-Kirin maximum time with minimum forces. Troop withdrawals from Changchun have changed relatively secure position during November to precarious one if Communists attack in force. Entirely possible, however; city will hold out against one attack if at least some air support available. Fall of Mukden, improbable at this time, would of course render position Changchun-Kirin hopeless.

STUART

893.00/12-3047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 30, 1947—5 p. m.

[Received 11 : 30 p. m.]

2469. Consuls Changchun, Mukden, Tientsin, Peiping, Tsingtao, Hankow and Shanghai have been instructed discreetly to advise withdrawal Americans from interior points north of Yangtze River and east of Sian (reEmbtel 2443, December 23, Deptel 1564 and 1568 December 24⁶).

Foreign Office has been informed that this action is being taken as precautionary measure because of existing state communication facilities north China and Manchuria with a view to reducing insofar as possible the complexity of any future evacuation problem if need arise. Dr. Wang informs us that he has definite understanding with Minister National Defense that he will be promptly informed of danger to any large center where foreigners reside. In this connection he said he had positive assurances Mukden would be held.

STUART

893.00/12-3147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 31, 1947—1 p. m.

[Received December 31—8 : 27 a. m.]

2472. We desire call attention of Department of Peiping Contel 533, December 26⁷ and express full concurrence with its contents. We would further point out that increasing tempo and scale Communist military operations of past week in Yangtze Valley, particularly in Hupeh Province, evidences failure of Government forces to contain large-scale hostilities in area north of Yellow River and ability Communists build up sufficient strength interdict Yangtze shipping east and west Hankow. This development further contributes to Government's lack of capability reinforce its armies in north China from Yangtze garrisons with resultant decimation and attrition its forces north of Yellow River. Also believe strong possibility Communists able permanently interdict Yangtze shipping above Hankow with resultant denial vital Szechwan rice stocks to Government garrisons central China.

STUART

⁶ Telegrams Nos. 2443 and 1568 not printed.⁷ Sent to the Department as telegram No. 401, December 26, 5 p. m., p. 417.

REPORTS ON THE SITUATION IN FORMOSA (TAIWAN),
PARTICULARLY RESPECTING FORMOSAN DISSATIS-
FACTION WITH ADMINISTRATIVE POLICIES OF THE
CHINESE GOVERNMENT

Nanking Embassy Files, Lot F-79, 800 Formosa

The Consul at Taipei (Blake) to the Ambassador in China (Stuart)

No. 36

TAIPEI, January 10, 1947.

SIR: I have the honor to submit as of possible interest to the Embassy some observations upon the present uneasiness of the public mind in Taiwan which is increasingly disturbed by rumors concerning the activities, and affecting the prestige of, the United States.

The December 20 protests against American "injustice" toward Formosan Chinese in Japan so closely coincide with the current outcry against American behaviour in Peiping and elsewhere in China as to suggest possible common inspiration. No evidence has been discovered to date to establish a link, if it exists, but it is believed that further attempts to affect America's position in the eyes of the Formosan Chinese may be anticipated and should be understood in relation to the many rumors—often fantastic—now in circulation among the people of Taiwan.

Taiwan is alive with rumors that America and Russia are, or shortly will be, at war, that America is about to initiate a large scale military activities here and that the Government here is secretly preparing for military action on the island. It is alleged in another rumor that China has sold the island to the United States in return for a huge credit for military use.

The Magistrate of Hsin Chu-hsien indiscreetly ordered a revision (not the repeal) of air raid shelter construction decrees, which was immediately interpreted to mean that war was imminent. It is believed by many in Taipei that the residents of Keelung (18 miles distant) have been ordered to disperse to the hills unless their work is essential to public services and defense. It is widely believed that the Government has given secret orders that all Government factories must prepare air raid shelters and take measures in anticipation of bombing. Some even believe that Keelung has already been bombed, while there is belief by others that Nagoya, in Japan, has been bombed

by Russian forces and that Okinawa is being bombed by "unidentified planes".

The Chinese Air Force is now openly moving munitions into local dumps, which may seem further to confirm such stories.

The *Jen Min Tao Pao*, (consistently anti-American of recent months) on December 4 carried the following item, in full:

"According to information released by the American Consulate, a large section of the United States Air Force will be stationed in the province and the airfield near Taichung has been chosen as its base. The USAAF is also intending to build a B-29 factory at Taichung and is positively making all preparations, it is said."

A contract has been let to a Formosan firm to enlarge and repair an airfield and a factory near Taichung. It is, of course, assumed locally that in as much as China cannot produce airplanes, the United States Government is behind the contract. Two Taichung persons called at the Consulate December 28 to confirm this, in order to plan "business" in connection with the expected influx of Americans. It is widely believed that as many as 300,000 American troops are soon to arrive. Young Formosans who have served with United States forces in the Philippines and elsewhere are frequent visitors, seeking employment with the expected American troops. At one time 16 called in a body. No criticism has yet been heard of this anticipated influx of American forces. Some rumors allege that 1,600 men have already landed at the river port of Tamsui.

The current susceptibility to rumors and fears of a return of Japanese in force may spring from the widely circulated story that certain formerly prominent but unidentified Japanese, upon leaving Keelung for repatriation, boasted that in as much as Japan was not defeated by China but by America, the Japanese would be back in Formosa within twenty years. This gives local emphasis to the belief that America, disappointed in China's failure to achieve unity and economic recovery, is now prepared to support Japan's recovery as fully as possible.

It was commonly believed throughout 1946 that the United States Army and United States Army Air Forces intended to establish large bases on Taiwan. The continuing presence of ground forces here (successively the Formosa Repatriation Group of approximately 100 men, the Graves Registration and Search Detachment of approximately 10 men and the second Repatriation Team of five Americans), plus the recent brief aerial reconnaissance mission operating from the Ryukyu Islands Base Command, have added visual "confirmation" of public rumor.

The most extreme story is to the effect that the Generalissimo¹ came to Taiwan in October to have a secret meeting with General MacArthur,² at which time the sale of Taiwan to the United States was arranged in return for a huge sum which the Generalissimo needs for prosecution of war against the Communists. The story has persisted in circulation for two months and is now linked with the current repudiation of Communist charges that the Kuomintang has enormous sums at its disposal in the United States. None of the versions of this rumor heard so far have carried criticism of the alleged sale.

The recent "Shibuya Incident"³ protest was the first attempt to organize, crystallize and direct Formosan opinion on an issue fundamentally Formosan versus an outside group. It failed because the Formosans themselves are not sure that they have a case. Political leadership is confused and immature, and was prompted in this instance to promote a "cause" of which very few people were wholly convinced. Some Formosans say that too many of themselves, repatriated from Japan in recent months, know how many rascals there are among Formosan Chinese now living by their wits in Japan. Speeches, broadcasts, pamphlets and conversations are full of realization that the Formosans at Shibuya "may have been one hundred per cent wrong," followed by an attempt to justify the protests on the grounds of identity with a "victor" nation. A news item appeared December 20 which states without comment or verification that the Taiwan Government General⁴ has received a memorandum recently from SCAP⁵ stating that during July, August and September the 300 cases of law violation (category unspecified) charges against Formosans are more than double the number recorded in the same time against Japanese.

Public uneasiness reflects the uncertainties of political and economic conditions both on the mainland and on Taiwan. The seeming imminence of large scale civil war on the mainland is felt here. The continuing influx to Taiwan of people of all classes from all coastal areas (with a rising percentage from the poorest levels) brings conflicting interpretations of conditions across the channel. The police

¹ Chiang Kai-shek, President of the National Government of the Republic of China.

² General of the Army Douglas A. MacArthur, Supreme Commander for the Allied Powers, Japan.

³ Incident of July 19, 1946, in the vicinity of Tokyo's Shibuya Station, in which a dozen or so Formosans were fired upon by Tokyo police.

⁴ The Government General of Taiwan was organized at the time of the Japanese military surrender and the occupation of the island by the Chinese on October 25, 1945; unlike other provinces of China, this was not a regular provincial government, as the Governor General, with an unusual relationship to the Chinese Executive Yuan, wielded almost autocratic powers.

⁵ General MacArthur's command.

system does not improve. Large scale robberies continue to take place.

Representatives of a group of well educated men (with whom the Mayor of Taipei is said now to be associating himself) observe that in their discussions of Taiwan's problems they conclude that with any crisis on the mainland—either full scale war or collapse of the present economic structure—there will be a crisis on Taiwan, during which a struggle for control of Taiwan will ensue. They say among themselves that they have three things they would ask of the United States. They will ask that the United States refrain from transporting mainland troops to Taiwan as was done after the Japanese surrender. They will ask that America send technical and administrative advisors to Taiwan to help it through a crisis in which they are determined not to be engulfed in mainland chaos. And they will ask America to lend financial and material support in the rehabilitation of commerce and industry, which they feel could be hastened under a policy of free trade and enterprise emphasizing independent trade abroad rather than (as now) exclusively with the Government's Trading Bureau and other official agencies.

Respectfully yours,

RALPH J. BLAKE

894A.00/3-147 : Telegram

*Minister-Counselor of Embassy in China (Butterworth) to the
Secretary of State*

NANKING, March 1, 1947—6 p. m.

[Received 10 : 45 p. m.]

405. Following message received from American Consul, Taipei :

“Following shooting and killing last night of two Formosan girls by Taiwan Monopoly Bureau police while seizing untaxed cigarettes from street vendors, about 2,000 or 3,000 Formosans marched this morning in protest to Monopoly Bureau headquarters and various branch offices in downtown Taipei. Subject to later detailed confirmation, noon today 1 to 3 mainland Chinese police clubbed death and other mainlanders severely beaten. Crowds on streets greatly increased by early afternoon with ordinary police inactive. Military police have now appeared before some Government buildings, and at about 2 p. m. opened fire against crowds gathered before Government General, with some persons killed. Nearby Omea Hotel entered by mobs seeking mainlanders for purpose inflicting beating while other mainlanders fleeing in streets seeking safety. Monopoly Bureau branch office stocks being burned on street and some automobiles overturned and burned.”

Subsequent message states situation generally quiet though tense with only occasional burst of firing. Martial law still in force. Government confident it has situation in hand though rioters for brief period seized and held local radio station, broadcasting appeal for general uprising.

Embassy's information is that Chinese authorities either misinterpreted Shanghai financial crisis⁶ or else used it as occasion to issue emergency decrees drastically to consolidate their monopoly control. These onerous regulations bore so heavily on the local population that trouble became almost inevitable.

BUTTERWORTH

893.00/3-147: Telegram

The Minister-Counselor of Embassy in China (Butterworth) to the Secretary of State

NANKING, March 1, 1947—11 p. m.

[Received March 1—11:50 a. m.]

414. Blake reports from Taipei that firing died down at 6 p. m. February 28 with total deaths between 10 and 15 both mainlanders and Formosans. No American or foreign casualties known, mob violence being directed solely against mainlanders. Disorder has reportedly spread to Keelung⁷ and train service south of Taipei suspended. Secretary General office reported situation under control with martial law declared.

Blake reported March 1, a. m., that 11 mainland Chi[nese], including 8 women and children, entered Consulate for refuge without his permission during his temporary absence from premises previous evening. Refugees had previously telephoned for permission but answer deferred pending Blake's return from urgent engagement. Permission to remain for night granted only after arrival of refugees, on basis possible imminent danger of mob violence in accordance section 3-4, Foreign Service regulations. Blake reported situation to Secretary General's office and induced 7 of the refugees to return to their homes.

Under date March 1, 3 p. m., Blake reports police fired on crowd in front of neighboring railway administration headquarters, killing 2 to 4 Formosans. Fifteen new unidentified members mainland families presently taking refuge in Consulate. Blake telephoned Governor General⁸ twice to ask removal refugees from Consulate to

⁶ For correspondence on this subject, see pp. 1407 ff.

⁷ Second largest city on Taiwan.

⁸ Gen. Chen Yi, formerly Governor of Fukien Province, 1934-41.

place of safety. Later, 7 additional mainlanders climbed over Consulate wall and Formosans in street stoned Consulate once. Blake continues to urge Government to remove refugees.

Embassy is instructing Taipei to be strictly guided by Embassy's mimeographed circular No. 25, August 7 for CC 6, which set forth American policy regarding according of temporary refuge or asylum.⁹ Blake informed that situation Taipei apparently involves large scale violence against masses of people which would not make feasible, even if desirable, discretionary sanctuary envisaged in Department's policy, and that in view of this situation he should, in future, refuse such asylum. He is instructed to impress vigorously upon local authorities their responsibility for removal of any refugees presently in Consulate with suitable safeguards as a measure of protection to the Consulate in the situation that exists.

BUTTERWORTH

893.00/3-247: Telegram

The Minister-Counselor of Embassy in China (Butterworth) to the Secretary of State

NANKING, March 2, 1947—10 a. m.
[Received March 2—2:22 a. m.]

416. Blake at Taipei reports March 2, 10 a. m. that Government removed refugees from Consulate Saturday night just after 10 o'clock without incident and that city appeared calm Sunday morning.

BUTTERWORTH

893.00/3-347: Telegram

The Minister-Counselor of Embassy in China (Butterworth) to the Secretary of State

NANKING, March 3, 1947—1 a. m.
[Received—3:13 a. m.]

424. Following from Taipei:

"March 2, 5 p. m. Light firing heard last night and throughout today, while situation remains tense.

"In radio speech this afternoon Governor General agreed to people's demands as enunciated by local PPC¹⁰ member acting as spokesman that all Formosans seized during incident be released unconditionally

⁹ Circular No. 25, to American Consular Offices in China, "Policy regarding accordance of temporary refuge or asylum", not printed.

¹⁰ People's Political Council.

and that damages or medical treatment be given behalf those killed and wounded. No reference in speech to other demands that Monoply and Trading Bureau systems be abolished.

“All Government departments and services inoperative both Taipei-Keelung. Island-wide disturbances reported.”

BUTTERWORTH

893.00/3-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 4, 1947—1 p. m.

[Received March 4—3 : 05 a. m.]

439. Following from Taipei :

“March 3, 3 p. m. City tense. Relatively little shooting but four Formosans known killed today. Govt and people representatives yesterday held public discussion of demands for reform, to be formulated by March 10, pending which terms for solving present armed crisis were agreed upon by both sides and announced. So far these are not implemented. Foreign community has no difficulties and continues to be cheered in street.”

STUART

893.00/3-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 5, 1947—1 p. m.

[Received March 5—5 : 42 a. m.]

448. Following is Taipei's 32, March 3 :

“Newspaper extra issued this morning announced that ‘committee for settling February 28 incident’ decided following :

(1) Send delegates to Governor General to inquire to what extent terms accepted by Government have been executed.

(2) Executive Committee shall be formed and shall visit American Consul to request Consul to announce incident to entire world. At same time telegram will be sent Central Government to report truth of incident.

(3) Public Security Maintenance Committee will be organized.

Committee mentioned item (2) called on Consul this afternoon and was informed that it is not Consulate's function to act as news disseminating agency and that it is in position only to transmit communica-

tions for US Government to Embassy subject latter's decision regarding onward forwarding. Committee stated it would consult General Committee for which it is acting for purpose drawing up tomorrow written communication for information US Government.

Consul has today received petition addressed to General Marshall¹¹ containing 141 signatures in behalf of 807 persons stating in conclusion 'shortest way of reformation of Provincial Government (of Taiwan) is wholly to depend upon United Nations joint administration in Formosa and cut political and economic concern with China proper for years until Formosa becomes independent'.

Important message on general situation now being prepared. Blake."

STUART

894A.00/3-547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 5, 1947—2 p. m.

[Received March 5—5:05 a. m.]

449. Following telegram No. 30 dated Mar 3, 2 p. m. received from Taipei:

"Doctor owning small private hospital and one other Formosan today on own initiative exhibited conclusive evidence to Consulate of dum dum bullet fired from patrolling military truck into hospital premises yesterday and requested Consulate intercession with authorities to prevent future use such outlawed ammunition. Please instruct.

While unable prevent approaches being made, fully realize importance of not involving Consulate with either side in present struggle. For this reason have refused to permit dum dum bullet evidence being held by Consulate pending Embassy's instructions."

Embassy has informed Blake that it approves his action in refraining from involving Consulate in matter reported in above message as well as request by local committee to use Consulate to disseminate news of Taipei incident (reported Taipei's 32, Mar 3¹²). Consulate also instructed to continue to refrain from intercession either official or personal in such internal difficulties while reporting any further approaches of this character to Embassy.

STUART

¹¹ General of the Army George C. Marshall, formerly President Truman's special representative in China, at this time Secretary of State.

¹² See telegram No. 448, *supra*.

893.00/3-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 5, 1947—9 p. m.

[Received March 6—4:29 a. m.]

451. Following is Taipei's 34, March 4, 10 a. m.:

"In summary of present situation Government violated truce terms agreed upon with people's representatives to effect peaceful settlement of crisis. Such settlement was generally believed possible upon conditions accepted by Government which included gradual withdrawal of armed patrols firing wantonly in streets, release of all persons seized after February 27, slayings of Formosans by Government monopoly agents, resumption of rail traffic under chief of staff, guarantee that further troops will not enter city, cancellation of martial law at midnight March 1 and payment various indemnities. Formosans in turn agreed resume normal activities pending March 10 consideration people's demands for reform in Government.

Formosans, so far unarmed, have resorted only to clubs and fists in their savage attacks on mainlanders. Government appears to have temporized by promises while maneuvering troops toward city and increased roving irresponsible patrols. There is indication Government is unable exercise firm control over army forces. Mainlanders were reported evacuating city provided with small arms.

Formosans apparently fundamentally desire peaceful settlement but as result Government's action now fear repetition alleged Fukien massacres occurring under General Chen's rule there and believe if Government augments forces hereafter full resistance by any means will be only salvation. They are improvising defenses and arms and are reported successfully to have opposed troops in pitched battle in Chureki and Toen areas. Government concession early March 4 easing situation revokes martial law and withdraws patrols, believed forced through failure to move troops nearer Taipei. Populace believes Government now attempting secure further military support from headquarters mainland and attributes present partial fulfillment truce terms to public announcement of Formosa's representation to Consul March 3."

STUART

894A.00/3-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 5, 1947.

[Received March 5—7:36 a. m.]

456. Ministry of Information regular weekly press conference March 5th on subject of riots at Taiwan as follows:

"Query: Please give all available details of recent uprising in Formosa. How many people were killed, wounded and imprisoned. What were the basic causes of the uprising and what steps has the Government taken to prevent further uprising. In how many places, that is what sections of Formosa, did the rioting spread. Did anyone go from China proper to investigate the uprising."

Answer follows: "The riots in Taiwan were caused by enforcement of regulations against unauthorized cigarette dealers. As you know, there is a tobacco monopoly in Taiwan, and the prevention of smuggling and bootlegging has caused repeated incidents, resulting in the riots of the last few days.

"The riots have subsided. The exact number of people killed and wounded are not yet known. According to the Central News Agency, up to March 3rd the number of Taiwan natives killed or wounded is by then 100, and that of other provinces amounts to about 400. Governor Chen Yi has promised to take a very lenient attitude."

Minister Peng Hsueh-pei added that majority of riots had taken place at Taipei, Kaohsiung, and Takao as well as minor disturbances at an unknown number of other places.

STUART

893.00/3-647: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 6, 1947—6 p. m.

[Received 10:30 p. m.]

466. Following is Taipei's 35, March 4:

"Atmosphere of uneasy truce in city prevails pending consideration of people's demands for changes in Government. Daily sessions of committee for settlement of incident being held publicly with some Government representatives present. Mayor and city police chief are active and respected mediators with university organization assisting in maintaining public order. No further attacks on mainlanders reported in Taipei but disorders said to continue elsewhere on island.

Martial law in Taipei lifted midnight March 3 but roving patrols continue to be seen occasionally. However, posters announce people's committee is asking Government to complete patrol recall.

City food situation easing somewhat though rice is scarce. Trains not yet operating southward."

STUART

893.00/3-647: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 6, 1947—7 p. m.

[Received March 7—2: 50 a. m.]

468. Following is Taipei's 34, March 3, 10 a. m.:

"Section 2. Formosans strongly desire status as Chinese nationals but it is believed they will resist present Government if it seeks military revenue or fails to meet popular demands for reform to be discussed from March 10. They will continue to resist in varying degree all unrepresentative authoritarian governments imposed from mainland. Major economic dislocations appear inevitable and responsible elements fear continuing instability will bring communism.

Formosans stress American responsibility through Cairo decision¹³ and have published intent to appeal for American help in seeking UN¹⁴ intervention pending final transfer sovereignty to China. Responsible island-wide group preparing formal petition and has so advised Consulate. One such petition received addressed to General Marshall. Possibilities of interim administration under SCAP openly discussed.

After gravest consideration Consulate concludes only practicable solution would be immediate American intervention in its own right or on behalf of UN to prevent disastrous slaughter by Government forces if loosed on capital, which was imminent possibility March 3. American prestige high and intervention profoundly desired by Formosans who believe representations at Nanking and direct intervention here justifiable for UN under present Japanese *de jure* sovereignty status.

Then Government might yield to opportunity to be relieved of serious and continuing military liability during present mainland difficulties. China could feel assured that interim government by UN, with China represented, would terminate in Formosa's return to a responsible Chinese administration in which Formosans have large share. Formosans assume UN control would be predominantly American. They frequently express desire for democratic political

¹³The Communiqué of the Conference of President Franklin D. Roosevelt, Generalissimo Chiang Kai-shek, and British Prime Minister Winston S. Churchill as issued on December 1, 1943, announcing their intention to restore Formosa to the Republic of China; for text, see *Foreign Relations, The Conferences at Cairo and Tehran, 1943*, p. 448, or Department of State *Bulletin*, December 4, 1943, p. 393.

¹⁴United Nations.

training and desire ultimate government of Formosa by Formosans representing the island in Central Government. Civil war on Formosa is most probable alternative.”

STUART

893.00/3-647: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 6, 1947—8 p. m.

[Received March 7—3: 15 a. m.]

469. Following from Taipei:

“37, March 5, 9 p. m.

(1) Situation rapidly developing throughout island, including continuing reports imminent troop reinforcements from Fukien and secret evacuation high official families, strongly indicates we will be (unable) supply adequate background information without temporary coding help. If expected crisis develops it will come quickly and consider removal Consular families advisable while still feasible. Recommend Embassy send American plane to bring code clerk and necessary radio equipment (particularly generator mentioned USIS¹⁵ plain message today) as well as mail. On return plane would evacuate families and take important despatches for Embassy. UNRRA¹⁶ Taiwan has recommended evacuation greater portion its staff.

(2) Possible danger now Consulate anticipated not from Formosans but from reckless or unfriendly Government forces jealous of American popularity among people. For Embassy's consideration in light of political aspects involved, might suggest small United States armed military force quartered in Consulate would discourage any unfortunate incident from either side.

(3) Believe presence here of foreign press representative would provide impartial news coverage even though communication problem would be difficult unless USIS network use authorized in absence other facilities. External broadcasts received distort Consulate's position and general situation. Manila broadcast quotes alleged Nanking American Embassy spokesman to effect Consulate attacked, entered by Formosans and defended by mainland troops. Actually one stone hurled into grounds after fleeing mainlanders who scaled wall March 1. Only Government assistance to evacuate mainland refugees from Consulate not forthcoming until more than 8 hours after first request and after finally stating refugees jeopardized Consulate to extent request for American military protection would be necessary if not removed without further delay. Tokyo United States Army station report labor groups cause of trouble.”

Following is Embassy's instruction in reply:

“Embassy has given careful consideration to your 37, March 5 and is bringing to immediate attention highest Chinese authorities

¹⁵ United States Information Service.

¹⁶ United Nations Relief and Rehabilitation Administration.

desirability of affording fullest measure protection to Consulate and American nationals in situation, pointing out in this connection that previous request by you for local protection your establishment was forthcoming only after considerable delay.

At this critical time you should be most careful to avoid any external appearance of prejudging the merits of present dispute or becoming a participant in it in any manner whatsoever. You will also realize that in this situation American officials must only look to the constituted authority, whose responsibility it is to afford you adequate protection.

The Embassy is sympathetic to your desire for the immediate evacuation of Consular families and is prepared to set up special flight for this purpose. Within the next 24 hours, however, it is requested that you reassess the situation and inform Embassy whether you wish plane to be sent, bearing in mind the probability that other American and foreign nationals will request transportation on the same aircraft which will result in considerable publicity."

STUART

894A.00/3-747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 7, 1947—4 p. m.

[Received March 8—1:12 a. m.]

479. Following is 36, Mar 5, from Taipei.

"Following is translated text of letter handed Consulate today by delegation of Political Reconstruction Promotion Assn of Taiwan, an established responsible organization, taking large part in mediation for settlement of present situation.

'March 5, 1947. The US Consulate Taipei, Taiwan.

'Sir: For the protection of the lives of the 6 million and more Formosans, we cordially request you to forward the enclosed letter to Ambassador Dr. Leighton Stuart for transmission to the National Govt of the Republic of China.

'From (chopped) the Political Reconstruction Promotion Assn of Taiwan.'

[“] Following is translated text of enclosure:

'To His Excellency, President Chiang of the National Govt of the Republic of China through the kindness of Ambassador Dr. Leighton Stuart of the American Embassy in Nanking:

'Your Excellency: This civil commotion in Taiwan Province is purely in protest against corrupt officialdom and a demand for political reformation with no other purposes whatsoever. We entreat you not to dispatch troops to Taiwan in order to avoid further provocation of the people. We also earnestly beg that you immediately send a high official to Taiwan to settle the incident for the sake of the nation.

'From (chopped) the Political Reconstruction Promotion Assn of Taiwan Province. March 5.'

"Consulate has agreed to forward this communication to American Embassy for its discretionary action."¹⁷

STUART

893.00/3-747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 7, 1947—4 p. m.
[Received March 8—1: 15 a. m.]

480. Following is 39, March 6, from Taipei:

"Quiet but expectant atmosphere prevails Taipei with continued meetings committee for settlement February 28 incident. Following is summary translation of draft of fundamental political reforms formulated by committee late yesterday:

- (1) Government will be responsible for incident.
- (2) Secretary General and Commissioners Civil Affairs, Finance, Industry and Mining, Agriculture and Forestry, Education and Police—more than half of top executive posts Taiwan Government—shall be Formosans.
- (3) All public enterprises shall be operated under Formosan direction.
- (4) Selection of magistrates and mayors by general election shall be instituted immediately.
- (5) Monopoly system shall be abolished except for tobacco, cigarettes, liquor and beverages.
- (6) Trading Bureau and Information Commission shall be abolished with commercial policy being handled by Industrial and Commercial Department presumably to be newly created.
- (7) People shall have freedom speech, publication and assembly.
- (8) People's lives, property shall be protected.

Insistent but unconfirmed reports indicate that Formosans either in ascendance or control in most important centers on island outside Taipei and Keelung, with Formosans in control at Topen, Taichu, Kagi and on east coast while street fighting in progress at Shinchiku, Tainan and Takao. At Taipei police and public utility functions in hands of Formosans and operating without apparent change.

Whether military reinforcements will be brought from mainland remains paramount question in public mind. Food situation eased with release Government rice stocks."

¹⁷ Copy of this letter with its enclosure was handed to President Chiang Kai-shek "informally" by Ambassador Stuart on March 7.

Blake reports in his 40, March 6, that a radio broadcast at 4 p. m. in behalf settlement committee announced that Governor General had accepted in principle all 8 demands mentioned in above message and had requested committee to furnish further details.

STUART

894A.00/3-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 8, 1947—1 p. m.

[Received—9:35 p. m.]

491. Following Taipei telegram 43 to Embassy March 7, 5 p. m. "Evacuation unessential persons unnecessary with situation as of today.

Plane request was based on likelihood airfield will be inaccessible in event outbreak general fighting which was distinct possibility at time and could still be if troops brought in or if restive younger Formosan groups now obtaining arms precipitate crisis by endeavoring emulate Formosan successes elsewhere on island. However, Government's acceptance people's demands (Contel 40¹⁸) render latter development less likely or if it occurs possibility now exists fighting may be localized areas where mainlanders being progressively concentrated or Government forces located. Assessment future probabilities and possible evacuation desirability also dependent on question whether Central Government intends to send reinforcements, which Embassy may wish to ascertain."

STUART

894A.001/3-947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 9, 1947—2 p. m.

[Received March 9—5:30 a. m.]

498. It is reported here that Supreme National Defense Council has decided to abolish the Office of Governor General of Taiwan, at present held by General Chen Yi. No announcement made of new Government structure or personnel.

STUART

¹⁸ See telegram No. 480, *supra*.

894A.00/3-947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 9, 1947.

[Received March 9—5 : 06 a. m.]

499. Following repeat Taipei number 45, March 9, 2 p. m.

“Heavy sustained firing broke out Taipei late last night which Govt representative informed Consulate this morning caused by Formosan attempt capture Govt arms stores. Scattered general firing throughout city continuing and still in progress. Martial law reinvoked Keelung-Taipei 6:30 this morning with streets almost deserted but frequent firing by sentries.

About 2000 troops (described by Govt representatives as gendarmes) landed Keelung dusk yesterday with total of 2 divisions expected from mainland south China aboard 5 additional ships reported presently en route.

Heavy firing Keelung streets yesterday afternoon and rumored Formosans attempted capture garrison headquarters there. Blake.”

STUART

894A.00/3-947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 9, 1947—5 p. m.

[Received March 9—5 : 30 a. m.]

500. Special representative Gimo departed Nanking this morning by air for Taipei. (Reference Embassy's telegram 499, March 9.) Colonel F. J. Dau, Assistant Military Attaché, acting as Embassy courier, proceeded on same aircraft to observe situation.

Press currently reporting impending relief of General Chen Yi as Governor of Taiwan.

STUART

894A.00/3-1147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 11, 1947—3 p. m.

[Received March 11—8 : 23 a. m.]

517. Taipei reports Colonel Dau arrived March 9. Following is Taipei's 47, March 10:

“Martial law still in force with firing less frequent by midday and relatively light during night. Suspected dissidents Taipei reportedly

being rounded up. Additional troops arriving from Keelung. Public street activity at minimum.

Governor's radio broadcast this morning stated officials causing incident arrested being tried; killed [and] wounded compensated and given medical treatment; people involved not prosecuted. Governor said he has promised Provincial Government status for Taiwan with as many Formosans as Department heads possible and that general election mayor's magistrates will begin July 1st. Reinvocation martial law necessary because 'gangsters, ruffians spreading rumor and sowing seeds dissension between Government [and?] people'. Following six points stressed in speech: Communications will be resumed, people should resume normal occupations, meetings [and] parades temporarily banned, propagandizing banned, commodity price increases banned and 'any other illegal acts forbidden'."

STUART

894A.00/3-1147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 11, 1947—5 p. m.

[Received March 11—6 a. m.]

520. It is reported here that "committee to settle February 28 incident" at Taipei on March 8 submitted to Governor Chen Yi 32 resolutions for acceptance, including: Enactment autonomous constitution; election by people of mayor and magistrates before June; right of assembly, freedom of press and right to strike; forbidding political arrests; provincehood for Taiwan; abolition Taiwan garrison headquarters; and pending approval Central Government, administrative bureau of settlement committee to undertake temporary reorganization Taiwan administration.

STUART

894A.00/3-1247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 12, 1947.

[Received March 11—11: 50 p. m.]

527. According to press reports, the Generalissimo at weekly memorial service March 10 discussed situation in Taiwan. He declared his confidence that order would shortly be restored since the Government has despatched regular troops to take up garrison duty there. He also said Government has sent a high official to assist Governor Chen Yi in reaching a settlement. He accused Communists of insti-

gating rebellion and added that settlement has been delayed since Taiwanese committee for the handling of the February 28 incident has made demands beyond the scope of the Provincial Government to grant and even beyond competence of the Central Government since many of them are unconstitutional.

Coincidentally, Governor Chen Yi announced dissolution of the committee for the handling of the February 28 incident on the grounds that the committee is contributing to public disorder.

STUART

894A.00/3-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 12, 1947—1 p. m.

[Received March 12—4:50 a. m.]

534. Reference my telegram 498, March 9. There is as yet no indication that General Chen Yi will be removed as Governor General of Taiwan, as press reports previously indicated.

STUART

894A.00/3-1347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 13, 1947—9 a. m.

[Received March 13—6:08 a. m.]

539. Col. Dau returned from Taipei (Embtel 500, Mar. 9) Mar. 11 and his view situation telegraphed War Department with request information be transmitted to State Department.¹⁹

Message from Taipei Mar. 11, 3 p. m. quotes reputable Formosan sources as stating systematic repression has started with arrests and executions. Embassy has taken steps indirectly to bring to attention Generalissimo substance information it has received on repression.

STUART

Marshall Mission Files, Lot 54-D270 : Telegram

*The Military Attaché in China (Soule) to the War Department
General Staff Intelligence Division*

NANKING, 13 March 1947.

D 4080. Following are observations of Ass[istan]t M[ilitary] A[ttaché] Dau 9 to 11 March in Taipei, Taiwan. Embassy requests information to Far Eastern Desk, State Department.

¹⁹ See telegram D 4080, *infra*.

"After incidents of 1 March, comparative quiet reigned from 3 to 7 March after Governor Chen Yi agreed to meet most demands of Formosans. With arrival of two Military Police Battalions commencing 7 March, followed by at least 21st Division from mainland, disturbances again renewed and characterized as show of force by foreign observers. Small arms fire prevalent over weekend, decreasing in intensity by 11 March. Chen Yi states caused by Formosan ruffians and Communists. However, only visible firing is by troops.

Estimate Chen Yi can maintain reasonable order in Taipei-Keelung area with present troops. However, present purge by military and signs of renegeing on promises indicate continued unrest and incidents. Believe only real political and economic reform can quiet Taiwan unless tremendous military effort is made with additional reinforcements from mainland.

Americans will remain with situation carefully followed in case evacuation becomes essential. No Americans injured but one American UNRRA employe's house riddled by small arms."

[Here follows a short statement to the Assistant Military Attaché at Shanghai, to whom this telegram was also relayed.]

894A.00/3-1347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 13, 1947.

[Received March 13—12: 55 a. m.]

541. At regular weekly press conference March 12 Minister of Information had following to say regarding Taiwan uprising:

"What is the present situation in Taiwan? Is General Pai Chung-hsi²⁰ going to Taiwan?

Answer. The situation in Taiwan has been rapidly stabilized during the past 3 days. The incident will be closed very soon. The Govt is ready to carry out any legitimate reforms both in the political and economic fields, and to take a very lenient attitude toward the people involved in the riots, as President Chiang announced on March 11. But as the nation enters into a democratic and constitutional regime, our people should 'be responsible in their utterances and observe discipline in their actions' in accordance with the mottoes of the Gmo. It is time to avoid going to extremes. Such abusive requests as the abolition and disarmament of the Taiwan garrison, and the recruiting of Taiwan armed forces exclusively from natives of Taiwan, are obviously irresponsible and undisciplined. Setting out to establish democratic and constitutional government by such excessive methods would be, as Mencius said, 'climbing a tree to look for fish'. This is a matter the whole nation should take to heart."

²⁰ Chinese Minister of National Defense.

The Minister added that General Pai Chung-hsi is going to Taiwan very soon and that General Pai had said he would be too busy to take correspondents with him and that the Ministry of Information would not facilitate their going there independently since provincial officials are too busy to look after them. He said this did not constitute a prohibition on their going.

STUART

893.00/3-1847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 18, 1947.

[Received March 18—4:35 a. m.]

579-A. General Pai Chung-hsi, Minister of National Defense, arrived Taipei 17th to investigate conditions there as "Government's special envoy". General Pai was accompanied from Nanking by party of 14 military and political leaders including Major General Chiang Ching-kuo, elder son of Gimo; General Leng Hsin, Deputy Chief of Staff of Chinese Army; and Ke Ching-en, Secretary General of Government. General Pai plans to visit Keelung, Kaohsiung and other areas of the island during his investigation.

STUART

894A.00/3-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 20, 1947.

[Received March 20—6:46 a. m.]

613. Minister of Information, at regular weekly press conference March 19, stated as follows on Formosan uprising:

"There are no detailed statistics available on casualties in the Taiwan riots. It is now quiet throughout the island, and no further riots have occurred during the last few days. As for Communist inspiration, there were some Communists among the Taiwan people who returned from Hainan Island. This group have contributed in no small measure to the malignant character of the riots.

"The Government plan for administrative reforms was very clearly outlined by General Pai Chung-hsi on his arrival at Taiwan."

STUART

893.00/4-147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 1, 1947—9 p. m.

[Received April 2—5:41 a. m.]

713. Taipei reported on March 28 that the *Ho Ping Jih Pao* suspended for reporting Central Executive Committee censure Chen Yi

and as only few copies distributed that development not generally known in Taipei. Consulate reports further:

“Government here realizes position would be further weakened by publication CEC criticism which might cause Formosan jubilation leading to more uprisings. Official feeling appears uncertain regarding future while other mainlanders openly apprehensive further trouble with general sentiment favoring their return to mainland for safety and because Formosan cooperation impossible for indefinite time.

Native reactions difficult assess since expression anti-Government opinion will lead to arrest but small informed segment feels changes if any will come after departure General Pai. Arrival troops resulted in cessation overt action by Formosans but General Pai's visit has not so far contributed to any noticeable betterment of basic situation. Pai's efforts publicly concentrated on supporting Chen Yi. Arrests still being made and evidence points to continued executions. Fresh bodies still being removed from Keelung harbor. Occasionally gun fire at night but may partly be looting. Two confirmed instances public shooting of soldiers by MP's assumably for looting.

Governor told American pressmen that Wang Tien-teng, principal liaison between Government and former settlement committee, shot dead ‘while resisting arrest.’”

STUART

893.00/3-3147: Telegram

*The Acting Secretary of State to the Ambassador in the Soviet Union
(Smith)*

WASHINGTON, April 2, 1947—7 p. m.

775. For the Secretary²¹ from Acheson.²² We suggest awaiting receipt of despatch 588 March 26 containing concrete proposals on Formosa (Nanking's 689 March 29) before preparing reply to Stuart (Kosmos 17).²³ In meantime we are studying available materials on subject. Assistance in economic development of Formosa appears sound in principle but at first blush we question practicability of sending technical advisers without reasonable prospect of supporting credits.

ACHESON

²¹ The Secretary of State was at this time attending the Moscow Conference of Foreign Ministers.

²² Dean Acheson, Under Secretary of State.

²³ For Ambassador Stuart's despatch No. 588 and telegram No. 689, see pp. 84 and 89, respectively. Telegram Kosmos 17 (Moscow Embassy telegram No. 1109), March 31, 5 p. m., from the Secretary of State to Mr. Acheson, not printed (711.93/3-3147); in it the Secretary requested the Department's recommended reply to Dr. Stuart's request for guidance made in the above cited telegram No. 689. In telegram No. 444, April 17, 6 p. m., Mr. Acheson informed Dr. Stuart that his despatch No. 588 had been received “and is now being studied by appropriate officers of Dept.”.

893.00/4-1047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 10, 1947—5 p. m.

[Received April 10—8:43 a. m.]

780. Following is Taipei's 66, April 8:

"In interview yesterday with Commissioner of Secretariat on other matter, I mentioned a recent Nanking broadcast that plans being pushed at Taipei for change to provincial government system with Formosans having Chinese advisers or vice versa filling principal posts. He said change-over plans already drawn up but was non-committal re extent of future Formosan share in important Government positions, referring only to statements of general principle that he will recommend employing as many qualified Formosans as possible. Decision on local government readjustments will not be made until Pai can report to Gimo on latter's return from present trip.

Government program of large scale seizures and executions apparently completed in urban areas. No evidences of any systematic campaign to round up Formosans who fled to mountains. Conditions outwardly calm but sentries remain important points. Basic situation marked by mutual resentment and mistrust which on Formosan side could give rise to further uprisings if troops withdrawn. Chen Yi has ordered mainland officials remain at posts and not quit Taiwan.

American UNRRA doctor just returned from trip along entire west coast compiled statistics indicating Government report of 1,000 mainlanders casualties probably greatly exaggerated. He reports Formosans he talked with pursuant his medical duties, while becoming resigned to idea of prolonged Chinese subjection, are reluctant to abandon hope of UN intervention and stated 'U. S. made mistake in handing over Taiwan to China'."

Embassy is forwarding by despatch General Pai's statement, with comment upon his Taiwan mission. His statement was characterized by use of enough known facts to give specious air of plausibility to his defense of Government action in Taiwan affair.

Embassy has taken occasion to acquaint numerous Chinese officials, including Foreign Minister,²⁴ with background of situation as known to us. Embassy has also prepared a lengthy factual memorandum on situation which together with Chinese text thereof will be handed to Gimo by me upon his return to Nanking, in order that he may have an unprejudiced account of whole affair.

STUART

²⁴ Wang Shih-chieh.

894A.00/4-1547

The Ambassador in China (Stuart) to the Secretary of State

No. 637

NANKING, April 15, 1947.

[Received April 25.]

SIR: I have the honor to refer to the Embassy's telegram no. 780 of April 10, 1947 in regard to the situation in Taiwan, and to enclose a memorandum prepared by Vice Consul George H. Kerr, now on consultation at the Embassy, in regard to the recent mission of General Pai Chung-hsi, Minister of National Defense, to Taiwan. There is also enclosed a copy of a Central News Agency release of April 7, 1947²⁵ which gives the full text of the statement made by General Pai following his return to Nanking. As of related interest, there is enclosed a translation of an editorial which appeared in the Nanking *Hsin Chung Hua Jih Pao* of April 4, 1947,²⁵ which purports to give "inside" information concerning General Pai's mission; this newspaper is said to reflect the views of the Youth Party.

The memorandum prepared by Vice Consul Kerr was prepared at the Embassy's request as an analysis of the possible effects of General Pai's activity in the light of Mr. Kerr's knowledge of the Taiwan situation. Mr. Kerr's personal observation of the bloody events in Taipei and the subsequent brutal suppression of representative Taiwan elements perhaps make his comments appear highly keyed in tone and in certain instances categorical in content. However, with the continuation of Chen Yi's regime in power in Taiwan, there is coming to be less and less middle ground which can be occupied by coolly impartial opinion.

Respectfully yours,

For the Ambassador:
W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

[Enclosure]

Memorandum by the Vice Consul at Taipei (Kerr) to the Ambassador in China (Stuart)

[NANKING,] April 10, 1947.

On March 17 General Pai Chung-hsi, Minister of National Defense arrived in Formosa for a 10-day (extended to three weeks) investigation of the uprisings then in progress. He conferred with General

²⁵ Not printed.

Chen Yi and his government, granted interviews, issued public statements and made radio broadcasts, of which the principal one was in five languages in an effort to "correct" the world's misunderstanding of the government's policy in Taiwan. At Nanking on April 7 he issued a statement which is believed to reflect the Government's official attitude toward the affair, subject to the Generalissimo's review of General Pai's reports.

While in Formosa General Pai appears to have devoted his public efforts to strengthening General Chen Yi's position, to have accepted the Governor's explanation of the uprising and to have given full support to the measures taken to quell the disturbances. His radio address to the aborigines in the mountains, asking them to cooperate in driving out dissident elements seeking refuge there and his address to the students of Taiwan (at a University assembly) in which he gave his personal pledge that none should suffer harm, were among his less fruitful actions. In general terms he promised reforms in education (to root out Japanese influences), reorganizations in economic administration (to relieve unemployment) and changes in the administrative system to permit Formosan-Chinese to enjoy greater participation in government.

General Pai's public statements suggest that the Generalissimo had indicated broad policy toward the affair and had entrusted to him the task of making recommendations for change; General Pai indicated that he expected his reform measures would be adopted. His lengthy statement at Nanking, therefore, must be taken ad interim as a reflection of the Government's official attitude toward the situation on Formosa, and may be summarized as follows:

General Pai believes the Formosan-Chinese have been misled by long Japanese indoctrination which taught them to villify the Chinese Government, the people and the troops. Japanese educational influence will be eradicated. Ambitious local politicians and communists have plotted and led the uprisings. They are being eliminated. Students, being impressionable and hasty, followed these local leaders. Under stricter control they will now be led to understand the traditional Chinese virtues.

Unemployment is a most serious problem, for which there are various reasons such as the return of 100,000 able-bodied men from overseas service as labor conscriptees and the failure of industry to survive because of the lack of fertilizer for agricultural pursuits.

Formosans should have a larger share in government. The administrative structure will become that of a regular province, but with certain additional departments and bureaus and the provision of deputy department heads, by inference to be filled by Formosans. At

some time in the near future Formosans can elect their own mayors and magistrates.

Though the Monopoly and Trading Bureaus have been very profitable for the Government, it is recognized that their operation has restricted the activities of private enterprises. The Monopoly Bureau will be reduced and the Trading Bureau will be replaced by a Supply Bureau.

Public lands (which occupy 70 per cent of the island's area) will be opened to private agricultural use.

In order to stamp out corruption entirely, a special supervisory commission for Formosa within the Control Yuan will be recommended.

General Pai's recommendations are in themselves believed to be mainly superficial, and are presented by him with certain serious misrepresentation of fact.

As an ideological corrective, the measures he proposes hold implications that all leadership which has dared to criticise the government since 1945 must be wiped out and a new and properly trained leadership of local people must come into being. The sweeping condemnation of the Settlement Committee for the February 28 Incident leaves no other interpretation. General Pai made no public gesture toward limiting the seizures and executions in progress during his inspection of Taiwan, but on the contrary indicated his approval.

As a political corrective, the transformation of the Government will affect the titles and may affect the prerogatives of the Governor, who remains a Central Government appointee. The enlargement of the Governor's administrative staff and the creation of deputy posts which can be filled by Formosans is superficial; the one Formosan who heretofore held a Deputy Commission in the Department of Education (since seized and presumed killed) had resigned in February, charging that the mainland Commissioner and his subordinates ignored him, and bitterly charging the Governor (in a personal interview) with having condoned this as general policy toward Formosans. It must be observed, however, that capable Formosans admitted to deputy posts would in time acquire knowledge of executive office at that level, an opportunity (with this exception) so far nonexistent.

As an economic corrective for the fundamental difficulties on Formosa, General Pai's proposals foreshadow even less economic opportunity for the Formosans. In proposing the abolition of two of the old (Japanese established) Monopolies he chose two which have had least effect on the public economy, namely, Matches and Camphor. He ignored the virtual monopoly exercised by the Government in at least 32 fields of major economic activity in the Government's total

or partial control (shared with the National Resources Commission) over some 222 formerly independent enterprises in these fields. He does suggest that these government enterprises may be "adjusted".

In proposing that the present Trading Bureau be abolished and replaced by a Supply Bureau, he merely proposes a change in terminology and further proposes that this Supply Bureau may hereafter become the purchasing agent for private industries, which is a serious extension rather than a reduction of the monopoly on import and export enjoyed by the present Trading Bureau, run by a mainland clique.

General Pai avoids suggesting the release of seized (and well-developed) Japanese lands to the Formosan farmer but appears to allude only to the extremely rugged mountain territory of the aborigines and to public forest lands when he speaks of opening 70 per cent of the total acreage to farmers "in accordance with current local land regulations". This would mean further pressure on the aborigines without substantial gain to the agriculturalist, and suggests a serious threat to the long-cherished forest conservation and soil erosion controls instituted in 1898.

General Pai adheres to General Chen's misrepresentation of the incident as primarily an organized insurrection and rebellion, characterized by attacks on the Governor-General's office and the Garrison Headquarters and accompanied by demands that all national troops be disarmed. It may be that for public purposes, at least, a military government has to have a military reason for action against its own people. By alluding to the "slanders" which had been heaped on General Chen's government General Pai suggests the revenge motive which is believed to have much to do with the systematic killing or seizure of all who have criticised the local government in the past 18 months.

In referring to the "emotional shock" suffered by mainland civil servants (and their material losses) General Pai touches a problem which, it is believed, will become increasingly grave as mainland government employees and civilians abandon their work in Formosa to return to the comparative security of the familiar mainland. During the period in which Japanese technicians were retained to assist in the takeover only mainland Chinese were in a position to benefit by their instruction. General Pai realizes that the withdrawal of key civilians will further cripple the economy.

General Pai refuted assertions made in the *China Weekly Review* that about 5000 were killed or wounded during the incident, but in his own statements stressed only casualties suffered by mainlanders and dwelt upon military losses. An American newsman present at

the interview states that General Pai became confused and finally asked that casualty figures not be quoted. His assertion on April 7 that "about forty" dissidents had escaped to the hills is in conflict with his March 25 statement that approximately 1000 had escaped. It is believed that his attempt to appeal to the aborigines by radio (March 26) reflects a genuine concern that resistance will be organized in the mountain region.

General Pai declared that he did not know whether news censorship, imposed by the Garrison Headquarters, had been lifted or not.

That General Pai's tour is used as a political issue per se in Nanking is indicated by comments heard among influential Chinese and noted in the press. An article entitled "The Inside Story of General Pai Chung-hsi's Pacification Mission to Taiwan", which appeared in the *Hsin Chung Hua Jih Pao* April 4 is enclosed as an illustration.

In some aspects the conduct of General Pai's investigation and the presentation of his conclusions smacks of an attempt to recover an embarrassing political situation created when General Chen's military operations against the people of Taiwan and the revelations of his apparent incompetency there threatened to upset complicated negotiations in the contemplated changes of Government at Nanking. Members of the Central Executive Committee made forceful and public demands for the dismissal and punishment of General Chen Yi, a Political Science Group member and close associate of General Chang Chun.^{26a} The Generalissimo spoke firmly in defense of General Chen Yi on March 10 and later before the Central Executive Committee plenary session. The issue was dropped in the press, which confined itself thereafter principally to reporting General Pai's trip and his public comments, which in themselves may suggest a preconceived solution to the Formosa problem. For example, a foreign reporter at Peiping stated (in the *China Daily Tribune* March 26) that "All newspapers [at Peiping] received instructions to cease publishing news of the Formosa fighting, speculation and causes since the situation has been officially declared stabilized". Vernacular newspaper comment on the Taiwan situation, which had been almost universally condemnatory of Chen Yi, virtually ceased in Shanghai and Nanking after the Generalissimo's attitude was made known; at the same time the only news stories appearing were those given out by the official agency.

It is concluded that General Pai's visit to Taiwan further alienated the people of Taiwan from the Central Government. Throughout the negotiations with Governor Chen from February 28 to March 8, responsible Formosan-Chinese, the stable elements of the community,

^{26a} Former Governor of Szechwan.

encouraged themselves in the hope that if the Generalissimo were appraised of the true course of events on Taiwan and if he sent a high civil officer of government to investigate, he would of course take steps to remove General Chen, prevent a military occupation and revenge, and reorganize the Government in consonance with the reform program which the officially recognized Committee was proposing for discussion. This faith in the Generalissimo and high officers of the Central Government was the basis for the appeal made to the American Consulate to forward a message to the Generalissimo through the good offices of the American Ambassador.

General Pai's unfaltering support of General Chen Yi, his identification with the will of the Generalissimo, the character of his reform proposals and the fact that seizures and executions continued throughout his visit of inspection must all be calculated to have increased rather than to have modified the difficulties of the Government in regaining the allegiance and economic cooperation of the Formosan-Chinese People.

G[EORGE] H. K[ERR]

894A.00/4-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 17, 1947.

[Received April 17—3:11 a. m.]

830. At regular weekly Ministry of Information press conference April 16, when questioned as to whether or not President Chiang Kai-shek approved recommendations submitted by General Pai Chung-hsi on the reform of Taiwan, Minister Peng Hsueh-pei said that the recommendations of General Pai have been submitted to the President and are under consideration now. The Minister said he was sure most of the suggestions will be accepted and that prompt action will be taken to carry them out.

STUART

893.00/4-2147

The Ambassador in China (Stuart) to the Secretary of State

No. 659

NANKING, April 21, 1947.

[Received May 6.]

SIR: I have the honor to refer to the Embassy's telegram no. 689 of March 29, 1947,²⁶ which stated that President Chiang had expressed interest in Ambassador Stuart's proffer of background information

²⁶ *Ante*, p. 89.

concerning the situation in Taiwan. A memorandum which recapitulated the events beginning in Taiwan on February 28 and which supplied suggestions for a possible amelioration of the situation there was prepared by Vice Consul George H. Kerr, who has been on consultation at the Embassy, in conjunction with the Political Section of the Embassy.

The English and Chinese texts of this memorandum, copies of which are enclosed for the Department's information, were handed to the Generalissimo by Ambassador Stuart on April 18. The Ambassador submitted the memorandum without comment and the Generalissimo indicated that he would personally read the Chinese text.

Respectfully yours,

For the Ambassador:
W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

[Enclosure]

Memorandum by the Vice Consul at Taipei (Kerr)

MEMORANDUM FOR THE AMBASSADOR ON THE SITUATION IN TAIWAN

BACKGROUND

[Here follows review of developments.]

AFTERMATH AND SETTLEMENT

Public opinion, Nationalism and Communism

However bitter their criticism of local administrative policy before these uprisings, there can be no question that the Formosan-Chinese have felt loyalty to the Central Government and toward the Generalissimo. Fifty years under Japanese rule had sharpened their sense of Chinese nationality and race and in doing so developed a strong sense of island-wide social unity. Formosans have been ambitious to see Taiwan become a model province of China. From February 28 until March 9, while Formosans were in effective control of the island, the leaders in the Settlement Committee, leaders of the Youth Groups and editors of newspapers which have been most critical of the local government all took great pains to emphasize their fundamental desire to become a model province in China, proud of their race and nationality and proud to be taking part in the National Reconstruction.

(For specific reference, see editorials and speeches quoted in the *Chung Wai Jih Pao*, March 6; *Min Pao*, March 6; *Hsin Sheng Pao*, March 5; and other journals of that week.)

Reference has been made earlier to the intense distrust and fear

of communism which was fostered intensively by the Japanese. There are a few Formosans who have been suspected of interest in overseas communism but they have always been counted of little importance. Of direct external influence a few communist pamphlets of mainland origin were found in the autumn of 1946 but they were not especially designed for Taiwan. So long as the living standard remained at a relatively high level there was little danger of communist doctrine finding a reception on Formosa. A large number of Formosans who had been conscripted into Japanese army labor battalions were repatriated from Hainan Island in conditions of extreme poverty in 1946. They had not been treated as "liberated Chinese" but as defeated enemies after the surrender. Failure to find employment on Formosa in the months since has undoubtedly increased their discontent and made them susceptible to the arguments of any confirmed communists who may have come back with them.

It may therefore be said with a high degree of assurance that as of March 1, 1947, communism in any form was of most negligible importance on Taiwan.

However, a local form of communism is not only possible but is believed to be a highly probable development if economic organization collapses under the pressure of continued military occupation.

The military commitment and possible economic consequences

If the Central Government chooses to support a policy of suppression of all criticism of the government and to confirm the authority of present officials by establishment of military garrisons throughout the island, the cost will be very high and will not diminish. Firm control will necessitate the maintenance of troops at all large cities, at all important rail and highway junctions and in the vicinity of the power plants upon which the normal economy depends. The ports and harbors must be garrisoned. Almost 14,000 square miles will have to be policed by military force.

It was not possible before March 17 to assess the truth of some Formosan claims that large supplies of arms had been seized in the central part of the island and transported into hiding. The opportunity presented itself and was probably taken.

It is presumed that the Formosans, if oppression continues, will not attempt a resistance from fixed positions, but will continue to harry Government troops, creating a continuous drain upon men and supplies, and will use the mountainous hinterlands as cover. Perhaps no single province in China involved so little military expenditure as that needed for Formosa before March 1, 1947. It may now well become one of the most costly, if the economic losses in production and hampered transportation are added to outright military costs.

It is significant that throughout the trouble the local government has emphasized the fact that the Army represents the Central Government most directly. Thus, when it began to be clear that the word given by the highest ranking military officers was to be broken, Formosans began to lose faith in the Central Government as well.

With industry in such a precarious condition in February 1947, it must be presumed that the dislocations attendant upon the present trouble and a military occupation will hasten the disintegration of the industrial structure of Taiwan. China loses thereby an asset of immeasurable value. This established industrial structure (including the food processing units which make agriculture so profitable) has a substructure of semi-skilled local labor. UNRRA investigations have shown that young Formosans are no longer able to go into industrial schools or apprenticeships as in the past, but enter the common labor market as they see industry after industry shrivel up as capital investments dwindle and small industries close. Unemployment will increase with acceleration of this trend.

The rice crisis in January indicated that in present circumstances Formosa may have no immediate food surpluses upon which to draw. The addition of large numbers of troops, feeding on the countryside, will further diminish available supplies. Rice and other foods will go into hiding. Sabotage and slow-down tactics may be anticipated.

The total losses of a military occupation are incalculable. Prominent Formosan-Chinese—conservative, liberal and extremists—and many young men have been killed or seized or are driven into hiding. The educational development of the island, especially in the technical schools of middle grade, will be greatly retarded at a time when China needs every trained man. Highly qualified mainland doctors and foreign medical personnel predict that the public health system may break down badly within the year, bringing on a larger scale the cholera epidemics which appeared in 1946.

A state of near anarchy is a distinct possibility for Formosa by the end of 1947 if drastic efforts to revise policy and effect governmental reforms (free of military pressure) are not undertaken speedily. Having known a relatively high standard of living under the Japanese regime, the Formosans are not going to lose what they have without a struggle directed against the forces which they hold responsible. If the Central Government meets increasing difficulties compounded of economic and military struggles of the mainland, the Formosans will be tempted to increase their resistance in proportion.

For eighteen months Formosan-Chinese blamed the provincial administration and at the same time assured themselves that if the Generalissimo were made fully aware of conditions he would reform

the system in effect on Taiwan. Later it was assumed that the application of the new Constitution would bring to Taiwan the measure of self-government needed to restore the total economy to its former high level of production, to the permanent benefit of China.

There may be a sullen peace achieved by military action, but it cannot be enforced. Further uprisings of far more serious proportions than these recent spontaneous outbursts may occur at a time when the over-all peace settlement in the Far East is underway, and problems are being reviewed for inclusion or exclusion in the conference agenda. Anyone who wishes to embarrass China will find good material in a revolutionary situation on Taiwan.

Formosa should be put to work earning foreign credit for China. Its peculiar character as an industrialized and technically developed province should be sheltered from the greater economic difficulties found on the mainland. Taiwan was returned to China as an outstanding economic asset, an example of the advanced technological economy toward which all other provinces of China are striving. Two years of concentrated rehabilitation effort in Formosa hereafter will produce permanent assets of two kinds. Raw materials and products such as fertilizers, cement, foodstuffs and industrial chemicals will become permanently available to China in increasing amounts. Others such as tea, camphor, sugar, industrial salt, pineapples, and light manufactures can be directed to overseas markets. A moderate share of the foreign credit so created must be returned to Formosa for rehabilitation and expansion of state-owned industries and the expansion of private enterprise. Formosan-Chinese must be admitted to greater participation in all aspects of economic administration and reasonable profit if the island is to prosper and to return to the high and constant level of production achieved in former years. Economic stability and expansion must be founded on a sound political and social administration. Now is the time to act. To encourage and ensure wholehearted effort the Formosan-Chinese must be allowed to take a larger part in government at all levels. Changes in personnel as well as in the structure of the administration must be thoroughgoing; it is felt that half-way measures and palliatives now will only postpone a larger repetition of the current protests against corruption, maladministration and autocracy in the provincial government. Formosa can be restored to its former high level of political allegiance and of economic production by prompt and fundamental reform.

The following developments have been reported as occurring during the end of March and the first part of April:

The continuing presence of fresh bodies in Keelung Harbor and other evidence indicate that the elimination of the informed opposition is continuing. The bodies of at least two men known to neutral

sources as having taken no part in any activities during the recent incidents have been identified. It is reported at Taipei that although shots and screams in the night have become less frequent, they continue, and that there is no palpable difference in the tense atmosphere of the city. Mainlanders generally are reported to be apprehensive of further trouble, and many of them are said to feel that Formosan cooperation under present circumstances will be difficult for an indefinite time in the future. Of serious import is the reported continued undermining of Taiwan's advanced economic structure.

894A.001/4-2347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 23, 1947.

[Received April 23—6: 55 a. m.]

880. Minister Peng Hsueh-pei, at regular MOI²⁷ press conference on April 23, answered following questions re Taiwan situation:

“Query: When will Dr. Wei Tao-ming²⁸ assume the governorship of Taiwan. Minister Peng's answer: No date has been chosen yet but Dr. Wei will proceed to his new post in a few days.

Query: When will other recommendations of General Pai Chung-hsi be carried out. Minister Peng's answer: General Pai's other recommendations will be put into execution one by one following the arrival of the new governor in Taiwan.”

STUART

894A.00/5-3147

*Memorandum by the Vice Consul at Taipei (Kerr) to the Ambassador in China (Stuart)*²⁹

Wei Tao-ming's prospects for success as civil Governor of Taiwan are conditioned by the influence he may be able to exercise over (a) the military, (b) the intricate and well entrenched bureaucracy developed under Chen Yi, and (c) the policies so far supported by the Central Government, which have led to this politico-economic crisis.

The major administrative problems within the next 6 months will probably center on food and commerce, military conscription of Formosan youth, and public health. The major external problems will be the task of convincing world opinion that genuine reforms

²⁷ Ministry of Information.

²⁸ Chinese Ambassador in the United States, 1942-46.

²⁹ Prepared prior to Mr. Kerr's departure April 28 from Nanking to return to Washington; copy transmitted to the Department by the Ambassador in his despatch No. 771, May 31; received June 11.

are taking place and that Formosa should offer no cause for discussion at the projected peace settlement. Dr. Wei may be thought to be eminently suited to deal with any international problems involved in the projected transfer of the sovereignty of Taiwan from Japan to China.

THE MILITARY PROBLEMS

The new Governor must bring about the reduction of armed forces and army influence. The Chinese Army Headquarters at Nanking show unusual reluctance to reveal the extent of present military commitments on Taiwan. An Assistant Military Attaché (Colonel Dau) has made an informal and rough estimate that from 50,000 to 60,000 troops (sent in after March 7) may be engaged in "pacification".

The presence of such large numbers of troops is in effect the military occupation of a hostile area; its psychological effect will tend to negate the Governor's best efforts to win the confidence of Formosans and will stiffen opposition to mainland control of island affairs.

The economic pressure exerted by such a number will gravely affect economic revival. To the demands of the commissariat and the burden on transportation must be added a system of levies disguised as "gifts of food and other supplies offered by the citizens as tokens of their appreciation of the good conduct of the troops and the gendarmes during the quelling of the uprising." Organizations of leading citizens in several urban centers have been formed to gather and deliver such token gifts.

The developing rice crisis in February had caused General Chen Yi to appoint his Chief of Staff, General Ko Yuan-feng as Chairman of the Food Commission. General Ko created an organization based on military force, which was prepared to meet the popular charge that the Army was in large part responsible for an apparent stripping of the island of its rice supplies. The Government counter-charged civilian hoarding and smuggling.

The enlarging participation of the military in civil administration under guise of civil appointments must be checked. As an example, the newly appointed Magistrate of Hsin Chu Hsien (Chou Ching-chih), a Formosan Chinese (presumably a Hakka by birth) has been an Advisor to the Kwangtung and Kwangsi Military Command, a Counsellor in the Kwangtung Province Government and a Counsellor to General Chen Yi in Taiwan. The newly appointed Mayor of Taichung (Li Huei) is a former major-general, a graduate of the Japanese Military Academy and a cavalry officer. These appointments appear as civil appointments.

The proposed new military conscription of Formosan youths will

create one of the new Governor's most serious problems. The Army will demand the right to remove Formosan youths from the island; the public will continue hereafter to resist overseas conscription as it has in the past. A civil Governor will have to reconcile the issues.

ADMINISTRATIVE PROBLEMS

It is too early to know if Dr. Wei's services abroad—especially in the United States—will be played up locally to create an encouraging aura of liberalism. He will find it necessary in any case to convince people that he has a program broader and more informed than the one offered by General Pai on behalf of the Generalissimo. From the Formosan point of view the "inspections" of General Pai (on behalf of the Generalissimo) and of Commissioner Yang Liang-kung (on behalf of the Control Yuan) were not encouraging.

It is believed that the probabilities of Dr. Wei's success can be gauged by his first changes in administrative officers. The principal architects of the state monopoly system which is choking the economy of Taiwan, impoverishing the Taiwanese and enriching the officeholders, their aides and adherents must be removed. These certainly include the present Commissioners of Finance, of Mining and Industry, of Agriculture and Forestry and of Communications. The Director of Public Health Administration must go if the public health services are to be rehabilitated in time to prevent grave epidemics in 1947.

The new Governor must at once demonstrate his reluctance to continue General Chen's policy of protecting rascals from legal prosecution and of reinstating corrupt officials who had been impeached and in many instances convicted. Notorious examples were the release and reinstatement of Jen Wei-chun, former Director of the Monopoly Bureau and Yu Pai-chi, ex-Director of the Trading Bureau, both impeached by a special investigation commission sent from the mainland in 1946. (They are understood to have left the island, however, at the conclusion of the present disturbance.)

Personnel problems facing Dr. Wei include the disruption of organization through resignations of qualified mainlanders because of personal fear and sense of insecurity after the March riots. (A press campaign has been started to build up public tolerance for preferred treatment, salaries etc., for mainlanders in Government offices.) The Government payrolls must be freed of great numbers of salaries paid to mainland men on the books of enterprises operating far below former capacity or in actual suspension.

As for the creation of offices in Government to be occupied by Formosan Chinese, on paper it appears to have the advantage of admit-

ting Formosans to a period of tutelage, of familiarity with administrative procedures at the highest levels. In practice, however, the Governor will have to avoid the past abuse, whereby Formosans in posts of nominal importance were occasionally "consulted" but were usually in fact ignored. The new Governor's appointments will be scrutinized by the people for a clue to the sincerity of all reform efforts.

It must be assumed that those outstanding Formosans—men of practical private administrative or other experience—who have survived the purge of opposition which took place in March will be extremely reluctant to expose themselves to the mercies of a military-dominated Government which they mistrust or to the opprobrium of public association with it. It may be presumed that the Formosans who will step forward to take appointments, pending the time when widespread free elections are held, will be men with long and close past association with the mainland.

POLICY PROBLEMS

In the economic field the new Governor will be expected to modify the all-inclusive state monopolies which are at the heart of Taiwan's economic difficulties. Recent Taipei announcements appear to be intended to give the external impression that popular demands are being met. The publicized abolition of certain monopolies (including matches, camphor and liquor) appears designed merely to gloss over the real issue. These individual monopolies are not vital to the economy of the people, who have been demanding that the monopolistic policy of the Government be modified. The question is one of overall policy, not merely one of specific institutions.

The announced policy of tutelage in political and economic leadership will be watched closely to see if changes under Dr. Wei are substantial or merely formal extensions of unwanted, unwarranted and often inimical mainland management of local affairs.

DR. WEI'S EXTERNAL PROBLEMS

In considering the effect of the announcement of Dr. Wei's appointment in Washington, the authorities may well have considered his possible usefulness at the forthcoming conferences and peace settlement, at which time a man so well versed in international negotiation may be called upon to defend Chinese administration in Formosa. The impact of current American criticism may prepare the way for the Governor's presence at the Conference.

G[EORGE] H. K[ERR]

894A.00/4-2547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 25, 1947—10 a. m.

[Received April 25—5 : 20 a. m.]

893. Civilian character of new Taiwan Govt, as indicated by first appointment, is a step forward as regards the susceptibilities of the Tiawanese. At same time, only effective means of handling present situation in island is believed to be a thorough-going reform, not only of the political structure but of economic policies and attitude of Chinese (in Nanking as well as Taipei) toward Taiwanese. Complementary to civilian rule will be the question of military structure, including importantly military personnel, which will be established. Appointment of Wei Tao-ming³⁰ as governor is probably designed for its effect on the American public. Although there is nothing to indicate his appointment was made at instance of T. V. Soong, who had refusal of post, Wei is on good terms with Soong (and incidentally with the Kungs³¹). Wei is, of course a protégé of Wang Chung-hui³² and as such can be considered as not unsympathetic to the Political Science group, whose man he succeeds.

It is still too easy [*early?*] to estimate possible effect of political turn-over, but order just issued by Executive Yuan for the creation of positions of Deputy Commissioner in all provincial departments "to familiarize Taiwanese with the Chinese Governmental System", carries implication that political tutelage and economic subordination may be key to future Govt policy. Complete endorsement by the Generalissimo, as reported in press, of General Pai's recommendations (listed in Embdesp 637, April 15) is not on its face encouraging.

The fairly complete change of governmental structure in Taiwan as a direct consequence of the rebellion there may now be considered as official admission of the failure of the previous regime. Unfortunately, Chen Yi was given the opportunity to remove from the scene some of the ablest and soundest of the native elements and to create a situation which will confront his successor with manifold difficulties which might have been avoided had the National Government itself moved wisely and promptly in the first days of the incident.

Sent Dept; repeated Taipei 27, April 25, 10 a. m.

STUART

³⁰ Formerly President of the Chinese Executive Yuan.

³¹ Dr. H. H. Kung, former Chinese Minister of Finance and Vice President of the Executive Yuan until 1945. His wife was the eldest sister of Madame Chiang Kai-shek, Madame Sun Yat-sen, and Dr. T. V. Soong.

³² Former Chinese Minister for Foreign Affairs.

894A.50/4-2847

Memorandum by Mr. Melville H. Walker, of the Division of Investment and Economic Development, to the Chief of the Division (Havlik)

[WASHINGTON,] April 28, 1947.

Subject: Proposal for economic development of Formosa with U. S. supervisory assistance.

The attached despatch from Ambassador Stuart³³ covers a wide range of possible American assistance to China, including military, railroads, currency stabilization, "productive development", and educational loans, but it most immediately requires a reply concerning a proposal for American assistance for economic development of Formosa. In Embtel 689, March 29,³⁴ Ambassador Stuart reported that in discussing with the Generalissimo the pressing need for better and cleaner government in Formosa, he (the Ambassador) broached the possibility that the great economic resources of the island be exploited with an adequate staff of American technical advisers; that this would require willing cooperation of the islanders; and that export profits might somehow be employed for repayment or guarantee for any future American loans. Ambassador Stuart said the Generalissimo was emphatic in his endorsement of this proposal and asked that the Ambassador proceed to work out concrete proposals (regarding which the Department was referred to subject despatch 588). The Ambassador said he suggested that something of the same sort might be worked out for Hainan and the Generalissimo showed himself equally ready to undertake it.

Nanking's message 689 was repeated to Secretary Marshall at Moscow. On April 2 a message was sent to the Secretary suggesting that the Department await receipt of despatch 588 before preparing a reply to Ambassador Stuart. Mr. Vincent informed the Secretary that materials available to the Department on Formosa were being studied, that "assistance in economic development of Formosa appears sound in principle but, at first blush, we question practicability of sending technical advisers without reasonable prospects of supporting credits."

On April 17 Ambassador Stuart was informed³⁵ that his despatch 588 of March 26 had been received and was now being studied by appropriate officers of the Department, and on this date there was repeated to him the text of the message sent to Secretary Marshall on April 2.

³³ No. 588, March 26, p. 84.

³⁴ *Ante*, p. 89.

³⁵ Department's telegram No. 444, not printed.

There follow my comments and reactions to several aspects of Ambassador Stuart's proposals regarding Formosa:

1. It would not appear desirable to accept in principle the idea of treating Formosa, or any other area in China, as a "special economic area" for development with assistance of American or other foreign advisers. To develop Formosa in this way, as Ambassador Stuart suggests "might be worked out either before or as a part of the peace treaty with Japan," would seem to open the way for fragmentation of China into zones of economic influence, a consequence which would not be consistent with our general policy toward China and which would weaken the basis for our opposition to Russian measures in Manchuria.

2. Ambassador Stuart stresses the "enormous economic resources of the island", and that proceeds of Formosan exports could be utilized to guarantee or liquidate American loans—without making clear whether he is thinking only in terms of loans for reconstruction in Formosa or has in mind loans for reconstruction elsewhere in China as well. Clarification on this point would appear desirable, since it is possible that the Generalissimo understood him to be thinking in terms of pledging proceeds of Formosan exports for general loans to China.

3. It is stated in despatch 588 that the annual overseas trade of Formosa under the Japanese was valued as high as US\$225 million. This figure is a total for exports and imports combined, and exaggerates the economic potentialities of Formosa as far as providing dollar exports to guarantee or liquidate loans from the U. S. Over 90 percent of Formosa's pre-war exports, which in 1937 amounted to yen transactions equivalent to US\$126,731,000, went to Japan and Korea; and over 85 percent of imports equal in total to US\$80,900,000 came from these same sources.

Exports to the U. S., consisting chiefly of tea, camphor and pineapple, amounted only to \$1,848,000 compared with imports from the U. S. totaling \$845,000.

Nearly 75 percent of the total value of all Formosan exports in 1937 consisted of sugar and rice. Formosa supplied 90 percent of the sugar imports into the rest of the Japanese Empire and about 6 percent of Japanese rice requirements, with smaller quantities of a number of semi-tropical fruits and other products.

Even if the island's production were restored to pre-war levels, principal Formosan exports are not of a character which can be exported directly to dollar areas. To the extent that it would free China from importing rice from Siam, for which sterling and dollars are now being called for, expansion in Formosa rice production would be beneficial to China's exchange position. The sugar situation, how-

ever, may require special consideration since the island's industry was developed on the basis of tariff protection, and in cost terms Formosa cannot compete with either Javanese or Indian sugar.

Aside from ship repair facilities, Formosa's principal industrial resource was the hydro-electric generating capacity which the Japanese installed beyond the island's immediate needs and which provided a basis for expanding activity in fields of industry in which availability of electric power was a primary consideration, e. g., aluminum refining in Takao and the newly developing artificial fertilizer industry. Such industrial units, however, are all dependent upon imports of crude materials. There was no important textile manufacturing on the island before the war or other important export manufacturing industries.

Formosa's mineral resources appear limited in both quantity and variety. Some gold is mined, and some bituminous coal, (around 2 million tons annually in pre-war years) but the only other mineral resources of importance are copper and salt, and the very small output from Formosa's "oil fields"—including carbon black—might be mentioned.

Thus the most careful analysis would be required to appraise Formosa's capacity for export into dollar areas in any substantial quantity. It should take into account destruction of facilities during the war, availability of technical and skilled personnel, needs for imported raw materials and equipment for Formosa's industries. From the standpoint of exports to United States, particular attention should be paid to the present market and supply situation regarding black tea and natural camphor. From the standpoint of relieving China of foreign exchange costs of imports, the rice situation should be closely studied. Under UNRRA some consideration has been given to cement and artificial fertilizer projects on the island. In pre-war years, these were essential Formosan imports, and I do not know whether these projects are intended to produce for Formosa's needs, or for export to China. Formosa was geared in pre-war years to sell to Japan, from which it received necessary imports, notably textiles, and other consumer goods, iron, iron manufactures, machinery and vehicles. Reconstruction and integration of Formosan economy with that of China, will require that China be in position to supply Formosa with essential products, both from standpoint of people's livelihood and for industrial reconstruction, and that China not continue to regard the island merely as a source of needed imports.

Ambassador Stuart, in his despatch 588, does not present specific projects, and such a concrete approach would be necessary for consideration of the magnitude of possible loans required and their repayment projects.

4. While in Nanking I met with several groups of American engineers who had been employed by the National Resources Commission to survey various aspects of the Formosan economy. One group worked especially on electric power resources; another, I believe, surveyed mineral possibilities; and the National Resources Commission has entered a contract with the Universal Oil Products Company, a California concern, to provide technical assistance for rehabilitation of the Takao petroleum refinery. On these established industries the Chinese Government already has had technical assistance or has arranged for it; and the problem as is true so generally, appears as one of carrying out in practice competent technical recommendations already made.

Apparently Ambassador Stuart's program envisages introducing American advisory personnel into actual policy determination and administrative activities of the island, and if so this underlines the political rather than the strictly economic phases of the measures contemplated. On the basis of experience, in recent years at least, it appears doubtful that such a program could be carried through without offense to the National Government leaders, even if substantial U. S. Credits were provided. Unless the U. S. administrators were given real policy-making responsibilities, and were successful with the Chinese Government in carrying them out, the net result of the program could easily be for the U. S. rather than the Chinese Government to be blamed for the island's subsequent economic and political deterioration.

5. The views of ED regarding loan assistance to China are as expressed in the attached memorandum of April 23, 1947,³⁶ and the principles enunciated therein, in my opinion, should apply to Formosa as well as to other parts of China.

893.00/5-1047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 10, 1947—7 p. m.

[Received April [May] 10—4: 47 a. m.]

1017. Following is Taipei's 78, May 8, to Nanking :

[“] Some newly-appointed officials arranging to take over posts but opportunity observe new regime in action must await arrival Wei Tao-ming, date of which unannounced. Government activity at higher level presently at near standstill.

³⁶ *Post*, p. 1105.

Atmosphere increasingly relaxed with populace hoping for early indications of nature and scope of reforms promised in general terms by central authorities.

Farewell broadcast by Chen Yi implying his imminent departure apparently refutes widely circulated rumors he would remain in military capacity. He emphasized in speech that Taiwan is China territory and warned that "ambitious elements" are eager to separate island and people from China in view of its rich resources and strategic location. Implication is obvious and is in line with previous veiled allegations by officials here of American designs on Taiwan and encouragement of Formosan dissidents."

STUART

894A.00/5-1347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 13, 1947.

[Received May 13—6: 28 a. m.]

1040. Central News Agency quotes Taiwan Governor-Designate Wei Tao-ming as stating main objectives for administrative policy will be democracy, economic stability and elevation standard of living. He declined to comment on economic plans, stating these must wait upon a thorough investigation of conditions in Taiwan. He stressed that administration will strictly follow Central Government instructions.

STUART

893.00/5-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 17, 1947—3 p. m.

[Received May 17—7: 30 a. m.]

1080. Minister-Counselor had long talk with Dr. Wei Tao-ming, Governor Designate of Formosa, prior to the latter's departure on May 13 from Nanking for Taipei. Since Dr. Wei initially volunteered that he knew but little about Formosa and its problems and would spend the first couple of months largely in orienting himself, the opportunity was taken to give him a suitable unvarnished account of past events (see Embassy's despatch 659, April 21) and possible future prospects. In particular he was warned of the necessity of ending the carpetbag era and insulating Formosa from being dragged

into the economic-financial mire which the civil war was creating in China proper. In this connection it was emphasized what benefits in due course would rebound to China if Formosan exports and other assets were for the time being used for rehabilitation of the island. Secondly, he was apprised of the extent to which the Central Government vis-à-vis Formosa was on trial in the eyes of the rest of the world, the manner in which the Government's case vis-à-vis the Communists was by implication involved and the dangers which were inherent in the Formosan situation. In this latter connection it was indicated that the current state of suspicious quietude which could no doubt extend for a few months should not mislead because if Formosans, according to Embassy's sources of information, were not given an enlightened share in that govt of the island, underground communist movement would thereby be inevitably created. Dr. Wei in word and attitude gave every appearance of being well-intentioned. Furthermore, he had taken the precaution of obtaining Generalissimo's consent to a diminution of the number of troops which he proposed to effect as soon as possible. . . . Dr. Wei indicated that after he had become conversant with the situation he would wish to discuss the question of American advisory aid.

In these circumstances Embassy would like to modify in the light of the above its recommendations contained in Embtel 943, May 1, 6 p. m.,³⁷ re sending a consul to relieve Blake by September at which time he will have completed three years' continuous service abroad. Embassy believes that the consulate at Taipei should be fully staffed at once and further recommends that there be appointed a high-ranking officer in charge, of broad experience, who would not be concerned with the routine work of the Consulate but who would be free to move about the island and whose main duty would be to consult informally and unofficially with the governor, opportunely to suggest steps and methods calculated to advance the political and economic welfare of the island and to prevent him from becoming a creature of this bureaucracy. The presence and helpful approach of such an officer would keep continually to the fore in China consciousness the American concern at the way island affairs have been going and its determination to be constructively helpful within the scope of our announced general foreign policy. Such an officer would find it useful to have the advice and assistance of a competent Japanese-speaking Far East officer of junior rank, preferably one with Chinese experience.

It seems important to attempt whenever possible to reverse the process now in train in China of encroachment of instability upon

³⁷ Not printed.

stability which, if unchecked, will almost certainly encompass Formosa, despite the wealth of its resources and the abilities of its people. *A sine qua non* would be the presence in Taiwan of an American official of unusual breadth of mind and skill as well as the appropriate assertion of pressure here where the Government in its fight for existence will be more than tempted to exploit, regardless of ultimate consequences, that island. It seems to Embassy that the next dozen months will be crucial ones for Formosa and it recommends that such an official be sent out as ConGen forthwith. Embassy has in mind such a person as Coert du Bois who has had experience in the east and whose efforts in the Caribbean area would stand him in good stead and suggests that he might be willing to come out of retirement for such a job for say a year's period.

Regardless of persons named, it seems important, that such a ConGen should arrive in Taipei as soon as possible after the new governor so that he need speak from no less long experience than the latter. Blake wishes to go on statutory leave as soon as possible and Embassy recommends that he proceed when office is properly staffed.

STUART

894A.00/5-2647

Memorandum by Mr. George H. Kerr³⁸ to the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] May 26, 1947.

Subject: Probability of Communist Penetration in Formosa

Under present Chinese policy it is believed probable that Formosa will succumb to communism in the near future.

A minimum development inimicable to American interests will be an inconclusive struggle between the populace and the Central Government and the denial of Formosa's wealth to the Far Eastern economy.

A maximum development will be the successful penetration of communist leadership, the elimination of Nanking's representatives and—if there is a political fragmentation of China—the establishment of a strong communist control over rich natural resources and light industry potential.

The recent massacres, military subjugation (an estimated 50,000 troops now there) and superficial gestures in answer to popular reform demands have estranged the Formosans from the mainland.

General Chen Yi adroitly placed the blame for his recent revengeful

³⁸ Mr. Kerr, former Vice Consul at Taipei, had returned to Washington about May 20.

massacre upon the Central Government and carefully identified the United States with support of his policies. The use of United States military equipment by his troops appeared to lend visible support to his propaganda. Organized communism, in exploiting this, appeals to Formosa to abandon hope for democratic intervention. Formosa's coasts lie open to smuggled arms and agents.

Until mid-March responsible Formosans expressed the profound belief, here concurred in, that Formosa must pass under temporary United Nations or American supervisory control (with an all-Formosan Government having technical advisors) or become communist.

Before March 8 Formosans discussed the fact that sovereignty has not yet passed to China. The public refused to believe that America would permit the massacre to develop or the Chinese thereafter to remain in unlimited control.

If a formula could be found stipulating the investment of American aid in the existing economic structure of Formosa and requiring a joint management thereof (following withdrawal of troops), or if advantage could be taken of the *de jure* status of Formosa to insist on a supervisory body to reduce and check current excesses, the island might be reserved under temporary international control as a stable foothold for future liberal reconstruction efforts in China.³⁹

893.00/7-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 8, 1947—11 a. m.

[Received July 8—3 a. m.]

1479. Following is substance of Taipei's 113, July 5, 5 p. m. to Embassy:

"Resurgent but less open criticism of Chinese control displacing 'wait and see' attitude of Formosans following removal Ch'en Yi. Many persons seized during incident still missing and some new 'disappearances' reported; appeals of relatives to new government re whereabouts fruitless. Secret police activities increasing. Military arrests in central Taiwan probably largely for private gain since persons arrested usually released on payment money or goods. Arbitrary actions by outlying military civilian officials contrary orders promulgated Taipei frequently reported. Impression spreading that new civilian government powerless to control military or is giving it free

³⁹ In a memorandum of June 9, the Chief of the Division of Chinese Affairs (Ringwalt) invited the attention of the Secretary of State to Mr. Kerr's memorandum, and it was subsequently initialed by the Secretary.

hand. Formosan circles presently agitated by insistent reports that new lists political suspects to be arrested now under preparation.

"Consul informed increasingly gloomy outlook under Nationalist regime is providing willing listeners to Chinese Communist agents, some of whom are now reliably reported active on island. Several Soviet 'business men' have arrived for indefinite stay.

"Some sources claim negotiations progressing for transfer Taiwan to United States control in return for new loan to China while rumors of impending United States troop landings increasing. Such reports may doubtless be product of basic unrest but at same time add to discontent of Formosans who feel some major political development pending. Blake."

Embassy has requested Taipei for further information with regard arrival Taiwan of Soviet "business men".

STUART

894A.00/11-447: Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 5, 1947.

[Received November 14—10:55 a. m.]

A-233. Following article was published in Central News Agency's *English Bulletin* of October 28, 1947:

"President of the Executive Yuan, Chang Chun, returned to the capital at 2:50 this afternoon from Taiwan, after having taken off from Pingtung, Taiwan at 10:40 in the morning. He issued the following statement:

"I have just come back from Taiwan, where I attended the second anniversary of the island's restoration to China, brought the Government's greetings to the local people, and also looked into conditions there. Though my visit was a brief one, I have formed some impressions.

"First, as 97 percent of the Taiwan population were immigrants from Fukien and Kwangtung, they have a good foundation in Chinese culture. Throughout the Japanese rule they made every effort to preserve their Chinese mode of living, habits and beliefs. Their common ethical outlook is Confucius while the guiding spirit in their enterprises is inspired by Cheng Cheng-kung,⁴⁰ a national hero of China, who fought the invading Manchus from Fukien and later from Taiwan following the fall of the Ming Dynasty in 1644. There is at Taipei a magnificent Confucian temple and an even older one to the memory of the sage at Taiwan. The local people there are now raising funds to make repairs. The sage's birthday is annually celebrated with ancient dancing and music.

"The people of Taiwan adhered to their own customs and language

⁴⁰ Known also as "Koxinga".

during the 51 years of Japanese occupation. In that long period only 20 Taiwan girls had married Japanese. During the 2 years after Taiwan's restoration there have already been more than 2,000 marriages between the Taiwan people and Chinese from the mainland. This shows that Japan's 51 years of rule of Taiwan was successful only politically, but not spiritually.

"Such spirit on the part of our Taiwan compatriots, therefore, commands our admiration. And the good behavior of youths and primary school children as well as their seriousness in quest of knowledge are likewise praiseworthy.

"Second, Japan's reconstruction of Taiwan, though colonial in character, has laid a fairly solid foundation for the island. The Taiwanese were, of course, not allowed to take part in politics at the high level, but there is a framework for local self-government. While the Taiwan people had no opportunities for college education, education from secondary schools down was accessible to all. In Taiwan, more than 85 percent of the entire population have received primary education.

"Despite the fact that economically Taiwan was an off-shoot of Japan, agriculture and industries for the production of civilian goods were plentiful. Meanwhile, communications and transportation have been highly developed. Consequently, the people have known stability in livelihood, and unemployment was scant.

"In the development of Taiwan, Japan can be said to have fully utilized the island's conditions. She applied human efforts at places where natural conditions were meager. Take the power plant at the famed Sun and Moon Lake and the irrigation works at Tachuan for instance. The natural conditions at both places are by no means superb. At the lake, the Japanese went so far as to generate power by water conducted through a 10-kilometer long tunnel so as to make electricity available to the whole island. By the construction of irrigation works at Tachuan, large spans of wasteland were reclaimed. These characteristics in the reconstruction of Taiwan deserve our careful attention.

"Third, now that Taiwan has been restored, we should make use of the existing foundations in our reconstruction efforts. For example, Taiwan has a sound base for local self-government, census, land and police administration. This will facilitate our work of establishing domestic government there.

"Likewise, we should take full advantage of Taiwan's existing educational system and well-equipped schools to put higher education within the reach of more young people in the province.

"Furthermore, on Taiwan's agriculture and basic industries for manufacturing civilian goods, we should try to make good the imperfections the island's erstwhile subordinate role in economic affairs. The fullest use should be made of Taiwan's products to guide the island's economy into a new coordinate relationship with that of the mainland.

"Thus in a short time, Taiwan will be able to make normal and steady progress in political, educational, and economic fields, and thereby serve as a model province in China's over-all reconstruction program.

“In the past, Taiwan’s administration and educational facilities as well as economic reconstruction had evolved their own forms and coordinated relations. These forms and relations must be understood. And in attempting any change and reform, therefore, we must give due regard to its affect on such inter-dependent relations. The provincial government has given careful thoughts and taken well-thought-out measures. Meanwhile, people’s representative organs have also been working hand in hand with the local government.

“Visiting various parts of the island, I received a number of people, including representatives from the tribes-people who live in the hills. They all frankly and sincerely expressed their wish to make their contributions toward Taiwan’s reconstruction under the Central Government’s leadership. With hardly any exception, the views they set forth and the requests they made, are all matter-of-fact and reasonable. Problems which could be solved on the spot by myself were duly solved. I have brought with me to the Capital other problems which call for consultation with competent departments in the Central Government, or which need further discussions in meetings.’”

STUART

894A.00/11-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 17, 1947—3 p. m.

[Received 7:10 p. m.]

2248. As further evidence that situation has become so critical Gimo may be willing to act, was conversation I had with him regarding Formosa (our 2241, November 15, 8 a. m.⁴¹) News from Formosa continues to indicate maladministration, smouldering discontent and organization of revolutionary activities under capable leadership with objective of virtual autonomy. Gimo was aware of situation and expressed hearty endorsement in principle of some form joint Chinese-American administration of Formosa for a limited period of years with the emphasis on economic rehabilitation.

Since the Secretary’s statement regarding relief to China⁴² I have received frequent requests for details. I shall therefore greatly appreciate any advance information Department may be able to give.

STUART

⁴¹ *Post*, p. 1219.

⁴² Reference apparently is to Secretary of State Marshall’s statement made before a joint session of the Senate Committee on Foreign Relations and the House Committee on Foreign Affairs on November 10, 1947; *Department of State Bulletin*, November 23, 1947, p. 967. Although this statement dealt almost wholly with aid to Europe, the Secretary did make an important, though very brief, reference to aid to China.

894A.00/12-547: Telegram

*The Acting Secretary of State to the Consul General at Shanghai
(Davis)*

WASHINGTON, December 5, 1947.

2080. Associated Press Shanghai Dec 3 sent following:

"The independent newspaper *Sin Min Wan Pao* accused the United States today of attempting to wrest Formosa (Taiwan) from China and charged that the Island already has 'fallen under American control'.

A dispatch from the newspaper's correspondent on Formosa said a separatist movement was gaining momentum and accused the United States of fostering public opinion favoring trusteeship for the Island. It said the United States contended that 'since the Chinese Government is incompetent even to rule China, naturally it cannot rule Taiwan successfully'.

The correspondent quoted 'the director of the U. S. Information Service' as saying 'The United States intends to apply the Atlantic Charter⁴³ to Taiwan. Then Taiwanese can decide freely for themselves to whom they owe allegiance.' The official was not named.

The American Army is setting up a military training center on Formosa for the Chinese Army. The Island, for years under Japanese rule, has been the scene of unrest and outbreaks since China resumed administration.

The *Sin Min Wan Pao* correspondent declared that the American Air Force had taken over airfields and put an airplane assembly plant in operation, while the Army was building bases and bringing in large quantities of ammunition."

ConGen Taipei should report immediately facts concerning reference to USIS Director and any other comments.

ConGen Shanghai should cable full text *Sin Min Wan Pao* story.

Sent Shanghai, for action 2080; repeated Taipei, for action 27; repeated Nanking, for information 1469.

LOVETT

894A.00/12-747: Telegram

The Consul at Shanghai (Pilcher) to the Secretary of State

SHANGHAI, December 7, 1947.

[Received December 10—11:44 p.m.]

2788. ReDeptel 2080, December 5 (27 to Taipei and 469 to Nanking). Full text of story by Tung Ching entitled "What has the

⁴³ Joint declaration by President Roosevelt and British Prime Minister Winston Churchill on August 14, 1941; *Foreign Relations*, 1941, vol. I, p. 367.

United States done in Taiwan" which appeared in November 27 issue *Sin Min Wan Pao* under dateline Taiwan October 31 follows:

Taiwan which returned to the bosom of the mother country just 2 years ago after half a century of Japanese domination has again become the coveted objective of all. The American run *Manila Bulletin* actually advocated openly the placing of Taiwan under trusteeship. Judging from recent American activities in Taiwan the plea for trusteeship serves only to expose some kind of underlying intrigues.

Remember that when General Wedemeyer visited China⁴⁴ he also took a trip to Taiwan. There he made a careful inspection of the harbors, bases, as well as oil refineries, sugar and cement factories thus showing the concern which the United States has for Taiwan. He seemed very cautious. For fear of arousing any suspicion he particularly stated that the United States has no territorial ambition. However the facts of today are exactly contrary to the guarantee given by Wedemeyer and moreover Sino-American friendship is being seriously impaired. It is heart-rending to say that the Taiwan of today has in reality fallen under American control, since the visit to Taiwan of General Wedemeyer who declared the United States has no territorial design.

GI driven jeeps have frequently appeared on the streets and military planes with the star insignia also have often been seen overhead. This eye-shaped island has become the new Garden of Eden for American troops; it is said that large numbers of American Air Force personnel have already taken up quarters at various airfields everywhere on the island. The Sungshan airfield of Taipei city has become the base of the 13th USAAF. The American Air Force is also using the airfields of Taichung, Tainan, Kangshan and Pingting. The American Forces have put the Taichung airplane factory in operation again and they are currently beginning to assemble a great number of planes (note the said factory is incapable of manufacturing planes but airplane parts are being imported from the US and assembled there). The US Army is undertaking large-scale engineering projects for constructing military bases in Keelung, Kaoshun, Taipei, Taichung and Tainan. Of late large quantities of munitions are being shipped to Taiwan daily and they are hidden away at once so that the Taiwanese know nothing about them. This is naturally something of a secret nature.

It is rumored that in Wedemeyer's report for aid to China he has suggested to designate Taiwan as military base for China and the United States. The US attempt to further tighten hold on Taiwan is therefore quite obvious but the Americans will not be satisfied. They are just preparing a greater plan. They want to dominate Taiwan altogether turning it completely into a new colony of theirs. The ambitious American elements are utilizing the disappointment and discontent of the Taiwanese toward the mother country as well as the fissure brought about by the February 28 bloody incident to launch a movement of alienating Taiwan from China. Moreover they have also created a lot of public opinion favoring the placing of Taiwan

⁴⁴ See pp. 635 ff.

under trusteeship saying that since the Chinese Government was incompetent even to rule China proper naturally it can not rule Taiwan successfully.

The *St. Louis Post* in America played the same tune suggesting that the best thing to do was to let the Americans take over.

The absurd views of the *Manila Bulletin* represented another type of public opinion:

The strange views of a major (sub-head): Not long ago an American major told a certain city councillor something will inevitably happen to the Nanking Government in the not distant future. You Taiwanese must give your future some thought, he added. It is not convenient for me to discuss with you the Taiwan problem in detail. If you have the intention to bring order and improvement to Taiwan and feel that you need help from the United States you can go and talk over the matter with the director of the United States Information Service. Later on this city councillor through the introduction of a certain Taiwanese employed by a certain Consulate, not American Consulate, had an interview with the Director of the USIS with whom he held a 2-hour secret talk. The interpreter unintentionally disclosed the views of the Director of the USIS were:

(1) Although the Cairo Conference declaration,⁴⁵ the Potsdam declaration,⁴⁶ and the Yalta pact⁴⁷ defined the ownership of Taiwan yet prior to the conclusion of the Sino-Japanese peace treaty the ownership of Taiwan cannot be formally established.

(2) The United States intends to apply the Atlantic Charter to Taiwan, then the Taiwanese can decide freely for themselves to whom they owe allegiance.

(3) At present Taiwan is under General MacArthur's control. If there is anything the Taiwanese want they can address their petition to MacArthur.

(4) If the Taiwanese want to free themselves from Chinese domination the United States can help them.

(5) If the Taiwanese wish to place themselves under American trusteeship they can set forth the terms they hope for as well as the period of trusteeship.

(6) The United States will exert its utmost to assist Taiwan in her economic reconstruction and in reviving various industries so as to solve the problem of unemployment.

(7) After Taiwan is placed under American trusteeship all those arrested in connection with February 26th civil commotion as well as all political prisoners can be released immediately and all such political measures as conscription and collection of land tax in kind can be immediately abolished.

⁴⁵ The communiqué issued December 1, 1943; for text, see *Foreign Relations, The Conferences at Cairo and Tehran, 1943*, p. 448, or Department of State *Bulletin*, December 4, 1943, p. 393.

⁴⁶ "Proclamation Defining Terms for Japanese Surrender" issued July 26, 1945; for text, see Department of State *Bulletin*, July 29, 1945, p. 137, or *Foreign Relations, The Conference of Berlin (The Potsdam Conference)*, vol. II, p. 1474.

⁴⁷ Signed February 11, 1945; for text, see *Foreign Relations, The Conferences at Malta and Yalta, 1945*, p. 984.

The city councillor in question did not express any views then and there but said that he would further discuss the matter in detail after having solicited opinions from other prominent members of the gentry. But in the past few days this city councillor had already begun to be very active. He together with one prominent member of the gentry in Peitou and Saoshan frequently contacted and held talks with American quarters. As for what they were talking about nobody as yet knows anything about it.

According to a report by Associated Press reporter, those leaders of the Taiwan separatist movement directed by American ambitious elements will shortly make a formal demand for permission to attend the peace conference on Japan and will also demand that a plebiscite be held to decide whether Taiwan should still belong to China or break away from her. A certain leader wrote to his friend saying 99% of the Taiwanese people are willing to break away from China. We are asking help from the United States. But the regrettable thing is that under the current situation the United States cannot help much. I know we have a ray of hope now. We must take part in the peace conference on Japan and make public our public opinion. We must win a seat in the peace conference. He further stated my American friends urged me to consult you. It is still not known who these American friends are. The letter concluded Taiwan's fate depends entirely on the peace conference. If we lose this opportunity we are doomed to suffer for a long time to come.

From the above fact we can plainly see the attempts of the American ambitious elements. They are availing themselves of the critical war situation in China to carry out their design of positively winning over gentry in Taiwan to promote the movement of placing Taiwan under trusteeship.

Sent Dept, repeated Taipei as 92, Nanking as 1850.

PILCHER

894A.00/12-947: Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, [December 9, 1947.]

[Received December 9—3: 58 a. m.]

44. Reference to USIS Director has no basis in fact. A comprehensive report on the background of the AP despatch quoted in Deptel 27^{47a} received December 6 is being prepared and will be telegraphed few days.

Sent Dept as 44, repeated Embassy as 193, Shanghai as 100.

KRENTZ

^{47a} Same as telegram No. 2080, p. 471.

894A.00/12-1647: Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, December 16, 1947—7 p. m.
[Received December 18—8:40 a. m.]

51. ReDeptel 27, December 5 to Taipei, Associated Press article. The *Sin Min Wan Pao* article seems repetition article which originally appeared the *New Taiwan* magazine Hong Kong October 5. This magazine labelled Communist here but strong indications it actually has Kmt⁴⁸ backing. The repetition Shanghai and subsequent appearances press here seems follow definite campaign pattern whether origin here or Nanking instigated hard say. Although the propagation ideas voiced would seem stupid policy making aware whatever part Formosan population which has not already had similar ideas seems to me only motive can be attempt force our hand on Cairo declaration. Confirming this in my mind I consented receive some 30 representatives local press after request by CNA⁴⁹ and leading papers indicating interest in establishment of Consulate General here. Written questions were required which I answered with almost verbatim quotes from public Dept statements. I also gave the reporters a one-paragraph statement containing usual banalities and a few remarks closely following Department's statements but relating them Taiwan i. e., that prosperity of Taiwan could be of immense help to China, that the recovery of China and other war ravaged countries was important to US welfare, that US was giving constant thought to means whereby it could properly assist this process, that I was sure from what little I had seen that progress was being made here and had high hopes for the prosperity of Taiwan.

A few impertinent questions were asked along lines of the *Sin Min* article obviously designed draw me into indiscreet remarks, which I brushed off sticking to the written questions.

Despite all the alleged interest not one word of the interview was printed in any paper as what I said obviously did not fit the campaign and tended to refute the articles.

Although Catto⁵⁰ USIS has numerous Formosan acquaintances made before the incident and who attempt constantly to plague him and tell their stories, he states categorically and I cannot doubt him in the slightest that he has said nothing in any way inconsistent official ConGen position.

⁴⁸ Kuomintang.

⁴⁹ Central News Agency.

⁵⁰ Robert J. Catto, assistant public relations officer in the Taipei Consulate General.

Shortly before original Hong Kong article appeared Catto was insistently invited by a high officer of the Garrison Command which is the remnant of Chen Yi regime to an outing at which appeared numerous unrelated Chinese unknown to Catto one of whom may have been the councillor to which his alleged remarks are hooked up in articles. Just before the reappearance of the articles Catto was again insistently invited by same officer to a similar affair but declined the invitation.

What appears to be a part of the same pattern is a mistranslation by *Ta Kung Pao* Shanghai in a form which can only be deliberate of a highly critical article in *Kansas City Star* which appeared in November 22 USIS news file (reported in detail despatch of December 3 to Embassy ⁵¹); this mistranslation made the article read that govt in Taiwan was only provisionally entrusted to China where original had no such implication. No local papers printed news file item but editorialized bitterly on it quoting excerpts from distorted version. Provincial information service now admits it is obvious mistranslation and that press here had the correct text.

Mytels 49 ⁵² and 50 ⁵¹ giving text Wei Tao-ming's speech convocation PPC and Garrison Commander Peng's speech closing ceremonies PPC should be read in light of above.

Wei now in Shanghai; when he returns I propose intimate to him that "I find, as I know you must, this pattern of things very disturbing" and to try draw him out on subject.

Repeated Nanking 204; Shanghai 109.

KRENTZ

893.032/12-1747: Telegram

The Consul General at Taipei (Krentz) to the Secretary of State

TAIPEI, December 17, 1947.

[Received December 17—2: 32 p. m.]

49. Following is the full text except for certain omissions after text quoted of Governor Wei Tao-ming's speech at the convocation of the PPC session here last week. Translated from release by Provincial Information Office as published by all local press:

"Rumors concerning this province are numerous and they come to our attention one after another. They are not accidental at all but are purposely directed. They touch upon myself as well as my family, the Provincial Administration as well as the entire people of Taiwan. They charge us with all the current bad things chargeable to a man. Let us take for instance two specific cases: Some people say that

⁵¹ Not printed.

⁵² *Infra.*

Chen Yi is a tiger and I am a hyena and that I am more greedy and cunning than Governor Chen. They say the Provincial Government is incompetent, all industries on the island are at a standstill and conditions are worse and more unstable than they were before the February 21 incident. At the same time, other people say that my wife is doing business on Taiwan; monopolizing the market; that more than 100,000 soldiers are stationed on the island, and that people are living at the point of bayonets. They also say that people are starving to death every day and therefore all the Taiwanese entertain the thought of breaking away from China and wish to be governed by either a certain nation or Japan, or be placed under trusteeship.

These are only two examples. They may differ with other rumors in detail but are representative in all the essential points. I do not wish to make any comments on the rumors concerning myself. As to whether Governor Chen is a tiger and I am a hyena, you gentlemen have your own ideas and I do not want to make any explanation at this time. We do not know whether a hyena is greedier and fiercer than a tiger and must leave the question to the zoologists to study and decide. But as to exploitation and graft, whom have I exploited and what have I grafted? If I have done one such thing, I shall naturally be subject to the law. Even if my wife has undertaken any business herself, I shall be willing to accept the punishment of the law. As to the saying that all industries on Taiwan are at a standstill; men are starving to death everywhere; 100,000 soldiers are stationed on the island; et cetera; you gentlemen can judge whether such rumors are based on facts since you all come from the various places on the island.

I think all these rumors can be answered by facts, our comments being superfluous. Nevertheless, I cannot remain silent to the false accusation that the people of Taiwan wish to break away from their Fatherland and would like to be governed by a foreign country. I consider it a grave insult to the people of Taiwan; a grave insult not only to the people of Taiwan but also the entire population of China.

The Chinese nation has a glorious culture of 5,000 years. Once in the past, due to our misfortune, we were subject to the military might of imperialism which caused our Taiwanese compatriots to come under Japanese control depriving them of their freedom for over 50 years. However, during the 50 years, the people of Taiwan never for one moment ceased their struggle. Their 40 odd uprisings during the 50 years were a sufficient proof of their strong national spirit. If we will only recollect their voices of despair and appeal and compare them with their joy and enthusiasm displayed at the restoration of the Island, we can easily know to whom they express allegiance. All the purpose by directed false accusations we have heard are a matter of the greatest sorrow to the people of Taiwan who think that even a denial is shameful. If we have the slightest doubt in them, we are giving them the greatest insult. In view of their falsehood and inaccuracy, all these rumors, groundless as they are, are definitely not proper and friends' criticism but malignant attacks. One who deliberately makes statements like these against own conscience [makes them] with a definite purpose, otherwise he would not cheat the people and himself.

These types of rumors have been coming to our ears ever since the

restoration of Taiwan. Their sources are easily traced. Generally, they are partly from the Communist publications and partly from foreign publications. Tracing these publications and their articles, we can clearly find out their purposes. They are a sort of international intrigue. Their aim is to partition Taiwan and sever it from its Fatherland. The original ideas of the Communists may differ from those of the foreign ambitious elements or they may collaborate with each other to some extent, but their ultimate aim is the same. Believing that Taiwan is newly liberated and returned to the embrace of its Fatherland after the war, and that many questions in the Far East resulting from the second world war must wait for solution at the Peace Conference with Japan, they all intend to take the opportunity to sever Taiwan from China again and put it under their own control. Their intention is very obvious. Their plot is to accuse the people of Taiwan of being willing to be governed by foreigners. They attribute such willingness on the part of the Taiwanese to a bad government. They attribute the bad government to the fault of the chief administrator. They make those who do not realize the actual conditions on Taiwan believe that the fault of the chief administrator is responsible for the bad government which is in turn responsible for the suffering of the people and the growing sense of the detachment felt by the people. Their technique is well calculated. But those who understand the actual conditions of Taiwan will not be fooled by them, because they are greatly at variance with the truth. Nevertheless, before their cable is disclosed, those who pay no attention to, and are not acquainted with, the conditions of Taiwan will inevitably fall into their trap. Since the general public in foreign countries as well as the people in other parts of China are not well acquainted with the conditions of Taiwan, the Communists and ambitious foreign elements are able to make use of their rumors to fool the world with a certain degree of success. This may explain why such rumors are found more prevalent without than within the Island.

I can solemnly inform you, gentlemen, that their intention is entirely fantastic. There may be some questions in the Far East awaiting settlement at the Peace Conference with Japan [as a] result of the World War but the question of Taiwan has long been decided. The Cairo statement has clearly pointed out "Japan must be made to return to China all territories such as Manchuria, Taiwan, Pescadores, etc., which she has stolen from China." Logically speaking, a thing lost must be returned to its owner. Taiwan is a Chinese territory which was stolen by Japan and therefore should be returned to China. Sentimentally speaking, the restoration of Taiwan was realized through the bloodshed of millions of soldiers and people of China during the war. These millions of war dead have already decided the restoration of Taiwan. Furthermore, the will of the 6,000,000 people of Taiwan has also determined that Taiwan is one of the provinces of China.

In view of the reasons outlined in the previous paragraph, Taiwan definitely cannot become a question in the Peace Conference with Japan. If it ever becomes a question, it will be an incident for which

not only the 6,000,000 Taiwanese but also the 450,000,000 people on the China mainland will be prepared to shed their blood.

The Communists, brutal and inhuman, who destroy peace wherever they go have become the public enemy of the world. But they can fool no one once their intrigue is known. As to the foreign ambitious elements, they constitute only a minority in their own countries and therefore will not be able to do anything in the world of today in which aggression and force is opposed, and freedom upheld. Nevertheless, we must realize at this time that such rumors will continue to spread with growing severity until the Peace Treaty with Japan is concluded. Their methods are various and are frequently changed. Today they say I am a greedy and fierce hyena. If the people do not believe in such stories, they will declare that I am a weak and feeble lamb. Later on, they may say I am a lion, hundreds of times more fearful than a tiger or a hyena. In spite of the varieties of rumor, they will eventually be discredited if we show no excitement at their appearance.

I have spent too much time here on this subject because of the importance we attached to the rumors which are so numerous. I believe that there are good people among the rumor spreaders. They may not be collaborating with the Communists or the ambitious foreign elements but are simply influenced by them without knowing it. I hope these people will pay more attention to the actual conditions of Taiwan and make fewer empty statements in order that they may not unintentionally become henchmen of the treacherous elements. On the other hand, if they spread the rumors with a special purpose, then they are not worth our consideration.

Without rumors, political administration of Taiwan can be considered fairly simple, the self-respect and law-abiding spirit of people is chiefly responsible for stable and good social order on island. Only police and gendarmes are employed for maintenance of public security. There are no troops, 205th Division of Youth Army being stationed here for training purpose only. Satisfactory result in general election also served to show profound civic conscience of local people.

Center of gravity of our present problems is on economic rather than political side. Regarding economic situation of Taiwan, people usually believe we have no difficulty in solving our economic problems, with impression that we have already a sound agricultural and industrial foundation on island. However, we must realize that problems are not so simple. We must know that economy of a colony has many setbacks. The industry of a colony is dependent on that of controlling country. The natural resources of a colony do not serve local people, but people of controlling country. Taiwan suffered this fate during Japanese occupation. Except for a handful of big landlords, all Taiwanese lead difficult life. They worked hard but only to keep their soul and body together. Taiwan was prosperous but only to Japanese. Such an economic condition requires a thorough readjustment or people of Taiwan will never be able to get rich.

In order to solve our complicated and exceedingly difficult problems under these circumstances we must resume former industrial production of Taiwan. At the same time, we must free the people from the

exploitation policy of the Japanese and seek to enrich their livelihood. Above all, we must endeavor to attain economic stability which is the first requirement of all industrial progress.

Economic stability cannot be easily attained. Our chance of attainment depends entirely on our financial background. As we know from the general government estimates for the current year, our total income can only cover our total administrative expenses, leaving nothing for our industrial operational funds. Even if we contract our administrative expenditure, we can hardly improve the situation.

Since we must progress in our industrial program, we can only rely on the Central Government for assistance in our quest for economic stability.

As before, the Central Government will continue to extend its help to us. The Provincial Government is now drafting measures for coordinating the Central Government with our financial and economic program. Once a perfect coordination is attained local economic stability can be ensured."

Sent Nanking 202, December 15, repeated Department 49.

KRENTZ

REPRESENTATIONS BY THE UNITED STATES REGARDING THE STATUS OF THE PORT OF DAIREN;¹ FAILURE OF SINO-SOVIET NEGOTIATIONS TO ALLOW OCCUPATION OF DAIREN BY CHINESE GOVERNMENT

693.0023/1-247 : Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, January 2, 1947—3 p. m.
[Received January 2—8:14 a. m.]

3. I consider it inadvisable to start our note to Soviet Govt on status of Dairen (Dept's 2208 December 31²) with reference to recent incident³ at the Port. Bringing up that incident is likely to offer Soviet Govt opening for confusing main issue by arguing over rights and wrongs of relatively minor incident.

Does Dept therefore concur in my proposal that note to FonOff begin simply with "American Govt considers it desirable that the current unsatisfactory situation"? I shall withhold action until reply received from Dept.

SMITH

693.0023/1-247 : Telegram

The Secretary of State to the Ambassador in the Soviet Union (Smith)

WASHINGTON, January 2, 1947—7 p. m.

7. Concur (urtel 3 Jan 2) your proposal re Dairen note. Nanking informed.

BYRNES

693.0023/1-247 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 2, 1947—7 p. m.

9. Dept press release note re Dairen (Moscow's 3 Jan 2, 3 pm) will be in form sent Soviet authorities with added comment similar

¹ For previous correspondence, see *Foreign Relations*, 1946, vol. x, pp. 1153 ff.

² See telegram No. 1252, same date, to the Ambassador in China, *ibid.*, p. 1200.

³ See telegram No. 2538, December 23, 1946, noon, from the Consul General at Shanghai and telegram No. 2185, December 28, 1946, 9 a. m., from the Ambassador in China, *ibid.*, pp. 1194 and 1196 respectively.

note sent Chinese FonOff. If your note still undelivered request you make alteration recommended by Moscow.

BYRNES

693.0023/1-347: Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, January 3, 1947—6 p. m.
[Received January 3—12: 01 p. m.]

18. Status of Dairen (Deptels 2208, December 31⁴ and 7, January 2). Third person note containing substance of Dept's 2208 sent to FonOff today.

SMITH

693.0023/1-647: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 6, 1947—5 p. m.
[Received January 6—6 a. m.]

28. Note delivered Foreign Minister⁵ (reference Department's telegram 1252, December 31⁶) 5 p. m., Nanking time January 6 with alteration suggested Department's telegram 9, January 2.

STUART

693.0023/1-847: Telegram

The Consul General at Dairen (Benninghoff) to the Secretary of State

DAIREN, January 8, 1947—10 a. m.
[Received 12: 15 p. m.]

2. Soviet officials seem inclined to consider ship incident December 20 as closed and at reception my house January 1 cordially referred to subsequent visit of vessel. Will discuss landing requirements with Soviet Consul at early opportunity and report.

Radio reports indicate confusion as to whether ultimatum was delivered.

Vice Consul Patch and I, as well as ship's Captain, did not board vessel until few minutes before sailing. We did not hear of ultimatum

⁴ See telegram No. 1252, same date, to the Ambassador in China, *Foreign Relations*, 1946, vol. x, p. 1200.

⁵ Wang Shih-chieh.

⁶ *Foreign Relations*, 1946, vol. x, p. 1200.

although Soviet Major with whom I talked at general gate had preceded us and apparently had asked the ship to leave as soon as possible and he was very discourteous and there was some feeling of tension. I first learned from him on that day that there was a time limit for ship's stay.

Statement December 26 re legality Soviet position here was first indication this office had of United States official stand on Sino-Soviet treaty,⁷ and was most welcome. In absence instructions will treat incident as closed. Mail report⁸ follows.

Repeat Nanking, Shanghai, Moscow.

BENNINGHOFF

693.0023/1-1147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 11, 1947—9 a. m.

[Received January 11—7:38 a. m.]

60. The Far Eastern Manager of Tass, V. N. Rogov, whom many informed people consider to rank highly in Soviet intelligence, in conversation with an officer of the Embassy apropos of the American *démarche* on Dairen, stated that Soviet Govt has so far taken no action to straighten out the situation regarding that port because of continuing uncertain conditions in Manchuria; that the Soviet Govt is fully aware of the reasons why Chinese Govt has as yet been unable to live up to its commitments under the Sino-Soviet treaty of 1945 and realizes that nothing is to be gained at present by pushing the issue (reDeptel 1252, December 31⁹). He went on to say that the Soviet Govt appreciates that if it withdraws from Dairen and the port is opened to traffic, such eastern Manchurian commerce as there is would flow in that direction; a beginning having been made it would tend to become fixed through that outlet. The Soviet Union, on the other hand, is desirous of turning a certain amount of the trade to the east over the eastern branch of the Chinese Eastern Railway with Vladivostok as the point of exit. It has not yet been possible to secure Chinese agreements to this end. Soviet Govt would, therefore, not find it in its interest to open Dairen until suitable arrangements have been concluded.

The above action would be in consonance with what appears to be Soviet policy of tying in Manchurian economy so far as possible with

⁷ Signed at Moscow, August 14, 1945, United Nations Treaty Series, vol. 10, p. 300; for English translation of text, see p. 334.

⁸ Despatch No. 50, January 16, not printed.

⁹ *Foreign Relations*, 1946, vol. x, p. 1200.

Siberia east of the Baikal and the Maritime Provinces, since the north-east has many products, especially raw materials, which could be useful in the development of Soviet Far Eastern industry.

Sent Dept as 60; Dept please repeat to Moscow.

STUART

693.0023/1-1747 : Telegram

The Consul General at Dairen (Benninghoff) to the Secretary of State

DAIREN, January 17, 1947—10 a. m.

[Received January 19—4: 10 a. m.]

10. Soviet Consul states as Dairen still closed port, entry [and] departure ships [and] all persons under military control. States request for clearance courier ship should be communicated Soviet FonOff by American Embassy Moscow about week before expected arrival. Clearance for ship includes courier and official personnel and families but others require special clearance. Refer my telegram 2, January 4 [8].

Situation accordingly not changed since my arrival 9 months ago although emphasis now more on "permission" rather than "notification".

Because of transmission delays, I requested Soviet Consul ask Soviet FonOff inform American Embassy Moscow of above.

Repeat Moscow, Shanghai, Nanking.¹⁰

[BENNINGHOFF]

693.0023/1-2147 : Telegram

The Consul General at Dairen (Benninghoff) to the Secretary of State

DAIREN, January 21 [18], 1947.

[Received January 21—9: 02 p. m.]

12. Clear text in numerals of translation of memorandum from Soviet Consul following telegram.¹¹ Reference my telegram 10, Jan. 16 [17]. Words in paragraph 3 of "commercial ship" mean unarmed naval vessel is only personal opinion Soviet Consul.

¹⁰ Repeated to the Ambassadors in China and the Soviet Union, January 19, 8 a. m.

¹¹ See telegram No. 13, January 18, *infra*.

He suggests this point be cleared in Moscow, and apparently wording came from Moscow.

Will take no action pending instructions.

Repeat Shanghai, Nanking, Moscow.

BENNINGHOFF

195.6/1-1847: Telegram

The Consul General at Dairen (Benninghoff) to the Secretary of State

DAIREN, January 18, 1947

[Received January 21—8:25 p. m.]

13. Following memorandum from Soviet Consul:

“Subject: Regulations relating to the calling of American ships at and entry of American citizens into Dalny.

1. As the port of Dalny is under the control of Soviet military authorities, it is necessary obtain permission from Soviet military authorities for entry of American ship.

2. For this purpose it is necessary that American Embassy Moscow approach in advance, the Ministry of Foreign Affairs. I (Soviet Consul) personally recommend approximately 1 to 2 weeks before arrival of a ship in Dalny from the port of departure.

3. Permission for calling at Dalny can be received only for a commercial ship.

4. As the port of Dalny at the present time is closed for trade and navigation, entry of American businessmen is not held to be a necessity.”

Repeat Nanking, Shanghai and Moscow.

BENNINGHOFF

121.67/1-2047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 20, 1947—6 p. m.

[Received January 20—7:13 a. m.]

116. Your unnumbered January 19 relay from Dairen¹² has just been received at Embassy. Courier vessel is scheduled depart Tsingtao January 22 to arrive Dairen forenoon, January 23, FonOff, Soviet Embassy and Soviet Consul General Shanghai have already been informed, in accordance with previously employed procedure, that unarmed naval vessel bearing diplomatic courier with official mail for American Consul General would arrive Dairen January 23 for stay not to exceed 48 hours. Reference telegram and this message

¹² See footnote 10, p. 484.

have been communicated to Naval Attaché¹³ for transmission to Admiral Cooke¹⁴ for his information.

Embassy proposes to take no action. If Dept wishes present trip cancelled, it is requested that appropriate instructions be issued. Embassy considers Moscow clearance for courier vessel and official passengers approved by Embassy should not be lightly acceded to. In this connection, Embassy would consider official passengers to include British Consul, his wife and clerical assistant and families of American personnel at Dairen. In present instance, however, courier is only passenger.

Isolation of Benninghoff which existed before institution present courier service should not again be tolerated and it seems to Embassy that such will result from probable Soviet studied delays if permission for each courier trip must be obtained from Moscow.

Sent Dept 116; repeated Shanghai 62, January 20, 6 p. m. Dept please repeat to Moscow.¹⁵

STUART

693.0023/1-2147: Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, January 21, 1947—10 p. m.

[Received January 21—3:51 p. m.]

161. Foreign Office has not communicated to us any message from Benninghoff (Dept's January 19, 9 [8] a. m., relaying telegram [from] Dairen.¹⁶).

While we agree in principle with Nanking position that courier and naval ship service to Dairen should remain on basis of notification (Dept's relay telegram January 20, 11 [9] a. m.¹⁷), it must be admitted that Dairen is as much under effective Soviet military control as Seoul or Tokyo are under our military control. If we require prior permission for entry of Soviet vessels, couriers and passengers into areas under our military control, Russians are likely, irrespective of treaty commitments to Chinese, to apply same measures to our entry into Dairen. Argument is not likely to change their position. Pointed tightening of restrictions on Soviet ships, couriers and passengers into Japan will be far more persuasive.

¹³ Capt. W. T. Kenny.

¹⁴ Adm. Charles M. Cooke, Jr., Commander, U. S. Naval Forces, Western Pacific.

¹⁵ Repeated to the Ambassador in the Soviet Union, January 20, 9 a. m.

¹⁶ See footnote 10, p. 484.

¹⁷ See footnote 15, above.

Whatever decision is made with respect to notification or request for permission, we strongly advise against having a procedure firmly established whereby either is transmitted through this Embassy to Moscow authorities. Such a procedure leads to interminable bogging down. We consistently resisted pressure for such a procedure regarding Balkans and are convinced that Soviet authorities should not be permitted to get away with it in Far East where our bargaining position is far more strong.

Dept repeat to Nanking.

SMITH

121.67/1-2447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 24, 1947—9 a. m.

[Received 2:30 p. m.]

136. On morning January 22 Soviet Embassy took initiative in informing Embassy orally that appropriate Soviet authorities had been notified with regard to courier vessel which sailed from Tsingtao on January 22, for Dairen. Soviet Counselor went on to state, however, that it was Soviet recommendation that future courier trips make use of commercial vessels inasmuch as Dairen is commercial port. He further stated that in future it was "desirable" that American Ambassador, Moscow, inform Soviet Foreign Minister¹⁸ "in advance" of date departure of courier for Dairen and not make notification through Embassy here to Soviet Embassy, Nanking. When asked what length of time he had in mind by term "advance", Soviet Counselor replied it was his personal opinion that a period of from 1 to 2 weeks would be adequate. It will be noted that this declaration is in almost identical terms with that made by Soviet Consul, Dairen, to Benninghoff (ref relay from Dairen 13, January 18).

Soviet Embassy was reminded that this service had been called into being because of wholly inadequate communication facilities afforded our Consul General at Dairen. It was also pointed out that LCI 1090 had, at considerable trouble, been completely divested of armament so that it could not in normal sense be considered as a warship. Soviet Embassy was informed that this Embassy was in no position to modify procedure employed in maintaining communications with Consul General at Dairen and if a change was desired matter should be raised formally in Washington or Moscow.

¹⁸ Vyacheslav Mikhailovich Molotov.

Soviet Embassy maintains that terms of agreement between Chinese and Soviet Govts regarding Dairen¹⁹ do not provide for entrance of naval vessels into commercial port. Soviet Embassy was informed that American Embassy considered diversion of a commercial ship over long distance solely to carry a courier to Dairen was an unnecessary and unreasonable requirement when a vessel adequate for purpose was constantly stationed approximately 24 hours sailing distance away.

Embassy assumes that Dept if it wishes present procedure of using unarmed LCI for courier service modified, it will so instruct. Next voyage is scheduled tentatively 3 weeks hence.

STUART

121.67/1-2447: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 25, 1947—5 p. m.

97. Position taken by you fully approved. (Urtel 136, Jan. 24). Dept desires that you or Butterworth²⁰ inform Soviet Emb orally that we welcome its reference to Dairen as a "commercial port". In this connection you may recall to the Emb our notes of early Jan to Soviet and Chinese Govts in regard to Dairen, and express hope that the port will soon be open to commerce. You may say that, until it is opened to commerce, it would manifestly be impractical for US commercial vessels to call at the port for the sole purpose of making possible courier visits. In conclusion you may say that, under these circumstances, the Soviet Emb will appreciate that we have no choice but to continue use of disarmed naval vessels for courier visits in accordance with the procedure that has prevailed during recent months.

For your info, Dept wishes if possible to keep discussion of this matter in Nanking and away from Moscow. In the foregoing paragraph we have purposely avoided reference to advance notification in Moscow but if Soviet Emb raises question again you may state that we find present method of notification more convenient and express desire for its temporary continuance.

MARSHALL

¹⁹ Signed at Moscow, August 14, 1945; United Nations Treaty Series, vol. 10, p. 354.

²⁰ W. Walton Butterworth, Minister-Counselor of Embassy.

693.0023/1-2947 : Telegram

The Consul General at Dairen (Benninghoff) to the Secretary of State

DAIREN, January 29, 1947—11 a. m.

[Received January 31—6 : 56 a. m.]

19. Although visit of courier ship was without incident and superficially cordial, Dept should know that only one officer was allowed ashore. Doctor denied permission visit Vice Consul Patch's ill daughter, sailors throwing football on dock ordered back on ship. Would appreciate information treatment Soviet ships U. S. controlled ports.

Repeat Nanking, Shanghai, Moscow.

BENNINGHOFF

693.0023/2-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 4, 1947—10 a. m.

[Received February 4—2 : 36 a. m.]

196. Following is full text Foreign Office note dated Feb. 1 handed to Minister Counselor by Vice Minister Foreign Affairs on Feb. 3 :

"The Minister for Foreign Affairs presents his compliments to His Excellency the American Ambassador and has the honor to refer to the Embassy's note of Jan. 6, 1947²¹ on the subject of port of Dairen.

Under the Chinese-Soviet agreement of August 14, 1945 concerning Dairen, the Chinese Government agrees to declare Dairen a free port open to the commerce and shipping of all nations. It is expressly provided in the agreement that the administration in Dairen belongs to China and that Dairen is not subject to the supervision or control of the military authorities in Port Arthur except in case of war against Japan.

Since the surrender of Japan, it has been the intention of the Chinese Government to effect prompt implementation of the provisions of the above-mentioned agreement and to open the port of Dairen to international commerce. On account, however, of the existence of certain *de facto* obstacles, the Chinese Government has so far been unable to take over the administration of Dairen, although earnest efforts have been made to overcome these obstacles. For the same reasons, attempt to restore traffic on the Chinese-Changchun railway have also proved unsuccessful up to the present.

The Chinese Government entirely shares the view that the implementation of the agreements concerning Dairen and the Chinese-

²¹ See telegram No. 28, January 6, 5 p.m., from the Ambassador in China, p. 482.

Changchun railway²² would contribute considerably to the re-establishment of normal conditions in the Far East, and wishes to assure the United States Government that the most earnest efforts have been and will continue to be made to this end.”

STUART

121.67/2-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 7, 1947—10 a. m.

[Received February 7—3 : 22 a. m.]

217. Soviet Embassy on February 6 delivered third person note (reference Embassy's telegram 136, January 24, 9 a. m.) stating that Dairen a commercial port, entry naval vessels not provided, therefore necessary diplomatic couriers in future proceed Dairen in commercial vessels. Prior notification of arrival should be made to Soviet Foreign Minister through American Embassy, Moscow. Note closes with request that contents be brought attention appropriate American authorities.

Note is apparently for purpose confirming oral declaration reported in reference telegram.

Sent Department 217; Department please repeat to Moscow.

STUART

693.0023/2-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 7, 1947—2 p. m.

[Received 2 : 09 p. m.]

222. In handing note regarding Dairen to Minister-Counselor (Embtel 196, Feb. 4, 10 a. m.), Vice Minister referred to “*de facto* obstacles” delaying opening Port and observed that even in period immediately following signing of Sino-Soviet treaty it was impossible for Chinese Govt to arrange transportation of its forces to Manchuria via Dairen. Vice Minister did not appear hopeful with regard to implementation of agreement concerning Dairen and pointed out that local negotiations between Chinese and Soviet Military Commanders in Manchuria (Embtel 2050, Dec. 6²³) had achieved no result.

It will be recalled that during period of Soviet occupation of Manchuria, Chinese Communist forces there enjoyed the benevolence of Soviet forces with an effective degree of freedom of movement and activity within the sphere of Soviet control whereas Central Govt

²² United Nations Treaty Series, vol. 10, p. 346.

²³ Not printed.

troops prior to Russian withdrawal were prevented from actively reestablishing Chinese sovereignty, and that Soviet withdrawal schedules were so timed as to bring about the solid establishment of Chinese Communist forces in north-eastern provinces plentifully supplied with Japanese arms and equipment "abandoned" by Soviet forces as their withdrawal progressed.

Foregoing, taken in conjunction with systematized Soviet looting of equipment from the only important industrial base in China and Soviet denial of the use of the Port of Dairen which made it necessary for Central Govt to operate at the end of a long, tenuous, and inadequate rail line of communication, had effect of stalling Central Govt political control, making impossible any economic rehabilitation, and compounding existing chaos.

It is misleading to give undue consideration to so-called "correct" Soviet attitude toward events in Manchuria when there has existed over a period of months at least covert Soviet exploitation of a variety of circumstances which tend to enhance Soviet domination of overall scene without the necessity for overt action on their part. These circumstances include (1) existence of a numerically important and militant Chinese Communist movement which, significantly, was not important in Manchuria prior to defeat of Japan (Embdesp 1166, Feb. 28, 1946²⁴); (2) a strong autochthonous regionalism among the Manchurian Chinese; (3) deeply rooted distrust of Central Govt among Mongols of western Manchuria; and (4) Russia's normal geographic position vis-à-vis Manchuria, now strengthened by Soviet occupation of northern Korea, the existence of Mongolian Peoples Republic and Soviet control of Port of Dairen.

In face of such circumstances, even a strong Chinese Govt, administratively capable and honest, and representing a unified nation, would have found difficult the task of re-establishing itself in an area from which it had been absent for 14 years and which had enjoyed at least 10 years of economic prosperity under Japanese domination. Aside from the heavy burden of its own administrative corruption and ineptitude and the impoverishment of supply and transportation facilities, the Central Govt also had to contend with a Soviet attitude which, regardless of Soviet intent, resulted in serious obstruction to the assertion of Central Govt authority.

Because of their negative nature, it is difficult, if not impossible, to call into question the attitude and actions of the Soviet Union vis-à-vis Manchuria. Having played, however, an outstanding, though covert, role in creating conditions which would make difficult the task of the Central Govt, the Soviet Union is assuring the continuation of conditions which will bring into disrepute the Central Govt by making impossible any degree of economic rehabilitation.

²⁴ *Foreign Relations*, 1946, vol. IX, p. 448.

Unless and until the Central Govt has access to Port of Dairen, discussion of economic recovery and political stability for Manchuria will be commercial [*chimerical*].

It seems probable (Embtel 60, Jan. 11) that Soviet policy toward Manchuria is aimed in part at tying Manchurian economy in so far as possible to that of Siberia east of Lake Baikal. Normally Port of Dairen handled well in excess of 70 percent of total trade of Manchuria. While it is unlikely that this predominant position can be completely eliminated, it is possible that new channels of trade funneling through Soviet territory will develop if the paralysis of Dairen is allowed to continue indefinitely. Meanwhile the consolidation of Soviet influence at Dairen continues pace (Dairen despatch No. 48 to Dept, Jan. 11, 1947),²⁵ probably in preparation for time when it may be necessary nominally to surrender control to a Chinese administration.

If previous Soviet course with regard to Manchuria can be described as either covert or negative, the long continued occupation and closure of the Port of Dairen, on flimsy pretext that a technical state of war still exists with Japan, can only be interpreted as the deliberately arbitrary maintenance for political reasons of an unnecessary obstacle to any economic recovery for Manchuria as a whole or, more immediately, for limited enclave now held by Central Govt.

Central Govt will probably be unable to influence the Soviet Union to modify any position it chooses to adopt with regard to Manchuria. Consequently, it would seem incumbent upon us in our own interests to prevent the Soviet Union from exploiting a position in Manchuria, stemming from the Yalta Agreement,²⁶ to the disadvantage not only of China, but of the US as a trading nation as well. Embassy believes that continued occupation and control of Dairen by Russians constitutes a stranglehold upon economy of Manchuria which can be expected to become more rather than less stringent in the immediate future and recommends that the Dept give consideration to steps which may be taken to effect a change in this undesirable situation.

STUART

121.67/2-647 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 7, 1947—7 p. m.

155. Please reply promptly Feb 6 note Soviet Emb stating we desire utilize commercial vessels for diplomatic couriers proceeding Dairen

²⁵ Not printed.

²⁶ Signed February 11, 1945; for text, see *Foreign Relations, The Conferences at Malta and Yalta, 1945*, p. 984.

and plan do so soon as that port actually open trade as contemplated Sino-Soviet Treaty Aug 14, 1945. However for present only practicable procedure is continue utilizing small disarmed naval vessel. You should also state next trip courier vessel scheduled about Feb. 24 at which time Mrs. Benninghoff and British consular party proceeding Dairen and add that as our courier trips arranged in China we should appreciate Soviet Emb's conveying notification Moscow direct. Sent Nanking repeated Moscow.²⁷

MARSHALL

893.00B/2-847

*The Consul General at Dairen (Benninghoff) to the Ambassador in China (Stuart)*²⁸

No. 67

DAIREN, February 8, 1947.

SIR: I have the honor to report the following information, which has been obtained from several reliable sources during the past month, which indicates that the Chinese Communists have been intensifying their influence in the Dairen area. This development is believed to emanate from Shantung and Yen-an. The Consulate General has reported previously that the Chinese Communists were not engaged in overt political propaganda in Dairen, and the meaning of the increasingly open activity of the Communists is not clear. They obviously expect to stay, and it is possible that they have been emboldened by the continued military strength of the Communist forces in Manchuria and by promises of Soviet aid, both political and military, for the purpose of assuring the eventual establishment of a regime in the North East friendly to the Soviet Union. In this connection, one Soviet officer was recently quoted as stating that China should be divided into two parts, south and north, the latter to be controlled by the Communists.

[Here follow details of Communist activity.]

It would appear that only during the latter part of 1946 have the Chinese Communists made a determined effort to get a permanent foothold in Dairen. However, because the railroad and port are both closed, it is impossible for them (or anyone else) to provide sufficient fuel and food for the population. Since they are more or less in control, they receive a large share of the blame for this situation, and consequently it is felt that their propaganda is not in general very effective.

Respectfully yours,

H. MERRELL BENNINGHOFF

²⁷ Repeated to the Ambassador in the Soviet Union as No. 199.

²⁸ Copy transmitted to the Department by the Consul General in his covering despatch No. 57, February 8; received March 25.

761.93/2-1047

*Memorandum of Conversation, by the Deputy Director of the Office
of Far Eastern Affairs (Penfield)*

[WASHINGTON,] February 10, 1947.

Ambassador Koo phoned this morning and stated that Mr. Vincent²⁹ had asked him last week (1) whether the Chinese Government had replied to our note regarding Dairen and (2) whether any negotiations between the Chinese and Soviets in regard to Dairen were presently taking place. (Mr. Vincent referred to press reports to the effect that Chiang Ching-kuo³⁰ was engaged in discussions on this subject.)

Ambassador Koo said that he had inquired of Nanking and was now informed that a reply to our note had been sent to our Embassy at Nanking on January 26, and that there is absolutely no truth in reports that Sino-Soviet discussions in regard to Dairen are going on. The Ambassador added that the Chinese opinion was that the Soviets were obligated to hand over Dairen to Chinese civilian administration and that it was up to them to take the initiative.

I told Ambassador Koo that we had received word of the Chinese reply from our Embassy at Nanking and thanked him for his courtesy in calling.

893.00/2-1547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 15, 1947—1 p. m.

[Received February 15—5: 21 a. m.]

294. On basis of information obtained from military sources, Embassy inquired of Foreign Office whether any progress had been made regarding Chinese Government occupation of Dairen. Foreign Office stated that situation had not yet appreciably changed except that within past 2 or 3 weeks Soviet planes had been flying over Chinese islands abutting on the leased territory area, on at least one of which there was a Chinese garrison, and on one or two occasions the planes had dropped bombs. However, no one had been injured and Soviets had attempted to explain the matter away as incident to maneuvers.

Vice Minister emphasized Chinese Government had felt it desirable to keep matter as quiet as possible.

STUART

²⁹ John Carter Vincent, Director of the Office of Far Eastern Affairs.

³⁰ Eldest son of Generalissimo Chiang Kai-shek.

693.0023/1-2947 : Telegram

The Secretary of State to the Consul General at Dairen (Benninghoff)

WASHINGTON, February 15, 1947—2 p. m.

15. Soviet merchant ships are free enter any other than closed ports US without prior arrangement or notification (urtel 19 Jan 29). Soviet naval vessels allowed entry US ports subject prior arrangement. Soviet and other foreign flag vessels not serving occupation may not enter Jap ports without prior permission SCAP.³¹

MARSHALL

121.67/2-2647 : Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, February 26, 1947—4 p. m.

[Received 4:45 p. m.]

551. Following is body of note to FonOff dated February 26:

“Embassy has been notified that American courier ship is scheduled to visit Dairen on or about March 5 with official courier of American Government and wife of ConGen Benninghoff as passengers. Vessel will be same which has previously been used on courier trips to Dairen.”

Department repeat to Nanking.

SMITH

761.93/2-2847 : Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, February 28, 1947—7 p. m.

[Received 8:20 p. m.]

586. Following is body of note from Foreign Office dated February 27 received in reply to Embassy's note of January 3 regarding Dairen:

“As is well known, status of Dairen and Chinese Changchun railway is defined by Soviet-Chinese agreements of August 14, 1945 regarding port of Dairen and Chinese Changchun railway, and accordingly questions arising in connection with these agreements come within competence of Governments of USSR and China. Soviet Government for its part has always expressed its readiness for appropriate steps and has done everything possible for exact execution of these agreements.

³¹ Supreme Commander for the Allied Powers, Japan.

"Mention in Embassy's note of abnormal situation in Far East, which evidently envisages situation in China, cannot be regarded as reason for laying any responsibility for situation on USSR.

"As regards district of Port Arthur naval base provided for in Soviet-Chinese agreement,³² as well as Dairen, Soviet Government has applied and is applying all possible measures, so far as depends upon it, for establishment of normal situation in this district and in city of Dairen.

"It is not necessary to speak here in detail of agreement which has [been] concluded at Moscow conference of three Ministers in December 1945³³ on question of withdrawal both of Soviet and American troops from China. Soviet Government considers that exact execution both by Soviet Union and United States of America of this agreement and of other conditions provided for by Moscow agreement has highly important significance for establishment of normal situation in China. For its part Soviet Government has done everything which agreement demanded of it, having already concluded withdrawal of Soviet troops from Manchuria in spring of last year."

SMITH

893.00/1-747 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 1, 1947—8 a. m.

250. USSR may be in position make out case that it enjoys status belligerent occupant Dairen sense Sec 701 Vol 2 [3] Hyde's *Int Law* and that it can claim control there accordance para 4 agreement concerning Dairen until state of war legally terminated by treaty or other appropriate means (Embs despatch 387 Jan 7³⁴). However Dept feels Soviet refusal permit restoration Chinese authority Dairen subsequent complete military defeat Japan conflicts with purpose and spirit other provisions treaty and agreements.

Dept notes Chinese Govt maintaining position that since surrender Japan provisions para 4 Dairen agreement subject implementation (Embtel 196 Feb 4) but apparently attempting achieve opening Dairen before settlement other question (Embtel 257 Feb 12³⁴) relative to Changchun Railway. Is it not probable that action would be speeded if the two questions were tackled simultaneously? (Sent Nanking repeated Dairen Mukden Changchun) You may at your discretion mention this thought to Chinese authorities.

MARSHALL

³² Signed at Moscow, August 14, 1945; United Nations Treaty Series, vol. 10, p. 358.

³³ Department of State *Bulletin*, December 30, 1945, pp. 1027, 1030, or *Foreign Relations*, 1945, vol. II, pp. 815, 821.

³⁴ Not printed.

693.0023/3-447 : Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, March 4, 1947—8 p. m.

[Received March 4—5 : 10 p. m.]

643. Following is translation of body of note dated March 3 from Foreign Office :

“In reply to Embassy’s note No. 127 of Feb. 26, 1947,³⁵ has honor to state that in memorandum dated Feb. 6, 1947³⁶ Soviet Embassy in China brought to attention of American Embassy in China fact that in as much as Port Dalny is, according to Soviet-Chinese agreement regarding Dalny, commercial port and entry of war vessels into Dalny is not envisaged, it is necessary that in future American diplomatic couriers be dispatched to Dalny not in naval vessels but in commercial vessels. It was further pointed out in memorandum that notification regarding arrival in Dalny of American vessel carrying diplomatic couriers is to be given in good time through Embassy of US in Moscow to Minister Foreign Affairs of USSR.

Drawing attention of Embassy of USA to foregoing, Minister Foreign Affairs hopes that above regulations regarding entry of foreign vessels into Dalny will be observed by appropriate American authorities and that in future dispatching of American diplomatic couriers to Dalny will be performed not by naval vessels but by commercial vessels.

With regard to American war vessel arrival of which in Dalny, as is indicated in Embassy’s note, is expected about March 5, as exception in this case, instructions have been issued to appropriate Soviet military authorities to permit entry of this vessel into Port Dalny.”

Dept repeat Nanking.

SMITH

893.00/3-647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 6, 1947—2 p. m.

[Received March 6—3 : 35 a. m.]

460. In his description to the Minister-Counselor of his recent trip to Manchuria where the Foreign Minister said he had not been since the end of the Jap war, he indicated he had assembled at Mukden the

³⁵ See telegram No. 551, February 26, 4 p. m., from the Ambassador in the Soviet Union, p. 495.

³⁶ See telegram No. 217, February 7, 10 a. m., from the Ambassador in China, p. 490.

officials who were concerned about obtaining industrial equipment from Jap reparations. Dr. Wang spoke forcefully of the importance of Manchuria to China—not alone because of its natural resources but because it contained a large number of unusually able, energetic farmers who had migrated there since the fall of the Manchurian dynasty and who constituted a precious human resource. Foreign Minister reviewed the Chinese case vis-à-vis Russia and indicated that he had given a copy of his note to this Embassy (Embtel 196, February 4) to the Russian [Emb. ?], at which time he had emphasized the high desirability of removing the “*de facto* obstacles” to occupation of Dairen. Dr. Wang also said that he had protested vigorously against the recent airplane flights and bomb droppings (re-Embtel 294, February 15) but had obtained no satisfaction beyond a denial from the Soviet military of their responsibility. He indicated, however, that Chinese authorities had photographs of the Soviet planes and that in his opinion Russia had no right even to drop bombs in practice on the Port Arthur area. In this connection he emphasized that Port Arthur was not leased to the Russians alone but was by treaty available to China as well as Russia in connection with defense against Jap aggression.

He said that he had info which had not been verified that Russians were removing railway engines from Dairen and, if it were true, he intended to protest against the disappearance of these jointly owned assets of the Changchun railway.

According to Foreign Minister, there is a group of some 30,000 Communists between the Nationalist army and the Russian controlled Port Arthur-Dairen area. Furthermore, the recent successful attack on Changchun has obviously evoked fears that if the National Govt should be allowed to occupy Dairen, it might not be able to be held unless special measures were taken. Dr. Wang said, “We must look at the whole situation in Manchuria and make our plans in a coordinated fashion.” As of possible pertinence in this connection, reference is made to Embtel 459, March 6, noon,³⁹ repeating T. V. Soong’s⁴⁰ forthcoming trip.

Minister Counselor gave Foreign Minister substance of the Soviet’s reply contained in circular of March 3, 6 p. m.,³⁹ in which Foreign

³⁹ Not printed.

⁴⁰ Recently President of the Chinese Executive Yuan.

Minister was most interested and explained that the Soviet Ambassador ⁴¹ was seeking an interview which he now assumed was connected with this correspondence.

STUART

893.00/3-1147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 11, 1947—4 p. m.

[Received March 11—6 a. m.]

519. Foreign Minister sent for me this morning and asked me to transmit the following information to you at Moscow: ⁴²

No doubt acting under Generalissimo's instructions, Wang Shih-chieh stated that China would strenuously object to having her internal affairs being placed on the agenda as subject for discussion at Moscow Conference. ⁴³

He also reported that Soviet Ambassador had called on him March 8 with two requests: (1) That Chinese take over the administration of Dairen and Port Arthur, and (2) that joint operation be undertaken of railway line from Dairen through Mukden to Changchun. Foreign Minister stated to Petrov that he would send a formal reply in answer in a few days, but meanwhile he wished to make two comments:

a. That when the Chinese Government undertook to land Chinese troops at Dairen toward the latter part of 1945, the Soviet Government objected on the ground that Dairen was a free port; although Chinese Government did not agree, yet it was powerless at the time to insist on the landing; if these troops had been landed there at that time, the situation in all of Manchuria as well as in Liaotung Peninsula would have been very different today.

b. That in order to take over the administration and restore railway communication, that area would have to be cleared of Communist forces which are reported operating close to Dairen. (In this connection see Embassy's telegram 460, March 6, 2 p. m.)

Wang Shih-chieh went on to say that Chinese Government was now considering the advisability of military operation to clear the region around Dairen and the railway zone to Mukden of Chinese Communists.

Sent Department 519; please repeat Moscow.

STUART

⁴¹ Apollon Alexandrovich Petrov.

⁴² Repeated by the Department March 11, 7 a. m., to the Ambassador in the Soviet Union for the Secretary of State, who was at the meeting of the Council of Foreign Ministers at Moscow.

⁴³ For correspondence on this subject, see pp. 609 ff.

121.67/3-1347: Telegram

*The Acting Secretary of State to the Ambassador in the Soviet Union
(Smith)*

WASHINGTON, March 13, 1947—8 p. m.

510. Provided Secretary Marshall perceives no objection please reply (urtel 643 Mar. 4, 8 p. m.) Mar 3 FonOff note in sense of Deptel 199 Feb 7, 7 p. m.⁴⁴ to effect that we plan utilize commercial vessel for diplomatic couriers proceeding Dairen as soon as such vessels are available; however as Soviet Consul Dairen has stated to US ConGen there (Dairen's 13 Jan 18) that port presently is closed to trade. In view obvious impracticability diverting commercial steamers long distances involved merely afford passage to couriers and constant availability only overnight trip away small naval vessel specially disarmed for this purpose we consider only practicable interim solution is to continue to use that (Sent Moscow repeated Nanking) vessel.

For Emb's info prior to Mr. Cohen's⁴⁵ departure he was given file on Dairen courier service.

ACHESON

893.00/3-1547: Telegram

The Consul General at Dairen (Benninghoff) to the Secretary of State

DAIREN, March 15, 1947—3 p. m.

[Received March 20—6:17 a. m.]

36. Consent of Soviets for Nationals⁴⁶ to occupy Dairen not confirmed here (reference Mukden's 31, March 12 to Nanking⁴⁷). Soviet officials have stated their army would not permit fighting in naval base area. In any event Soviet interpretation of treaty would permit National troops in Dairen City only as Soviets claim sole responsibility for defense area under Article IV agreement in Port Arthur.

No Communists as such are known to be in area although several thousand are in locally created police or Peace Preservative Corps which largely locally recruited in lower ranks. Belief is that when Nationals enter, Soviets will protect real Communists and aid their escape, and will request Nationals retain police corps and civil administration framework. This point as well as interpretation treaty

⁴⁴ See footnote 27, p. 493.

⁴⁵ Benjamin V. Cohen, Counselor of the Department, member of the American delegation to the Council of Foreign Ministers at Moscow.

⁴⁶ Chinese National Government.

⁴⁷ See telegram No. 599, March 19, 6 p. m., from the Ambassador in China, p. 506.

may have been stumbling blocks recent Pulantien talks (reference mytel 28, February 10 ⁴⁸).

This office observation difficult because movements restricted to city, Soviet officials uncommunicative, and Chinese either afraid to talk or even hostile in case unavowed Communists placed in puppet regime
 Relay Nanking, Shanghai, Mukden, Moscow.

BENNINGHOFF

740.00119 Council/3-1547: Telegram

*The Acting Secretary of State to the Ambassador in the Soviet Union
 (Smith)*

WASHINGTON, March 15, 1947—4 p. m.

532. Note quoted below prepared for transmittal by Emb, subject Sec Marshall's approval, to Soviet FonOff and with final paragraph omitted for similar transmission by Emb Nanking to Chinese Govt. (Urtel 586 Feb 28 and Nanking's 519 March 11).

"The American Government has now received from both the Chinese and Soviet Governments replies to its notes regarding Dairen and the Chinese Changchun Railway. In its reply of February 1 the Chinese Government expressed its agreement with the US view that implementation of the agreements concerning Dairen and the Chinese Changchun Railway would contribute to the reestablishment of normal conditions in the Far East and stated that it has made and will continue to make earnest efforts to this end. The Soviet Government, in its reply of February 27, likewise expressed its readiness to take appropriate steps to execute these agreements.

The American Government welcomes these declarations of intention by the two Governments immediately concerned to implement the provisions of the Soviet-Chinese agreements of August 14, 1945 in regard to Dairen and the Chinese Changchun Railway and hopes that those two Governments will in the near future make the necessary arrangements for implementation.

The Soviet Government in its note under acknowledgment referred to the matter of the withdrawal from China of Soviet and American troops. In this connection the Soviet Government is informed that US forces have been progressively withdrawn from China in the course of the past year as they have completed the tasks for which their presence there was requested by the Chinese Government. The withdrawal will soon be completed except for the personnel of the Army and Navy advisory groups and a small detachment of Marines at Tsingtao."

Please inform Dept promptly of Secretary's decision so Nanking may be instructed accordingly.

ACHESON

⁴⁸ Not printed; it reported that talks at Pulantien had begun January 26 (893.00/2-1047).

121.67/3-1747

*The American Embassy in the Soviet Union to the Soviet Ministry for Foreign Affairs*⁴⁹

No. 222

Moscow, March 17, 1947.

The Embassy of the United States of America presents its compliments to the Ministry of Foreign Affairs of the Union of Soviet Socialist Republics and has the honor to refer to the Ministry's Note 107 of March 3, 1947,⁵⁰ regarding the question of courier vessels to the port of Dalny.

The American Government plans to utilize commercial vessels for diplomatic couriers proceeding to Dalny as soon as such vessels are available and that port actually opened to trade as contemplated in the Sino-Soviet Treaty of August 14, 1945. However, as the port of Dalny is presently closed to international trade, it is obviously impractical to divert commercial vessels the long distance involved merely to afford passage to couriers. Therefore the only practical procedure for the present is to continue to utilize small naval vessels specially disarmed for this purpose and constantly available for the brief over-night voyage from North China ports to Dalny. The American Government considers the use of these small disarmed naval vessels as the only practical solution until such time as the port of Dalny is open to international trade.

 761.93/3-1847: Telegram
The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State

Moscow, March 18, 1947—5 [p. m. ?]

[Received March 18—12: 28 p. m.]

860. KOSMOS 1.⁵¹ Your 532 of 4 p. m., 15 March refers. In view of exchange of letters between Molotov and myself, I suggest the last paragraph of your proposed memorandum to Soviet Government, which starts "the Soviet Government in its note", and ends "detachment of marines at Tsingtao" be deleted. In its place I suggest a statement substantially as follows:

"With regard to the matter of US troops in China, this will be

⁴⁹ Copy transmitted to the Department by the Embassy in its covering despatch No. 1021, March 17; received March 26.

⁵⁰ See telegram No. 643, March 4, 8 p. m., from the Ambassador in the Soviet Union, p. 497.

⁵¹ From the Secretary of State in Moscow.

covered in the exchange of information referred to in the communication of the Secretary of State dated 15 March."⁵²

I will advise Embassy here when you indicate clearance.

New subject: I have discussed and given a copy of the last paragraph of your 509 of 8 p. m., 13 March⁵³ with Mr. Bevin.⁵⁴ He is taking the matter up by cable with London.

SMITH

893.00/3-1847

*The Consul General at Dairen (Benninghoff) to the Ambassador in China (Stuart)*⁵⁵

No. 79

DAIREN, March 18, 1947.

SIR: I have the honor to enclose a copy of a memorandum dated February 20, 1947⁵³ prepared by the Assistant Military Attaché at Shanghai referring to a communication from this office to the effect that there were no Chinese Communist troops in this Area and requesting a clarification thereof. This memorandum was received under cover of a memorandum from the Consulate General at Shanghai dated February 21, 1947.

In view of the importance of the subject, this reply is being prepared in despatch form rather than in an informal memorandum to the Consulate General at Shanghai. The subject has been mentioned several times in this office's communications, the latest being despatch No. 67 of February 8, 1947, entitled "Chinese Communist Influence in Dairen". Copies of such despatches are not as a rule forwarded to Shanghai. However, a copy hereof is being so forwarded.

Ever since their entry into the Port Arthur Naval Base Area in August 1945, the Russians have claimed sole responsibility for its defense, and for the preservation of law and order. In the early days Russian troops actually carried out police duties, not only in the city of Dairen but in the Area as a whole. In the autumn of 1945 they set up a local Chinese regime for the purpose of holding office until such time as the National Government should arrive. At no time has it been claimed that this puppet regime had any connection with administrative organizations set up by the Chinese Communists in areas under their control. In fact, both the Soviets and the local Chinese officials are extremely careful to avoid reference to the Chinese Com-

⁵² *Post*, p. 614.

⁵³ Not printed.

⁵⁴ Ernest Bevin, British Secretary of State for Foreign Affairs.

⁵⁵ Copy transmitted to the Department by the Consul General in his despatch No. 76, March 18; received July 17.

munists or to the Eighth Route Army. This attitude was necessitated by the fact that in the Sino-Soviet Treaty of August 1945 the Russians acknowledged the National Government to be the legal government of China.

It has been the policy of the Russians to give the local Chinese regime mentioned above as much responsibility as possible, within, of course, the framework of broad policy determined by the Russians. At the same time they have permitted the admixture of many out-and-out Communists from Yen-an and Shantung into the administration, resulting recently in a notable increase of Communist influence in the city and the Area. No direct and open identification has yet been made, however, with the Communist Party.

One of the first acts of the new regime was to set up a Peace Preservation (*Pao-an*) Corps, with Russian assistance and Japanese equipment. This organization not only carries out normal police functions, but it also has railway guards, fire brigades, and a number of constabulary or militia detachments. Its exact organization is not known, but doubtless it has a structure similar to that to be expected in a Communist organization as described in the Assistant Military Attaché's memorandum under reference. Observation is difficult, as this office's personnel is restricted to the city of Dairen, but there may be as many as ten thousand in the Corps within the Area. Recruiting has recently been intensified, and, according to reliable reports, unemployed coolies and the like are taken off the streets and put into uniforms—a practice which has recently caused the migration of many Chinese to the Mukden area. It has also been learned that after a short period of training, whole detachments are shipped elsewhere to join Communist armed forces, in which case they probably change uniforms at the border of the Area.

So far as this office has been able to ascertain after several months of inquiry in various quarters, this Corps is the only organized body of Chinese in uniform within this Area. It is known that several thousand Communist troops entered the Area in retreat before the Nationalist advance to Pulantien, but they did not enter as military units. The Acting Soviet Consul General has stated that such refugees were disarmed by Soviet Border Guards—but his information has not always been reliable.

When this office telegraphed that there were no Communist troops in the Area, it meant that according to all information at its disposal the Soviet Army had not permitted the entry of combat units of the Eighth Route Army into the Port Arthur Naval Base Area. In this

connection it should be remembered that the Russians claim sole responsibility for the defense of the Area under Article IV of the Agreement on Port Arthur, and that Soviet officials deny the right of Chinese troops to be garrisoned in the Area except in Dairen city itself when it is declared a free port.

The local Peace Preservation Corps can probably, for statistical purposes, be included within Communist forces, but the distinction between it and the Communist armed forces available for combat against Government troops must be kept in mind. It should be remembered that the Russians are here in sufficient strength to prevent any clash within the Area between Chinese elements.

The situation within the city of Dairen at present, accordingly, is that the Peace Preservation Corps acts as a police organization and deals with the Chinese and Japanese population, but not the Russian. There is a small Russian garrison in the city, at the most only a few hundred, which is responsible for the preservation of law and order among the several thousand Russian civilians and military personnel. The two are seldom known to work together, although of course the Russians step in whenever they deem it necessary.

Outside the city, the remainder of the Area has a Soviet garrison estimated variously up to 50,000. They have little to do with the Chinese population, leaving administration and police matters as much as possible to the local regimes, and the Peace Preservation Corps in its several functions.

Although in a broad sense it might be permissible to include the locally recruited Peace Preservation Corps as a unit of the Communist armed forces, it nevertheless remains a fact that no Chinese Communist unit as such has been brought into the city; a relationship exists, but it has never been acknowledged either by the Russians or by the Chinese, and would probably be disavowed by both of them.

In conclusion, mention should be made of the reports that the Russians have aided Communist units in escaping from Dairen to Shantung. Persistent inquiry over a period of four months has failed to unearth any evidence in support of this allegation. There is considerable junk traffic between Dairen and Chefoo, and doubtless ununiformed Communist soldiers have passed back and forth. The Consulate General is reasonably certain, however, that Dairen has not been used as the embarkation point for any Communist military unit of any size being transported as a unit. The same probably holds true for the rest of the Area under Soviet control, but with less certainty.

Respectfully yours,

H. MERRELL BENNINGHOFF

893.00/3-1947: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 19, 1947—6 p. m.
[Received March 20—12: 01 a. m.]

599. Following is Mukden's 31, March 12.

"According to NECC⁵⁷ source, General Tu⁵⁸ has recently been notified from Nanking that Soviets consent to National Army occupying Dairen now. However, preoccupation of Nationalist forces with new Communist drives of Changchun, Kirin, and Meihoko areas (of which Soviets are presumably well aware) places Tu in dilemma where he apparently cannot spare large enough force to ensure defeat Communist forces in Port Arthur navy base area without seriously weakening his other fronts. Even could he assemble requisite force, his move on Dairen would probably result in Communists escaping to Shantung where Nationalists already hard pressed. Chase.

Sent to Nanking 31; repeated Changchun and Shanghai for Dairen."

STUART

893.00/3-1947: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 19, 1947—7 p. m.
[Received 10: 30 p. m.]

600. Foreign Minister informed Min[ister]-Coun[selor] that China's reply to Soviet note regarding Dairen (Embtel 519, March 11, 4 p. m.) will be ready for presentation in a few days and that in meantime instructions have been issued to Commanding General, Manchuria, to make necessary preparations to clear the 30 to 40,000 Communist troops which are located near Dairen-Port Arthur area. Dr. Wang Shih-chieh explained in confidence that, although no date had been fixed, the military operation was planned for next month and that the landing at Dairen from ships of requisite officials and police would be synchronized with the military operation. Upon inquiry he indicated that it had not yet been decided as to whether troops should be included in the sea contingent, but that in any case the Soviet Govt would not be consulted regarding landings but merely notified of Chinese Govt's intention. In this connection he empha-

⁵⁷ Northeast China Command.

⁵⁸ Gen. Tu Li-ming or Tu Yu-ming, Chinese Government commander in Manchuria.

sized the point that he had made to the Soviet Ambassador, namely the fact that Dairen was a free port did not limit China's sovereignty except so far as import and export levies on goods were concerned. He offered to keep Embassy currently informed of developments.

Dr. Wang touched on the timing of the Russian *démarche* geared as it was not only to the convening of the Moscow Conference but also to the Communist offensive around Changchun with which the National Armies were and are preoccupied. Nevertheless, he expressed confidence in the news that the second thrust during this month has been beaten back.

Foreign Minister asked me to convey to you his sincere gratitude for the stand you took on Molotov's proposal regarding China.

Incidentally, Foreign Minister was so bitterly attacked at yesterday's session of the Central Committee of the Kuomintang on Sino-Soviet treaty and relations that he stated he felt he should resign. Although Gimo is said last night to have assured him of his continuing confidence, Kmt⁵⁹ delegates talk freely of Wang Shih-chieh being superseded by K. C. Wu⁶⁰ or Yu Ta-wei.⁶¹

Sent Dept 600; Dept please repeat to Moscow as 1 for General Marshall.

STUART

761.93/3-2047 : Telegram

The Consul General at Dairen (Benninghoff) to the Secretary of State

DAIREN, March 20, 1947—3 p. m.

[Received March 24—10:20 a. m.]

39. From attitude Soviet Consul it seems that there is something behind recent rumors of early Nationalist occupation Dairen. However, he would not be specific. He again said Nationalist troops could not enter naval base area because of treaty (refmytel 36, March 15) and saw no provisions in treaty for entry Nationalist troops even into Dairen, as only "administration" is to be Chinese.

Soviets obviously want only handful Nationalist officials in Dairen without troops or even police, which would place Nationalist officials in position similar to present puppets. Soviets can argue they have sole responsibility for defense area as well as military jurisdiction over Dairen as long as "war with Japan" exists, and can point out already organized police force.

Reference Nanking's 2185 and 30⁶² to Department. This office

⁵⁹ Kuomintang.

⁶⁰ Mayor of Shanghai.

⁶¹ Chinese Minister of Communications.

⁶² Apparently reference numbers garbled.

would appreciate further information attitude Sino Government if available.

Repeat to Nanking, Shanghai, Mukden, Moscow.

BENNINGHOFF

761.93/3-1847 : Telegram

*The Acting Secretary of State to the Ambassador in China
(Stuart)*

WASHINGTON, March 20, 1947—8 p. m.

332. Please transmit following note FonOff :

“The American Government has now received from both the Chinese and Soviet Governments replies to its notes regarding Dairen and the Chinese Changchun Railway. In its reply of February 1 the Chinese Government expressed its agreement with the US view that implementation of the agreements concerning Dairen and the Chinese Changchun Railway would contribute to the reestablishment of normal conditions in the Far East and stated that it has made and will continue to make earnest efforts to this end. The Soviet Government, in its reply of February 27, likewise expressed its readiness to take appropriate steps to execute these agreements.

“The American Government welcomes these declarations of intention by the two Governments immediately concerned to implement the provisions of the Soviet-Chinese agreements of August 14, 1945 in regard to Dairen and the Chinese Changchun Railway and hopes that those two Governments will in the near future make the necessary arrangements for implementation.”

Identic note being sent Soviet FonOff with addition however of following paragraph :

“With regard to the matter of US troops in China, this will be covered in the exchange of information referred to in the communication of the Secretary of State dated 15 March.”⁶³

ACHESON

693.0023/3-3147 : Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, March 31, 1947—11 a. m.

[Received March 31—8 : 38 a. m.]

1102. Following is translation of body of note dated March 29 from FonOff in reply to our note March 17.

⁶³ The Department's telegram No. 596, March 20, 8 p. m., to the Ambassador in the Soviet Union, gave instructions to this effect (740.00119 Council/3-1547).

"Procedure for visits of foreign vessels to Dalny set forth in Ministry's note of March 3⁶⁴ corresponds to Soviet-Chinese agreement of August 14, 1945 concerning port of Dalny. Minister Foreign Affairs does not consider it possible to introduce changes in above-mentioned procedure as that would not correspond to above-mentioned agreement. ["]

Dept repeat Nanking.

SMITH

761.93/4-547: Telegram

The Consul General at Dairen (Benninghoff) to the Secretary of State

DAIREN, April 5, 1947—10 a. m.
[Received April 14—11:18 a. m.]

55. Imminent arrival National Government authorities from Tsingtao as reported by Embassy Nanking brings up for consideration Sino-Soviet relations here, especially ability National Government officials assert themselves and be more than figureheads in face of strong Russian position.

See my telegrams 36 and 39, March 15 and 20.

At Yalta "pre-eminent interests" of Russia in this area were safeguarded. The Sino-Soviet treaty gave Russia half railway and half port. Since then Soviets have consolidated locally and question arises whether China, in present economic political turmoil, can take over other half and become equal partner with equal voice. This point will be important to United States when questions of trade and foreign exchange arise, as general expectation is that Soviets intend discourage third power interests through domination of port and weakness Chinese officials. Russian action regarding former Chinese Eastern Railway will be recalled.

Sent Department as 55. Repeat Nanking, Shanghai, Mukden, Moscow.

Large Soviet-Chinese meeting now taking place Port Arthur. Details still unknown but strong rumor suggests that "imported" Communists will be replaced by local people in temporary regime. Future of Communists, and parleys between National officials and local Russians and Chinese concerning administration including policy will be interesting.

Russian General [at] Dairen rumored to be no longer "commandant" but "representative" of Soviet military chief Port Arthur. There is no suggestion Soviet military plan leaving Dairen. Sino-

⁶⁴ See telegram No. 643, March 4, 8 p. m., from the Ambassador in the Soviet Union, p. 497.

Soviet treaty provides military regulations in force Dairen during "war with Japan". Also Chinese civil officials must fulfill proposals for defence security made by Soviet Military Commander. Thus Soviet Military Representative remaining Dairen can exert strong influence and might even prevent use this office radio transmitter even if Sino officials agree.

Until end of "war with Japan" acknowledged by Soviets, difficulties in Dairen may be expected to continue.

BENNINGHOFF

893.00/4-547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 5, 1947—1 p. m.

[Received April 5—4: 45 a. m.]

745. Following is Mukden's 48, April 3, 10 a. m.

"General Tu Yu-ming in course conversation during my call on him yesterday denied that diplomatic arrangements Dairen take-over have been completed. He admitted that Chinese FonOff (sent Embassy 48, repeated Shanghai 67 for Dairen) had asked NE authorities to undertake take-over Dairen area without bringing armed forces into area in view of Soviet objection to entry such forces. Tu said that he thereupon informed Nanking that entry could not possibly be attempted on such basis as Chinese cannot sacrifice right to have Chinese forces in "its own territory" and as troops will be necessary to overcome resistance of Communist forces, Dairen area totaling 50,000, according to Tu. NECC has therefore made no preparations for take-over, Tu says.

While reporting above statements as deserving considerable weight, suggest that they should not be taken as definitely precluding possibility (favored by some observers) that Tu has well-advanced plans for take-over Dairen but seeks to conceal any such intention in hope deceiving Communists."

STUART

761.93/4-1347: Telegram

The Consul General at Dairen (Benninghoff) to the Secretary of State

DAIREN, April [7?], 1947.

[Received April 13—8: 50 p. m.]

57. Advance information is requested concerning any American participation in proposed Chinese expedition from Tsingtao.

Can we expect US Navy, diplomatic courier, or correspondents?

Also would appreciate instructions if any which Dept or Embassy may have, especially reference last parts mytel 55.⁶⁵

Sent Dept as 57; in reply to Nanking's 8, April 2; ⁶⁶ see mytel 55, April 5.

BENNINGHOFF

893.00/4-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 8, 1947—noon.

[Received April 8—3:40 a. m.]

761. Following is Mukden's 51, April 5, 9 a. m. :

"High ranking NECC officer close to General Tu in private conversation March 27 stated that Soviets propose to limit Chinese Government control Dairen area to southern section of city (apparently excluding entire harbor front) and narrow right of way passage to and from city along railway. Similar assertion appeared local press. Ward."⁶⁷

Sent Embassy, repeated Shanghai for Dairen.

STUART

761.93/4-847 : Telegram

The Consul General at Dairen (Benninghoff) to the Secretary of State

DAIREN, April 8, 1947—5 p. m.

[Received April 14—10:22 a. m.]

58. Purpose of political meeting at Port Arthur (see mytel 55, April 5) now most [not?] clear. Local Sino Central Administration moved from Dairen to Port Arthur, which is also Soviet GHQ. Officials thereof were "elected" by specially selected representatives and many Sino-Communists chosen. Inclusion of local Conservatives among delegates and in administration probably for purpose making new arrangement acceptable to Nanking and to substantiate claim that elections were "democratic".

This administration to control all area but relationship with Dairen unclear. As Soviets apparently will not permit National control except in Dairen (see Mukden's 38, March 28,⁶⁸ and 51, April 5,⁶⁹ to Nanking, also mytels 36, March 15, and 39, March 20). Result is that Sino-Communists can probably safely remain and dominate area as heretofore backed by Russia, except for Dairen city turned over to

⁶⁵ April 5, 10 a. m., p. 509.

⁶⁶ Not found in Department files.

⁶⁷ Angus Ward, Consul General at Mukden.

⁶⁸ See telegram No. 859, April 20, noon, from the Ambassador in China, p. 513.

⁶⁹ See telegram No. 761, *supra*.

Chinese Govt. Even in Dairen Russian military (mytel 55) and Sino-Communist infiltration might exert decisive influence.

Soviets apparently did not appear at formal meetings although they interviewed delegates and pulled strings behind scene. Elections were rigged in usual Soviet manner.

Whether Chinese Govt will accept this or similar arrangement exchange for foothold in Dairen remains to be seen. Under provisions treaty Chinese Govt appoints all leading officials giving due regard to Soviet interests.

BENNINGHOFF

893.00/4-1247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 12, 1947—2 p. m.

[Received April 12—9:33 a. m.]

800. Foreign Minister sent for Min-Coun this morning and informed him that Soviet Ambassador had presented on April 10 Soviet reply to Chinese note regarding Dairen and Port Arthur area. He characterized note as vague and equivocal in parts and indicated that Chinese and English translations were in process of being made, copies of which would be supplied Embassy in confidence.

Dr. Wang Shih-chieh said note made the following points: (1) Disclaimed any responsibility on part of Soviets for delay in reestablishment of Chinese Government administrative control; (2) indicated that Soviet local commander had been given appropriate instructions to render assistance; (3) reiterated Soviet stand that until state of war had been terminated by treaty of peace with Japan Chinese Government troops could not enter Dairen-Port Arthur area; (4) concurred on joint use of port of Port Arthur by Chinese and Soviet merchant and naval vessels but indicated this is not applicable to Port Arthur land area where Chinese would have to obtain permission for stationing of police or other facilities, and referred to establishment of military committee which, according to Sino-Soviet treaty, would consist of three Soviets and two Chinese.

Dr. Wang Shih-chieh stated that he informed Soviet Ambassador that he could but assume that he had reported his previous remarks to Soviet Government regarding inadmissibility of Soviet Government's ultimatum that until a formal peace treaty was signed with Japan that the Chinese Government did not have the right to station troops on its own territory, and that after due consideration by Chinese Government a formal written reply would be forthcoming but that meantime Foreign Minister had one observation which he wished Ambassador to convey to Soviet Government, namely, that the provisions of the Sino-Soviet treaty relating to Port Arthur and Dairen

had been conceived on the basis of two allies taking precautionary measures against the possible re-emergence of an aggressive Japan and not as means of fostering aggressive competition between them, that Chinese Government was prepared to live up fully to specific provisions of Sino-Soviet agreement but it could not accept ill-founded interpretations arrived at unilaterally, and that it lay with the Soviet Government as to whether by its attitude it would augment or diminish the friendly character of Chinese Government's relations with the Soviet Government.

Foreign Minister indicated that purport of Soviet note and his comments to Soviet Ambassador had been made available to Chinese High Command and that whole matter would be considered by the appropriate officials of Chinese Government with the Gimo on the latter's return to Nanking.

Please repeat to Moscow as 11, for attention General Marshall.

STUART

761.93/4-847 : Telegram

*The Acting Secretary of State to the Consul General at Dairen
(Benninghoff)*

WASHINGTON, April 18, 1947—3 p. m.

23. No occasion perceived for US naval participation in proposed expedition from Tsingtao should it materialize. When if necessary arrangements therefor appear near completion Embassy assumably will consider whether it affords suitable opportunity despatch courier. Should Sino-Soviet conversations be protracted courier question probably will have to be reopened Moscow. Question US correspondents accompanying Chinese Dairen would appear matter for initial decision Chinese authorities. Dept (sent Dairen repeated Nanking) suggests question use ConGen transmitter be reserved for later decision in light circumstances which may exist after arrival Chinese Govt (urtels 55 Apr 5, 10 a. m., 57 undated, and 58 Apr 8, 5 p. m.) personnel.

ACHESON

761.93/4-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 20, 1947—noon.

[Received April 21—10:04 a. m.]

859. Following is Mukden's 38, March 28, 11 a. m. (ReDeptel 453, April 18, 3 p. m.⁷⁰) :

"As possible interest in connection with radio broadcast from San

⁷⁰ Not printed; it requested the Embassy to repeat to the Department telegram No. 38 from the Consul General at Mukden (761.93/4-847).

Francisco heard Mukden last evening to effect Russians have signified willingness to return Dairen to Nationalist Government. Special Commissioner (sent Embassy, repeated Shanghai for Dairen) Foreign Affairs who was called Nanking fortnight ago for consultation re take-over Dairen yesterday told me that, 'as is known to American Embassy', Soviets requested Chinese National Government to take over Dairen but up to time his departure from Nanking Chinese Government had not replied and had instructed Government authorities in NE to make preparations but take no action pending further instructions.

He also stated that pursuant instructions received Nanking to maintain closest and friendliest relations with Consulate General he will keep us informed re developments Dairen."

STUART

693.0023/4-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 20, 1947—noon.

[Received 10:59 p. m.]

853. Following is English translation of Soviet note dated April 10 (see next following Embassy's telegram) :

In reply to your statement of March 31 on the questions of the naval base of Port Arthur, of Port Dairen and of the Chinese Changchun Railway, I have the pleasure to transmit to you the following statement :

The Soviet Government has taken into account the statement of Chinese Government regarding its intention to despatch a Chinese civil administration to Dairen City and to the zone of the naval base of Port Arthur. This decision of the Chinese Government is in accordance with the desire of the Soviet Government, mentioned in my statements to you on December 3, 1946 and on March 7, 1947. The Soviet military command in the naval base has been instructed to give assistance to the Chinese Civil Administration in the carrying out of its functions and duties.

With regard to your statement that the establishment of the Chinese Civil Administration in Dairen and Port Arthur was delayed due to the presence of non-Government troops in the vicinity of these cities, I am obliged to state to you that there were in the past, and there are at present, no such troops either in the vicinity of Dairen and Port Arthur, or in the territory of the naval base. The alleged situation mentioned in your statement cannot, therefore, be considered as the reason for the delay of the establishment of Chinese civil administration in the above mentioned zone, which is provided in the Sino-Soviet agreement on Dairen and Port Arthur.

In article V of the agreement on Port Arthur, it is provided that in making appointments for the principal posts of the Chinese administration in the area of the naval base, the interests of USSR in the area should be taken into account by the Chinese Government. The principal officials of the civil administration in the city of Port

Arthur shall be appointed and dismissed by the Chinese Government in agreement with the Soviet military command.

In pursuance of this provision, the Soviet Government expects the Chinese Government to act accordingly. The Soviet Government has no objection to the despatch of Chinese police into Dairen and into the area of the naval base of Port Arthur, in such numbers as are deemed necessary for the functioning of the civil administration. At the same time, the Soviet Government considers it to be necessary that the question of number and location of the Chinese police force to be sent into the area of the naval base should be a matter of prior agreement with the Soviet military command, in accordance with article V of the agreement on Port Arthur, which provided that the recommendations of the Soviet military command on questions of security shall be carried out by the Chinese Civil Administration. The intention of the Chinese Government to send Chinese troops into the naval base area of Port Arthur is not in accordance with the Sino-Soviet agreement on Port Arthur, insofar as the defence of the naval base is entrusted to the Soviet Government by the Chinese Government. Regarding Port Dairen, it is in accordance with the Sino-Soviet agreement that in time of war with Japan, Dairen shall be subjected to the military control established in the area of the naval base. As the state of war with Japan is not yet terminated, because there is not yet a peace treaty with Japan, the military control of the naval base is still being extended to Dairen.

Based on the reasons mentioned above, the Soviet Government cannot agree to the sending of Chinese troops into the naval base area of Port Arthur and Dairen, as it is contrary to the Sino-Soviet agreement.

As to the resumption of the work of the commissions on the determination of property and the drafting of the statutes of the Chinese Changchun railway, the Soviet Government is prepared to send to Nanking its representatives to serve on the afore-mentioned commissions.

Meanwhile, the Soviet Government, in accordance with its proposal of March 7 of this year, considers it necessary to reestablish, without further delay, the joint Sino-Soviet operation on those parts of the Chinese Changchun Railway, especially the part between Mukden and Dairen, in which operation is now possible.

Department please repeat Moscow as 17.

STUART

693.0023/4-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 20, 1947—1 p. m.

[Received April 21—4: 05 a. m.]

854. Following is English translation of Chinese note dated April 16 [17]. (See immediately preceding Embassy telegram):

In reply to Your Excellency's memorandum of April 10 regarding Port Arthur, Dairen and the Chinese Changchun railway, I have the honor to communicate to you the following statement:

The Chinese Government wishes to express its appreciation for your statement that the Soviet Government has already instructed the Soviet military authorities at the Port Arthur naval base to render assistance to the Chinese administrative personnel and that there are no anti-Government troops in Dairen and the Port Arthur area.

The Chinese Government has decided to send Lieut. Gen. Tung Yen-ping, Mr. Chang Chien-fei, special commissioner of the Ministry of Foreign Affairs, and assistants to Dairen and the Port Arthur area to investigate local conditions there. I wish to request, through Your Excellency, the Soviet Government to give order to the Soviet military authorities in the Port Arthur area, to render all necessary assistance to the aforesaid Chinese officials, so that they will be able to perform their task in safety.

Regarding the drafting of statutes for the Chinese Changchun Railway and the determination of the railway properties, the two commissions charged with these tasks may begin work in Nanking as soon as the Soviet members of these commissions have arrived.

The Chinese Government also agrees that after the return of the Chinese administrations to Dairen and the Port Arthur area, the Mukden-Dairen section of the Chinese Changchun railway can then be put under the joint operation of China and USSR. Detailed arrangements will be made by the board of directors of the Chinese Changchun Railway.

Concerning the appointment of the principal administrative officers for the Port Arthur naval base area and for the municipality of Port Arthur, the Chinese Government will act in accordance with article V of the Sino-Soviet agreement concerning Port Arthur.

It is true that according to the Sino-Soviet treaty of 1945, Dairen shall be subject to the control of the Port Arthur naval base area only during time of war against Japan. But the unconditional surrender of Japan took place more than a year ago; therefore the war against Japan no longer exists today. Certainly the Chinese Government should not be subjected to any restrictions in the exercise of its right to despatch troops to Dairen. There is no provision in the Sino-Soviet treaty of 1945 that restricts China's right to send troops to Dairen even in time of war. The Chinese Government has now decided to despatch, beside armed police forces, about two brigades of the Chinese Army to Dairen. In case of necessity, Chinese Government will increase its military forces whenever an occasion should arise.

Under the terms of the Sino-Soviet treaty of 1945, the Port Arthur naval base is a military area to be jointly used by China and the Soviet Union. In principle the Chinese Government has the right to despatch troops to be stationed therein. The question of the number of troops and the localities where they will be stationed in this area can be discussed and settled by the Sino-Soviet military commission as matters relating to the joint use of the naval base.

The number of armed police forces to be sent by the Chinese Government to the Port Arthur naval base will be determined by the security and administrative requirements of the civil administration. In any case, the number of such police forces must be adequate for insuring the security of the administrative personnel and the unhampered

performance of their duty. Upon these conditions, the Chinese Government does not object to local negotiation and settlement, between Chinese and Soviet representatives, of the questions of the numbers of armed Chinese police forces to be sent to the Port Arthur naval base area and the localities wherein they will be stationed. As to the number of armed Chinese police forces and of troops to be sent to Dairen and the localities wherein they will be stationed, the questions should be determined by the Chinese Government itself.

Sent Department 854, Department please repeat to Moscow as 18.

STUART

761.93/4-2247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 22, 1947—4 p. m.

[Received April 22—7:25 a. m.]

869. Chinese note of April 16 [17] to Soviets, text of which was transmitted to Department in Embtel 854, April 20, stated in part "the Chinese Government has now decided to despatch, besides armed police, about two brigades of Chinese Army to Dairen". Foreign Minister informs Embassy in strict confidence that troops will not be despatched pending reply to note, after which action will be determined by nature of reply.

Department please repeat to Moscow as 18.

STUART

761.93/4-2347 : Telegram

The Consul General at Dairen (Benninghoff) to the Secretary of State

DAIREN, April 23, 1947—2 p. m.

[Received April 25—10:55 a. m.]

61. Information re Sino-Soviet negotiations still not available here. However, Chinese press reports as contained in Mukden's 75, April 19⁷¹ and previous to Nanking confirm this office's former belief that Soviets would endeavor impose conditions re takeover which Chinese would find difficult to accept.

Meanwhile preparations for takeover continue. Present local regime reported burning or removing documents Port Arthur. Political prisoners apparently being released. Cooperatives and other official enterprises Dairen dominated by Communists closing. Movement of Communists to Korea or elsewhere continues although reliable reports received by organized underground left in Dairen. Soviets

⁷¹ Not printed.

reliably reported told Sino-Communists refrain from violence after takeover (disturbances here would cut down commercial value to Soviets of open port), also over 50 families Japanese technicians [and] specialists transferred Harbin via Korea.

Repeat Nanking, Shanghai, Mukden, Moscow.

BENNINGHOFF

761.93/4-3047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 30, 1947—5 p. m.

[Received May 4—9: 40 p. m.]

930. Following is Mukden's 82, April 26, 11 a. m.:

"In conversation with me yesterday General Hsiung Shih-hui⁷² with reference Dairen situation said that report in local press April 24 of Soviet concessions permitting entry Chinese troops into Dairen is incorrect; that 'Sino-Soviet treaty permits Chinese to have armed forces in naval base area but Russians are trying to change treaty'; that Russians have agreed to entry of a Chinese naval vessel into Port Arthur; and that it is impossible ascertain real Russian attitude or achieve definite results until a conference with highest Soviet military officials in naval base area is held.

Sent Nanking, repeated Dairen. Ward."

STUART

693.0023/3-3147 : Telegram

The Secretary of State to the Ambassador in the Soviet Union (Smith)

WASHINGTON, May 10, 1947—3 p. m.

1151. As Emb is aware Dept knows no feasible means conduct courier service Dairen other than that to which FonOff will so far not accede. (Urtel 1102 Mar 31, 11 a. m. and Nanking's 945, May 2 to Dept.⁷³) We had hoped that transfer control Dairen to Chinese Govt would solve problem but there seems to be little promise of early transfer. Accordingly suggest you discuss courier problem with FonOff with view (Sent Moscow repeated Nanking) persuading Soviets reconsider attitude or exploring other feasible possibilities.

MARSHALL

⁷² Director of Generalissimo Chiang Kai-shek's Headquarters in the Northeast.

⁷³ Latter not printed; it reported that 10 bags of classified mail and 6 sea pouches had accumulated at Shanghai for Dairen (051.93/5-247).

761.93/5-1347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 13, 1947—10 a. m.

[Received May 13—5:05 a. m.]

1030. Embassy has obtained from Foreign Office an informal translation of memo handed Foreign Minister by Soviet Ambassador on May 5 regarding Port Arthur and Dairen. Text of translation follows:

“With reference to Your Excellency’s statement of April 17, 1947,⁴ concerning the naval base of Port Arthur, Dairen and the Chinese Changchun Railway, I have the honor to transmit to you the following reply:

“The Soviet Government takes cognizance of the statement of the Chinese Government that, in appointing the leading Chinese administrative personnel for the naval base area of Port Arthur and for the municipality of Port Arthur, the Chinese Government will act in accordance with article V of the agreement on Port Arthur, and that the questions as to the number and location of the Chinese police force to be sent to the naval base area of Port Arthur will be settled by mutual agreement between the Chinese and Soviet representatives on the spot.

“The Soviet Government also notes that the Chinese Government has decided to send Lieutenant-General Tung Yen-pin and Mr. Chang Chien-fei, special commissioner of the Ministry of Foreign Affairs in the northeastern provinces, as representatives to Dairen and Port Arthur. The Soviet Government has instructed the Soviet Military Command in the naval base area of Port Arthur to render necessary assistance to the aforesaid persons.

“As to the resumption of the work of the commissions for the drafting of the statutes of the Chinese Changchun Railway and for the determination of railway assets, I wish to inform you that the Soviet representative to these commissions will leave for Nanking in the near future.

“The Soviet Government has no objection to the proposal of the Chinese Government that detailed arrangements concerning the joint operation of the Mukden-Dairen section of the Chinese Changchun Railway shall be worked out by the board of directors of the said railway in accordance with the Sino-Soviet agreement on Chinese Changchun Railway. The Soviet Government, however, does not see any reason why the restoration of the joint operation of the above-mentioned section should be further delayed.

“With regard to the despatch of Chinese troops into the naval base area of Port Arthur and Dairen, I have to point out again, in addition to my statement of April 10, that it explicitly stipulated in article V and VI of the agreement on Port Arthur that the defense of the naval base is entrusted by the Chinese Government to the Soviet Gov-

⁴ See telegram No. 854, April 20, 1 p. m., from the Ambassador in China, p. 515.

ernment who may erect necessary installations for defense purposes and has the right to maintain its army, navy and air force in the area and to determine their location. As to the joint use of Port Arthur as a naval base, article I and III of the agreement on Port Arthur provide that Port Arthur is an exclusive naval base to be used by Chinese and Soviet Military and commercial vessels. Concerning Dairen, I have already stated in my previous statement that as the state of war against Japan is not yet terminated in the absence of a peace treaty, the military control of the naval base still extends to Dairen according to the Sino-Soviet agreement on Dairen.

'In view of the above, the position of the Soviet Government vis-à-vis the aforesaid questions, as stated in my statement of April 10, is entirely in conformity with the terms of the various agreements concluded between China and the Soviet Union in 1945. The Soviet Government continues to maintain this stand.

'As regards the number and location of the Chinese police forces to be sent to Dairen, such questions should be settled by agreement with the Soviet Military Command since Dairen is still subject to the military control of the naval base of Port Arthur.

'In accordance with article III of the agreement on Port Arthur and to facilitate the settlement of various questions arising out from the agreement, the Soviet Government proposes the early establishment of the Sino-Soviet Military Commission, the Soviet representatives to which will be appointed in the immediate future.' "

STUART

761.93/5-1547

*The Consul General at Dairen (Benninghoff) to the Ambassador in China (Stuart)*⁷⁵

No. 85

DAIREN, May 13, 1947.

SIR: I have the honor to refer to the Consulate General's telegrams Nos. 55 and 58 to the Department dated April 5 and April 8, 1947, which presumably were repeated to the Embassy, concerning the dissolution of the "Port Arthur-Dairen United Political Administration" and the formation of the "Kwantung Government" at Port Arthur, and to submit further observations in that regard.

Summary. At a meeting at Port Arthur on April 3-4, the former "Port Arthur-Dairen United Political Administration" at Dairen was dissolved, and replaced by the "Kwantung Government" at Port Arthur. This arrangement was apparently devised by the Soviets to remove from Dairen, scheduled to be controlled by Nanking, the central administrative organ of the Port Arthur Naval Base Area.

⁷⁵ Copy transmitted to the Department by the Consul General in his despatch No. 86, May 15; received July 17.

The result, if accepted by Nanking, will be that the Russians and Chinese Communists will continue to be in effective control of the Area except for the city of Dairen.

[Here follows detailed report.]

Respectfully yours,

H. MERRELL BENNINGHOFF

761.93/5-1347

*The Consul General at Dairen (Benninghoff) to the Ambassador in China (Stuart)*⁷⁶

No. 86

DAIREN, May 13, 1947.

SIR: I have the honor to submit some comments and observations concerning Sino-Soviet relations regarding the Port Arthur Naval Base Area, as viewed from Dairen.*

Summary. As has been reported, this Consulate General has no detailed information obtained locally concerning current Sino-Soviet negotiations for the takeover of Dairen. The Yalta Agreement and the Sino-Soviet Treaty have given Russia a strong position in the railroad, port, civil administration and exercise of police power even in Dairen as long as "war with Japan" exists. This position is tantamount to extraterritoriality in the Naval Base Area. Economically, the Soviet Union is well entrenched. It is accordingly doubtful whether China is in a position to assume its Treaty status of equal partnership in the port and railroad, taking into account China's political and economic difficulties, official corruption, and lack of trained personnel. In the present negotiations the Russians have therefore probably set conditions for the takeover on a "take it or leave it" basis, relying on the Treaty provisions for justification if China rejects the offer, and on the nature of such conditions, if they are accepted, to safeguard their future domination of the Area and of all Manchuria as well. The attitude of the Chinese Government is unknown in Dairen. If the conditions are accepted, Chinese sovereignty will be impaired, but the Chinese might be willing to accept them, perhaps slightly modified, for a foothold in Dairen. In any event, as long as Russia keeps a large garrison in the Area, controls the local administration and prevents the entry of Chinese troops or the effective exercise by China of police power, Chinese sovereignty within the Area will be purely nominal. *End Summary.*

[Here follows detailed report.]

Respectfully yours,

H. MERRELL BENNINGHOFF

⁷⁶ Copy transmitted to the Department by the Consul General in his despatch No. 87, May 13; received July 17.

*See enclosure for list of reference despatches and telegrams. [Footnote in the original; enclosure not printed.]

761.93/5-1447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 14, 1947—3 p. m.

[Received May 14—8:45 a. m.]

1043. Foreign Minister sent for Minister-Counselor and informed him that yesterday he had called in the Soviet Ambassador and handed him a long reply to the Soviet note despatched in Embtel 1030, May 13, 10 a. m., which apparently reiterated and elaborated on purport of previous Chinese notes. Dr. Wang Shih-chieh stated that he informed Soviet Ambassador that Chinese Government maintained its stand that war was in actuality over, with Japan occupied by allied forces, and that therefore theoretical assertions of the existence of a state of war conferring powers on Soviet authorities to limit China's right to send police and troops to Dairen-Port Arthur areas were without foundation. He also called attention to the threat to a Chinese administration of hostile non-Government forces, which could attack either by land or by sea and which required the presence of such Government forces. Soviet Ambassador apparently countered by somewhat vaguely phrased offer of appropriate assistance from Soviet authorities in Dairen-Port Arthur areas to which Dr. Wang Shih-chieh replied by pointing out "the serious objections" of the Chinese Government to having its officials on their own territory dependent upon foreign assistance in the discharge of their duties.

Foreign Minister notified Soviet Ambassador that Chinese Government was prepared to send on a Chinese man-of-war its commission of inquiry and indicating he would notify him of date of departure in due course. He requested that during this time Soviet Government reconsider its attitude.

Incidentally, although Soviets have at the request of the Chinese Government provided some information re conditions and dispositions in the Dairen-Port Arthur area, it has refused thus far to reply to Chinese request regarding number and disposition of Soviet troops, and China is continuing to press for this information.

STUART

761.93/5-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 20, 1947—noon.

[Received 1:45 p. m.]

1095. Following is translation of text of memo handed by Foreign Minister to Soviet Ambassador on May 12 re Dairen and Port Arthur. (Reference Embtel 1043, May 14.)

“In reply to the Ambassador’s memo of May 5, 1947, concerning the naval base area of Port Arthur, Dairen, and the Chinese Changchun railway, the Minister of Foreign Affairs wishes to state again the following views: The Chinese Government notes the Soviet Government has instructed the Soviet military command to render the necessary assistance to Lt. Gen. Tung Yen-pin, special commissioner Chang Chien-fei and their assistants, who will be sent to Port Arthur and Dairen by the Chinese Government to study local conditions. Lt. Gen. Tung, Mr. Chang, and about 10 assistants will be conveyed by a Chinese warship to the naval base area of Port Arthur and the city of Dairen in the immediate future to investigate the general conditions in these regions so that the Chinese Government’s preparations for the restoration of its administrative authority therein will be facilitated. The Minister of Foreign Affairs will inform the Soviet Embassy of the date of their departure in due course.

The Chinese Government also notes that with regard to the joint operation of the Mukden-Dairen section of the Chinese Changchun Railway, the Soviet Government agrees to the proposal of the Chinese Government that detailed arrangements be worked out by the board of directors of the said railway. The Chinese Government is not desirous of seeing the execution of these arrangements delayed once its administrative authority in Port Arthur and Dairen is restored.

As to the entry of Chinese troops into the naval base area of Port Arthur, the Chinese Government still maintains the stand stated in the Foreign Minister’s memo of April 17. Article I of the Sino-Soviet agreement on Port Arthur explicitly provides for the ‘joint use by the two countries of Port Arthur as a naval base’, and it is also stipulated in article II of the agreement that ‘the precise boundary of the area provided in article I is described in the annex and shown in the map’. It is clear that the area to be used jointly by China and the Soviet Union should be the whole area of the naval base of Port Arthur and not confined to the harbor of Port Arthur. The provision of article III of the agreement that Port Arthur ‘will be used only by Chinese and Soviet military and commercial vessels’ purports to restrict the use of the port by vessels of any third country, and not to mean that the scope of the joint use by China and the Soviet Union will be limited to the harbor district only. Consequently, the Chinese Government has the right to station troops in the naval base area. As to the number and location of Chinese troops in this area, they can be discussed and determined by the Sino-Soviet military commission, as the Foreign Minister has already stated.

Concerning the entry of Chinese troops and police force into Dairen, the Foreign Minister wishes to make the following observations supplementary to his statement contained in the memo of April 17, in the hope that the full understanding of the Soviet Government may be obtained. According to the Sino-Soviet treaty, Dairen is subject to the military controls established in the naval base of Port Arthur ‘only in case of war against Japan’. That the war against Japan has actually terminated is an undeniable fact, and it is therefore entirely unnecessary to establish any military control there. Moreover, even though the naval base of Port Arthur can establish control over Dairen in the event of war against Japan, it must be so established as to meet

the requirements of joint military operations against Japan by China and the Soviet Union, since the very purpose of this control is to facilitate the prosecution of war. Apparently, the entry of Chinese troops and police force into Dairen to protect the freedom and security of its administration cannot be deemed at any time as detrimental to the requirements of military operations against Japan. It is the view of the Chinese Government that the fundamental principle of the Sino-Soviet treaty is to enable both contracting parties to prevent the recurrence of Japanese aggression in a spirit of mutual aid and co-operation. In the light of this principle, either party must not so interpret the treaty as to hamper the other party in dealing with any matter which is not explicitly provided therein. With respect to the despatch of Chinese troops and police force to Dairen, therefore, the Chinese Government still adheres to the decision set forth in the Foreign Minister's previous memo.

The Chinese Government is agreeable to the Soviet proposal for the early establishment of the Sino-Soviet military commission. It is the opinion of the Chinese Government, however, that the commission can only work smoothly if the Chinese and Soviet Governments can reach an agreement regarding the above-mentioned fundamental questions."

Department please repeat to Moscow.

STUART

893.00/6-1847: Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, June 18, 1947—2 a. m.

[Received June 19—1:18 a. m.]

101. Commission which returned Mukden several days ago and has been engaged in writing report, proceeding Nanking by air this p. m. to present report. Chang, Mukden representative of Minister Foreign Affairs, visited Benninghoff, Dairen, who has undoubtedly reported activities Commission, but in event telecommunications with Dairen have been interrupted following may be of interest:

Vessel transporting Commission permitted visit Port Arthur only. Commission visited Dairen and Chinhsien by rail and auto.

Russians endeavored have Commission enter into negotiations with Dairen puppet government, Commission willing meet members puppet government as local residents but declined meet them as authorities. Chang states almost all members [are] puppet government with exception of senior member who is old resident businessman and who worked closely with Japs and Communists.

Parleys with Russians remain deadlocked because Soviet unwillingness admit Chinese armed forces to former leased territory so long as war with Japan exists. Leased territory formerly divided into three administrative districts (Port Arthur, [Dairen?] and Chin-

hsien) but Russians now have four, Port Arthur, Chinhhsien, Dairen township and Dairen City, city itself being only part they [are] willing transfer to Chinese, remaining three having been incorporated into single military district. Chinese unwilling recognize such delimitation, maintaining military district should not extend beyond Port Arthur.

Chang states Consulate General effectively isolated from local contacts. Benninghoff request travel Port Arthur return Chang was refused.

WARD

893.01/6-2547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 25, 1947—1 p. m.

[Received June 25—4: 43 a. m.]

1394. Following is translation of text of a note which the Foreign Minister handed this morning to the Soviet Chargé d'Affaires (Emb-tel 1390, June 24⁷⁷) :

“The inspection mission under Lieut.-General Tung Yen-ping and Commissioner Chang Chien-fei, sent by the Chinese Govt to inspect the situation in the Port Arthur area and Dairen, arrived at Port Arthur on June 3, 1947. On the 4th and 6th, they twice conferred with the Soviet military authorities in Port Arthur regarding the programme of their inspection. As soon as inspection work commenced on June 7, however, various kinds of hindrances were encountered by them. They did not receive the assistance promised by the Soviet Govt, and as a result they were obliged to leave Port Arthur on June 12, without having fulfilled their mission. I will now relate to you the important points from the report submitted by the mission as follows :

1. On June 7, the so-called ‘Kwantung administration’, a local administrative organ established under the auspices of the Soviet military authorities at Port Arthur, rejected the demand of the officials despatched by Lieut.-General Tung Yen-ping regarding the work of inspection, on the ground that Lieut.-General Tung had neglected to pay a courtesy call on the administration. At the same time, the Soviet commander declared that the said ‘Kwantung administration’ was a representative organ elected by the people, and cannot be ordered by Soviet military authorities to accept, against its own wishes, the inspection of the Chinese Govt mission.

In spite of a tardy agreement on June 11 of the ‘Kwantung administration’ to the inspection, the Chinese Govt mission was unable to proceed with the work of inspecting the local administrative organs, in consequence of a policy of hindrance and delay followed by the ‘Kwantung administration’.

2. On June 10 when the officials sent by Lieut.-General Tung

⁷⁷ Not printed.

went in company of a Soviet liaison officer to the so-called 'municipal govt' of Dairen to confer on the matter of inspection, the request was again refused by a representative of the 'municipal govt,' under the pretext that no order had been received from the 'Kwantung administration'. Furthermore, the Soviet military authorities in Dairen, under the pretext of a shortage of 'wholesome food and drinks' in that city, declined to supply food to the inspection officials in Dairen, who had to spend almost a whole day without food or drink. Also, it was the original plan of the mission to go to Dairen on June 10 on board the Chinese warship *Chang Chih*. But owing to objections from Soviet military authorities, the warship could not sail to Dairen, and the inspection officials were obliged to make the trip by land. When they attempted, in company of the commander of Soviet garrison forces at Dairen, to inspect the neighborhood of the railway station at Kingchow where they had just arrived, they were peremptorily stopped by armed Chinese who wore police uniforms.

3. Within the Port Arthur naval base area, there are several districts, such as the region lying 12 kilometers south of Shih-Ho station, the vicinity of Ying Chen Tse and Tung Kong, which the Chinese inspection mission had been unable to inspect owing to the hindrances placed by Soviet military authorities.

With the aforementioned report of the inspection mission before them, the Chinese Govt must regard it as profoundly regrettable that in spite of the promise of the Soviet Govt, necessary assistance was not given to the inspection mission in order to enable them to perform their duties. At the same time, the aforementioned facts have further justified the decision of the Chinese Govt to despatch adequate military and police forces to the naval base area of Port Arthur and to Dairen, in order to insure the free exercise of its functions by the Chinese administration when it is re-established therein. In several notes to the Soviet Ambassador, I have repeatedly proved to him the right of the Chinese Govt, under the Sino-Soviet treaty of alliance and amity of 1945, to despatch army and police forces to the aforementioned zone, and I consider a further repetition unnecessary.

Therefore the Chinese Govt again requests a favorable reply to the *aide-mémoire* which I sent to the Soviet Ambassador on May 12, 1947 concerning the taking over of the administration of Dairen and the Port Arthur area."

STUART

761.93/6-2547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 25, 1947.

[Received June 25—10: 11 a. m.]

1397. The following statement was issued today by the Minister of Foreign Affairs.

"The Wai-chiao pu⁷⁸ issues today the following communiqué on the

⁷⁸ Foreign Office.

negotiations with the USSR concerning the take-over of Port Arthur and Dairen :

1. Immediately upon the surrender of Japan, the Chinese Government in preparation for the take-over of the northeastern provinces decided to dispatch troops to Dairen to reestablish Chinese administration in Port Arthur and Dairen. This was, however, strongly opposed by the Soviet Government on the ground that Dairen was to be made a free port. The Chinese Government was thus prevented from realizing the first step toward the take-over of the administration of Port Arthur and Dairen in accordance with Sino-Soviet treaty of August 1945.

It will be recalled that the declaration of Dairen as a free port under the treaty signifies that commodities in transit through that port should be exempt from duty and has no bearing whatever on the question of the stationing of Chinese troops in that port. That the administration in Dairen should belong to China is explicitly provided in the treaty. The treaty in no way restricts the right of the Chinese Government to send troops to Dairen. The Wai-Chiao Pu, therefore, took serious exception to the aforementioned view of the Soviet Government.

2. Owing to the obstacles thus interposed by the Soviet Government, Chinese troops could not be sent to Dairen in October 1945 and the Chinese Government was unable to proceed with the take-over of the administration of Port Arthur and Dairen. Since that date the Chinese Communists have rapidly built up an armed force in the vicinity of Port Arthur and Dairen. The existence and expansion of this anti-Government force have constituted a strong impediment to the take-over of Port Arthur and Dairen by the Chinese Government from the main land.

3. In March this year, the Soviet Government expressed to the Chinese Government the hope that the Chinese Government might set up its administrative authority in Port Arthur and Dairen. The Chinese Government in reply again made it clear that it was because of the above-mentioned obstacles that the Chinese Government had not been able to take over the administration of Port Arthur and Dairen.

4. During the last 3 months, the Chinese Government has repeatedly taken up this matter with the Soviet Government. It was stated by the Soviet Government that no anti-Chinese Government forces existed in the entire region of Dairen and the Port Arthur naval base; that the Soviet Government would ensure the safety of the personnel sent to Dairen and Port Arthur by the Chinese Government as well as liberty of action in the discharge of their duties; and that questions as to the number of police to be sent by the Chinese to Dairen and Port Arthur and the places where they were to be quartered should be discussed and decided on the spot by Soviet and Chinese officials. The Soviet Government stated, however, that it could not agree to the dispatch of Chinese troops to the Port Arthur naval base because the defense of that naval base had been entrusted by the treaty to the Soviet Government. As regards Dairen, the Soviet Government stated that while it would permit Chinese police to enter that city, provided their number and the places where they would be quartered were agreed upon between the two parties, it could not agree to the entry of Chinese troops into Dairen on the ground that the state of war against

Japan had not yet been terminated, and Dairen should therefore still be subject to the military supervision established in the Port Arthur naval base area.

And in the opinion of the Wai-Chiao Pu the Chinese Government is fully entitled to send troops to Port Arthur and maintain them there, for, according to the Sino-Soviet treaty, the entire Port Arthur naval base area is set aside for the "joint use" of the two countries. The Chinese Government, therefore, cannot accept the Soviet interpretation in this particular.

As to the stationing of Chinese troops in Dairen, while it is true that the Sino-Soviet treaty subjects that city to the military supervision of the Port Arthur naval base area "in case of war against Japan", it is undesirable [*undisputed?*] that Japan has for more than a year been under Allied occupation following her unconditional surrender and that the "war against Japan" no longer in actuality exists. And even "in case of war against Japan" the Chinese Government is not precluded by any provision of the Sino-Soviet treaty from sending its troops to Dairen. Moreover, the "military supervision" of the Port Arthur naval base area over Dairen even "in case of war against Japan" should be confined to the fulfillment of the requirement of joint prosecution of the war by China and USSR. The sending of Chinese troops to Dairen to protect the administration and ensure its safety could not be considered in any case as detrimental to a joint prosecution of war against Japan. For these reasons the Chinese Government has repeatedly expressed in writing its inability to accept the views of the Soviet Government and requested that the Soviet Government adopt a friendly attitude of understanding and cooperation toward the decision of the Chinese Government to station troops in Dairen. Furthermore, in the recent circumstances the regions of Port Arthur and Dairen are at any moment open to the menace and attacks of anti-Government armed forces in the vicinity. In order to ensure the safety and freedom of its administrative personnel in the region, the Chinese Government, over and above its treaty right, has the actual need of sending troops to Dairen. It is a matter of regret that this has not yet been assented to by the Soviet Government.

5. While continuing to thresh out the matter with the Soviet Government, the Chinese Government recently dispatched an inspection mission under General Tung Yen-ping to Port Arthur and Dairen as a preparatory step toward the restoration of Chinese administrative authority in those regions. Before the departure of this group the Chinese Government had obtained the agreement of the Soviet Government, and its assurance of full assistance to be given to the mission as well as of freedom of action in the discharge of their duties. But, after arrival in Port Arthur, the mission did not receive the promised assistance. Together with the obstructions from the so-called 'local administration', this had made it impossible for the mission to carry out their plans of inspection. The result of this trip again shows that Chinese administrative personnel cannot hope to perform their functions without the presence and protection of an adequate force of Chinese troops and police in Port Arthur and Dairen.

6. In short, the failure of the Chinese Government thus far to take over Port Arthur and Dairen has been due to two factors: (1) The

repeated refusal of the Soviet Government to agree to the stationing of Chinese troops in Port Arthur and Dairen and (2) the formation by the Chinese Communists of strongly armed forces in the vicinity of Port Arthur and Dairen to hinder the take-over of these regions by the Chinese Government, the existence of such armed forces having resulted from the first refusal in October 1945 of the Soviet Government to agree to the landing of Chinese troops in Dairen.

The Chinese Government is now constrained to call the serious attention of the Soviet Government to its fundamental obligations under the two following provisions of an exchange of notes forming part of the Sino-Soviet treaty;⁷⁹

(1) ". . . The Government of the USSR agrees to render to China moral support and aid in military supplies and other material resources, such support and aid to be entirely given to the National Government as the Central Government of China."

(2) ". . . The Government of the USSR regards the three eastern provinces as part of China and reaffirms its respect for China's full sovereignty over the three eastern provinces and recognize their territorial and administrative integrity."

The Chinese Government sincerely hopes that the Soviet Government, mindful of its obligations mentioned above, will refrain from further employment of such unjustifiable interpretations of the treaty as to undermine the sovereignty and administrative integrity of China and hinder her work of taking over the administration of the Port Arthur area and Dairen. The Chinese Government, prompted by its earnest desire for friendly understanding and cooperation, will continue to seek an agreement with the Soviet Government. At the same time, the Chinese Government wishes hereby to declare that, since the right of China to dispatch troops and police to the Port Arthur area and Dairen is not restricted by treaty provisions, the Chinese Government is free at any time to decide on the exercise of the right."

STUART

761.93/7-247

*Memorandum of Conversation, by the First Secretary of Embassy in China (Ludden)*⁸⁰

[NANKING,] June 28, 1947.

Participants: Mr. Chang Chien-fei, Commissioner for Foreign Affairs for the Northeast, and
Raymond P. Ludden, First Secretary of Embassy

I called on Mr. Chang Chien-fei this afternoon at the Overseas Chinese Hostel. Mr. Chang is the Commissioner for Foreign Affairs for the Northeast and was the Foreign Office representative on the investigatory commission which returned recently from Dairen. I ex-

⁷⁹ United Nations Treaty Series, vol. 10, p. 340.

⁸⁰ Copy transmitted to the Department by the Ambassador in China in his despatch No. 848, July 2; received July 11.

pressed to Mr. Chang the Embassy's thanks for his having delivered to Benninghoff the money which he needed so badly and Mr. Chang apologized for not having delivered to Benninghoff the mail pouches which were carried on the Chinese gunboat. He said, however, that they were rather bulky to carry overland from Port Arthur to Dairen by car and the gunboat *Ch'ang Chih* which carried the commission to Port Arthur did not proceed to Dairen.

Mr. Chang delivered the money personally to Benninghoff and talked with him for about twenty minutes. He said that Benninghoff appeared to be in good health as did Mrs. Benninghoff. Benninghoff was very glad to see Mr. Chang and expressed hope for the success of this mission, but Mr. Chang had to tell him that there seemed to be very little hope of their succeeding judging from his experience up to that time at Port Arthur. Benninghoff was concerned about the fact that he had not received any courier mail since March 5th.

Mr. Chang confirmed what we have previously heard about the mission to Dairen—that it was completely unsuccessful. He said that upon arrival in Port Arthur they had considerable initial difficulty in meeting the Soviet Commander and when they finally succeeded in meeting him he adopted the attitude that they must first call upon the Kwantung Administration which was the highest civil authority in the area, that Soviet Commander was merely the commander of a local military force and was not competent to carry on negotiations with officials of the Chinese Government; these negotiations would have to be carried on with the local civil authorities. Mr. Chang said that General Tung Yen-ping, the head of the Chinese mission, pointed out that he had been instructed by his Government to proceed to Dairen to negotiate with Soviet authorities in connection with questions relating to the Sino-Soviet Treaty including the status of Port Arthur and the railroad and the Port of Dairen, and that he could not negotiate these matters with a purely local administration. The Soviets continued adamant in their position throughout the stay of the Chinese, insisting that the Kwantung Administration had been established by and represented the spontaneous will of the people of the area; that it was a Chinese administration and that, therefore, the Chinese representatives should deal with it. A representative of General Tung and Mr. Chang eventually called upon the Chairman of the Kwantung Administration, a local merchant, but he insisted that the head of the Mission should call upon him. This General Tung refused to do. The Chinese then requested that the Soviet Military Commander inform the Kwantung Administration that negotiations with the Chinese delegation should be opened. To this the Soviet Commander replied that, inasmuch as the Kwantung Administration was the

highest civil authority and represented the will of the people, he as a Soviet commander could not order it to do anything. Thus the matter rested. The Chinese party went overland by motor car to Dairen and by train to Chihhsien and then by train back to Port Arthur.

Mr. Chang expressed himself as holding out little if any hope for any subsequent negotiations with the Russians vis-à-vis Dairen. Mr. Chang maintains that it appears to be the Russian intent to make the whole peninsular area south of Shih-ho a military base. This of course would include the city of Darien. They stayed for but one day in Dairen and were not allowed to investigate any of the key areas of the city but the Chinese gathered the impression that all utilities, docks, warehouses and industries are rapidly coming under the management of Russians.

During the entire time of their stay each member of the Chinese mission was accompanied by a Russian liaison officer. All of the Russian officers were at least of field rank and had a knowledge of Chinese. In addition to being accompanied by a liaison officer, when they moved outside of any place where they were staying, they were also followed by armed Russian guards for purposes of "protection". At no time were the Chinese allowed to move about freely or to talk with anyone unaccompanied by their respective liaison officers. Mr. Chang expressed it as his opinion that there are probably two Russian divisions in the area. He states that extending south from Shih-ho, on the northern boundary of the naval base area, there is a belt approximately twelve kilometers wide into which no one is allowed without Russian permission. Mr. Chang states that passengers on trains for Pulantien, when crossing the area, are required to draw all curtains in the cars. Mr. Chang said that on the journey between Port Arthur and Dairen they passed one airfield upon which there were approximately one hundred aircraft, both fighters and bombers but predominantly the former.

Mr. Chang and the other members of the Chinese mission are convinced that the Kwantung Administration is a puppet of the Soviet military command, nominally headed by local merchants or politicians, but in fact controlled by Chinese Communists from Yen-an. The technique is, according to Mr. Chang, to have a local Chinese as head of any given administrative organ, but surrounded by deputies, secretaries or advisors who actually operate the administration—these latter people, few in number, are the Chinese Communists from Yen-an. This technique is reminiscent of the Japanese method of operation in the days of "Manchukuo".

At my request, Mr. Chang agreed to set down the names of the various officials of the organization under the Kwantung Adminis-

tration with notations as to which were those especially imported from Yen-an. He will send this list to Mr. P'u Tao-ming of the West Asiatic Department of the Foreign Office for transmission to the Embassy.

Mr. Chang is leaving for Shanghai tonight to return to his post at Mukden.

R[AYMOND] P. L[UDDEN]

125.3516/7-1747

*The Consul General at Dairen (Benninghoff) to the Ambassador in China (Stuart)*⁸¹

No. 97

DAIREN, July 17, 1947.

SIR: I have the honor to refer to the Consulate General's despatch to the Embassy No. 21 of August 2, 1946 (copy to Department) entitled "Policy of Local Officials Respecting the American Consulate General at Dairen",⁸² and to submit comments and observations on the same subject in the light of developments in the past year. In this connection, reference is made to Mukden's telegram to the Embassy No. 177 of June 18, 2 p. m. in which Consul General Ward reported that according to Chinese Commissioner Chang Chien-fei, this Consulate General was effectively isolated from local contacts.

Summary. Local Russians and Chinese have been instructed to refrain from contact with the Consulate General, leaving only a handful of "foreigners" with whom social relations can be had. Relations with the Soviet Consulate General and the military are nevertheless cordial, and invitations are exchanged on formal occasions. Assistance regarding food, coal et cetera is readily forthcoming, especially after the incident of December 20, 1946 involving the American courier ship. Relations with the local Chinese regime are practically non-existent, while efforts to protect American property and promote American interests have been unavailing. However, direct observation has enabled the Consulate General to report information which would otherwise be unavailable. *End Summary.*

There is no doubt that the Russians have done everything possible to prevent the Americans attached to this office from having anything to do with either the Russians or the Chinese. This leaves, in addition to the one American citizen who has a Japanese wife, a scattered handful of Czechs, Hungarians, Austrians and Swiss with whom we can mingle socially. We have received reliable reports on occasions too numerous to mention that the Soviet citizens from Russia as well as

⁸¹ Copy transmitted to the Department by the Consul General in his despatch No. 101, July 17; received August 15.

⁸² *Foreign Relations*, 1946, vol. x, p. 1179.

former emigrants now possessing Soviet nationality have been instructed time and time again not to have anything to do with the Americans. It frequently happens that individuals who have dealt with [us?] on official or business matters refuse to recognize the Americans of the Consulate General when meeting them on the street.

The Chinese, intimidated no doubt by the Communists who probably get their cue from the Russians, are even more afraid of consorting with Americans than are the Russians. In the fifteen months the Consulate General has been established, not a single Chinese official or private individual of standing, with the courageous exception of the Catholic priest, has called at the office or at the home of the Consul General. The Mayor and Deputy Mayor have not returned official calls, although they have attended such functions as the Fourth of July and New Year receptions.

Not only are the members of the Consulate General thus estopped from having personal contact with individuals, but their movements are also restricted. Although we move about in the city with perfect liberty, and climb around the hills to the south without molestation, we must have permits to go by car to Hoshigaura, a distance of about six miles. Travel to Port Arthur has so far been prevented, and a suggestion that Vice Consul Patch visit Chinchow and the northern part of this Area was met with a refusal. There are no American interests in these districts; it would be interesting to know whether an inspection of American property would be refused.

However, relations with those officials whose business it is to deal with the Consulate General are most cordial. The most important, because it is the one most frequently dealt with, is the Soviet Consulate General. It has been possible, chiefly because of the affability of Mr. S. N. Petrov, who was Acting Consul General until recently, as well as the ability of Vice Consul Patch to speak Russian, to build up a relationship which may be unique in Soviet-American relations. It is through the Soviet Consulate General that we receive coal, gasoline, foodstuffs, and even telephone, water and electric service. Unlike other Soviet officials, Mr. Petrov was willing, during his incumbency, to discuss such political matters as the interpretation of the Sino-Soviet Treaty. His successor, Consul General I. Baranov, is more like the normal Soviet official; correct and even friendly on social occasions, but reserved and uncommunicative on political matters.

While relations with the Russian military are confined to social occasions, as all official business is transacted through the Consulate General which acts as a "foreign office", they are nonetheless cordial. The staff of the Consulate General has been invited to attend official banquets on V-J Day, the anniversary of the October Revolution and

May Day, while Major General Kozhanoff attended the New Year and Fourth of July receptions at the home of the Consul General. It was interesting to note that after the unfortunate incident on December 20, 1946 involving the courier ship USS *LCI 1090*, the General on a subsequent visit of the ship made a point of asking the ship's officers to call on him in the morning, at which time he invited them to a special showing that evening of a Soviet film. On both occasions the hospitality was on a typically lavish Soviet scale. It is believed that the local command was censured by higher authority for permitting the incident to occur, as official cordiality and assistance increased thereafter.

Relations with the local Chinese puppet government are practically non-existent, except on formal social occasions as described above. This situation has obtained for over a year. As stated in despatch No. 21 mentioned above, the then officials strongly intimated that because of the temporary nature of their tenure they felt that their relations with the Consulate General should be friendly but by no means close. Subsequently, and especially after the collapse of the Sino-Soviet negotiations concerning Dairen, the new Kwantung Government has been established on a much more permanent basis. Nevertheless, it has not been possible, nor even advisable, to attempt a *rapprochement* with that organization. The chief reason for this situation lies in the fact that the present regime is strongly communist, while American consular officers are accredited to Nanking. In this connection, when a successor to the Consul for Denmark was recently appointed, the Chinese refused to recognize him as such although the Russians did. The result of this situation is that it is not possible for the Consulate General to obtain information and statistics concerning local matters which it would otherwise obtain.

The efforts of the Consulate General to protect American property and to assist the representative of The Texas Company (China) Ltd. to repossess the company's property have been unavailing. This problem is discussed in detail in the Consulate General's despatch to the Embassy No. 68 (No. 60 to the Department) of February 13, 1947 entitled "Protection of American Interests: The Texas Company (China) Ltd."⁸³ The result of this situation has been the withdrawal by the company of its representative. It is fortunate that, with the exception of the two oil installations, there are no important American properties in this Area.

It will thus be seen that because of Soviet obstructionism and Chinese communist unfriendliness, the Consulate General has not been able to perform many of its normal functions. Nevertheless, the

⁸³ Not printed.

opportunities for first hand observation and evaluation of local attitudes has resulted, it is hoped, in a series of despatches, reports and telegrams which have been of interest and value. Although contacts are indeed few, the very fact of being able to talk with local Soviet officials, as well as foreign business men and a few Chinese (through the office's interpreter), has enabled the Consulate General to present a picture of the situation in Dairen which would otherwise not be available to the Embassy or the Department.

Respectfully yours,

H. MERRELL BENNINGHOFF

761.93/5-2047 : Telegram

The Secretary of State to the Chargé in the Soviet Union (Kohler)

WASHINGTON, August 12, 1947—5 p. m.

1588. Unless you perceive objection please transmit following note (Sent Moscow as 1588 repeated Nanking as 1006 and Dairen as 37) to Soviet FonOff: ⁸⁴

“The Embassy of the United States of America refers to its note of January 3, 1947 ⁸⁵ in which it was stated that the American Government perceived no reason why there should be further delay in opening Dairen to international commerce as a free port, as contemplated by the Soviet-Sino Treaty of August 14, 1945. As the Embassy pointed out at that time, the Government of the United States feels that it has a responsibility to American interests in general to urge that there be established at Dairen at an early date normal conditions which will permit American citizens to visit and reside there in the pursuit of their legitimate activities.

Although nearly 2 years have passed since the signature of the instrument of surrender by Japan, Dairen has not been reopened to world trade and representatives of United States firms are not permitted to occupy, or even to visit, properties in the outskirts of the city which those firms long have owned. While this Government hopes that the Soviet and Chinese Governments may soon be able to reconcile the differing views which apparently impede the reestablishment of Chinese administration at Dairen, it will of necessity hold the Soviet Government responsible for the treatment accorded in the interim to United States interests there. It accordingly would appreciate being informed what steps the Soviet Government is prepared to take in order that American interests may be accorded equitable treatment with respect to residence and trade at Dairen.”

MARSHALL

⁸⁴ The note was transmitted on August 14.

⁸⁵ See telegram No. 18, January 3, 6 p. m., from the Ambassador in the Soviet Union, p. 482.

761.93/8-1947: Telegram

The Consulate General at Dairen (Benninghoff) to the Secretary of State

DAIREN, August 19, 1947—11 a. m.
 [Received August 22—4: 40 p. m.]

125. Since failure Sino-Soviet negotiations re take-over Dairen, Sino-Communist activity in Dairen openly increased by demonstrations, meetings, parades and larger quantity Communist literature in circulation and intensified educational efforts among teachers, students, workers. Food for [apparent garble] workers improved. Consul General's impression is Communists gaining influence although many still unemployed, undernourished.

Also anti-American propaganda intensified in literature, press and especially VJ-Day parade.

Sent Department as 125, repeated Nanking, Moscow.

[BENNINGHOFF]

693.0023/8-2347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 23, 1947—9 a. m.
 [Received 12: 07 p. m.]

1777. Director Treaty Dept., FonOff (Hu Ching-yu) has confirmed to Embassy that Chinese Govt has officially declared port of Dairen closed to foreign shipping (reEmbtel 1763, August 20⁸⁶).

First reason director mentioned was that as Chinese ships were not able to enter Dairen, consistency and logic required that no foreign ships should enter there without prior permission Chinese Govt. Henceforth, ships entering Dairen without such permission will be considered to have violated Chinese law.

Second reason given concerned ships calling at Dairen and subsequently entering other Chinese ports, specifically Shanghai. The Chinese Govt previously has objected to such movement (by Soviet ships) in a few cases on grounds such ships engaging in coast-wise trade in China, a trade reserved by law to Chinese vessels. Soviet ships desiring enter other Chinese ports just subsequent to stop at Dairen will now be classed as illegally operated according to Dr. Hu, and having violated the new regulation, could be barred from other ports in China. It was not positively stated, nor could it be ascer-

⁸⁶ Not printed.

tained, whether Chinese Govt prepared actually to prohibit and also prevent vessels thus classified from entering Shanghai or other Chinese ports open to foreign shipping.

Director stressed that this new regulation was a Sino-Soviet matter which "could only be of academic interest" to other parties. He was thereupon reminded of the Dept's deep interest in the Dairen situation as a whole, and of the several instances in which the US has recently made its interest manifest. Dr. Hu then admitted an extensive US concern and agreed to forward Embassy text of order closing the port to foreign ships.

STUART

693.0023/8-2747 : Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, August 27, 1947—3 p. m.
[Received August 27—10:57 a. m.]

2721. Following is Embassy's translation of note dated August 26 received today from FonOff (Deptel 1588, August 12, Embtel 2642, August 14⁸⁷).

" . . .⁸⁸ in reply to Embassy's note No. 689, of August 14 on question of opening of Dalny for international commerce has honor to refer to its note No. 103 of February 27, 1947⁸⁹ in which it was stated that status of Dalny is defined by special Soviet-Chinese agreement regarding Dalny of August 14, 1945.

As is known, in accordance with that agreement, Dalny during existence of a state of war with Japan falls under regime which has been set up in the naval base Port Arthur. Inasmuch as state of war with Japan is not terminated because there is as yet no peace treaty with Japan, naturally, regime of the naval base continues to prevail over Dalny.

Considering this circumstance, as well as the fact that civil administration of Chinese Government for reasons beyond Soviet control, has not as yet undertaken fulfillment of its functions in Dalny, the Soviet Government sees no basis for a change of regime which at the present time exists in Dalny. Soviet Government in this connection categorically rejects, in view of above-mentioned circumstances, any attempt to burden it with responsibility for treatment of American interests."

Department pass to Nanking as 19 and Dairen.

SMITH

⁸⁷ Latter not printed; it reported transmission of American note (761.93/8-1447).

⁸⁸ Omission indicated in the original telegram.

⁸⁹ See telegram No. 586, February 28, 7 p. m., from the Ambassador in the Soviet Union, p. 495.

693.0023/8-2847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 28, 1947.

[Received August 28—11 a. m.]

1821. Following was released by Govt Information Office on August 22, 1947:

"The Executive Yuan today made the following statement to clarify several points regarding the closure of the Dairen harbor:

"1. Some Chinese newspapers reported that the Executive Yuan has ordered the Dairen harbor to be ['blockaded.']. That is not true, for the text of the order reads: 'Dairen shall be closed for the time being.'

"2. After the promulgation of the order of closure, any foreign vessel which intends to call at Dairen must first get permission from the Chinese Govt.

["]No matter whether the Dairen harbor is open or closed, no foreign vessel is allowed to engage in coasting trade in China."

STUART

693.0023/8-2947 : Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, August 29, 1947.

[Received August 29—7:48 a. m.]

2733. Soviet press August 29 carries Tass communiqué:

"Recently statement was published Chinese press that Exec Yuan of China had decided close Port Dalny as result which foreign vessels cannot enter this port without special permission Chinese authorities.

In connection this statement of Chinese press, Tass is authorized state that in accordance with article 4 of Soviet-Chinese agreement on Port Dalny, Port Dalny until peace settlement with Japan falls under regime set-up in region of military naval base of Port Arthur, therefore, Soviet vessels are using their undisputable right of entry into Port Dalny although until now, for reasons outside control of Soviet Union, this port has not been open for commerce and navigation of all countries as provided for by Soviet-Chinese agreement August 14, 1945.[""]

Dept pass Nanking.

SMITH

693.0024/11-447 : Airgram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, November 4, 1947.

[Received November 14—11:01 a. m.]

A-808. The following Customs notification was published in the Shanghai morning papers of November 4, 1947. Inform Commerce.

"Customs Notification No. 168. The public is hereby notified that, in accordance with the instructions of the Executive Yuan transmitted through the Inspector General of Customs, the opening to foreign shipping of Dairen, which has been considered as an unopen port pending resumption of Customs functions there, is to be temporarily postponed, and that permission must be obtained from the Government through diplomatic channels before a foreign vessel is allowed to enter Dairen. Foreign merchant vessels, except those which have obtained special permission from the Government, are, accordingly, temporarily prohibited from entering that port. Liu Ping I, Commissioner of Customs. Custom House, Shanghai, November 3, 1947."

DAVIS

893.00/11-1847

*The Vice Consul at Dairen (Patch) to the Ambassador in China (Stuart)*⁹⁰

No. 115

DAIREN, November 18, 1947.

SIR: I have the honor to submit a summary of political developments in Dairen and the Port Arthur Naval Base Area during the past six months, and to enclose a list⁹¹ of reference despatches and telegrams on the subjects discussed.

Sino-Soviet Relations

Since the failure last June of the negotiations between the Soviet and Chinese authorities over the takeover of Dairen there has been no evidence that further progress has been made in this direction. Occasionally it has been mentioned over the radio that the Chinese are negotiating with the Russians, and that they consider the question

⁹⁰ Copy transmitted to the Department by the Vice Consul at Dairen in his despatch No. 128, November 18; received March 1, 1948.

⁹¹ Not printed.

still open, but there is nothing from local sources to indicate that these negotiations are meeting with any success.

Five months have elapsed since that time, giving the Soviets considerable opportunity to strengthen their position. Under their tutelage, the Chinese Communist Government in the Area has been able to establish itself on firmer ground, and is operating more efficiently. Communist leaders have arrived from Chefoo and elsewhere and new appointees have been made in the government. Last spring, with the news of the imminent arrival of the Chinese commission, many Communists departed, believing negotiations would soon be completed. However, such was not the case, and their position now is stronger than ever before. When the Chinese Government does take over Dairen and the civil administration of the Area they will find it even more difficult than it would have been previously to oust the present puppet Kwantung Government, which will be handed to them on a platter by the Soviet authorities. In Dairen itself it will also be difficult for the Chinese National Government to assume an equal status with the Soviets in the operation of the railway, port etc., in accordance with the Sino-Soviet Treaty of 1945.

Chinese Communist-Soviet Relations

In the furthering and consolidating of their aims and position in the Dairen Area, the Soviet authorities have utilized the Chinese Communists. Chinese with communist beliefs have been chosen to occupy the leading posts in the local government, most of whom would naturally accept this opportunity, even under Soviet jurisdiction, to aid in their struggle against the Nationalists.

Relations between the top Soviet and Chinese local officials appear to be on a rather formal, and certainly not on a cordial and intimate, basis. At banquets, and on other occasions, when they have been observed together, it has been noticed that the Soviet generals and officials pay little attention to the Chinese, and rarely make any attempt to talk with them through interpreters. The Chinese appear bored, and carry out their speeches in a perfunctory manner. Numerous times Soviet officials have stated to members of the staff of this Consulate General how little they care for the Chinese, and if necessary to make a choice, they would prefer the Japanese. This attitude cannot help but have its effect on the Chinese, whether they be Communists or not.

An interesting instance of Chinese Communist-Soviet relations was recently reported. Three hundred Communists arrived in Port Arthur from Shantung Province. This group, through the local labor union, endeavored to institute a program of heavy taxation, as levied in Shantung. The matter came to the attention of the Chinese

puppet Mayor, who reported it to the Soviet authorities. As a result, the movement was immediately stopped, much to the annoyance of the Communists.

The Soviet residents have aroused the dislike of the Chinese by their gruff, impolite manner in the stores, on the tram cars etc., and the Chinese often reciprocate in like fashion. The local Chinese will never forget the treatment they received from the Soviet tank troops in August 1945, at which time there was much looting and raping before the Soviet Commandant was able to establish order. However, there are rabid Communists among the Chinese leaders, most of whom are not local residents, and whether they like the Soviets or not, they realize the part they must play under present conditions in Dairen, and the general line they must follow as established by Communist headquarters.

The local press, administered by the Chinese but under Soviet guidance, contains many communiqués from Moscow. Likewise locally published literature is heavily flavored with Soviet doctrine, and the local radio station broadcasts Soviet propaganda.

On November 7th, the 30th anniversary of the October Revolution, the local Chinese government and Chinese labor union organized demonstrations and meetings on a much larger scale than ever before noted in Dairen, even including Chinese holidays. Chinese danced and sang through the streets for three days and Soviet banners in the Chinese language were displayed throughout the city. It is interesting to note, however, that all Chinese stores did not close despite the general holiday closure order.

The Soviets have conducted trade relations with the Communists and other local Chinese apparently whenever it was beneficial to themselves. They have done business both on a barter and on a cash basis, exporting to the Soviet Union whatever of value they could find in the city and Area. They have shipped goods to Communist held territories, and, in conjunction with the local Chinese government, have from time to time imported grain from North Korea to help relieve the desperate economic situation. The Consulate General has reported the transportation of Communists by Soviet ships to North Korea.

In spite of the fact that the Soviets and the Chinese Communists cooperate on an official basis, and have been of some aid to one another, it is evident that there is no love lost between the two. It is believed that the Chinese in Dairen, whether Communist or not, are at least anti-Soviet, and that the majority of them are still anti-Communist, a consequence of the poor economic situation in this Area.

It is thought the experience here of relations between Soviets and

Chinese Communists might be of interest in connection with the possibility of the spread of Soviet influence in Communist held areas of Manchuria and North China. Of course the Soviets have special economic and military rights in Dairen and the Area, as defined in the Sino-Soviet Treaty of 1945, and no Chinese regime can exist here without working with the Soviets. If this pressure did not exist, it is not clear how well the two groups would cooperate, or whether there would be any real understanding between them.

Administration of Dairen and the Port Arthur Naval Base Area

In connection with the Soviet Government's contention that a "state of war with Japan" exists, the Soviet military administration in Dairen has been more clearly defined. The office of the Commandant, which up to recently combined the two offices of Assistant to the Commandant of the Port Arthur Naval Base Area and of the Commandant of Soviet troops in Dairen, has been further separated into two distinct sections. The building has been remodelled to accommodate this plan. On one side is the office of Colonel Grekhov, who is assistant to Colonel General Beloborodov, Chief of Civil Administration in the Port Arthur Naval Base Area. Colonel Grekhov's assistant is Colonel Pashin. The other half houses the Commandant of Soviet troops in Dairen, Lt. Colonel Polovko and his assistant Lt. Colonel Terioshin.

In May of this year the Commandant of the Port Arthur Naval Base Area assumed the title of Commandant for Civil Administration in the Port Arthur Naval Base Area. This took place at approximately the same time as the formation of the Kwantung Government in Port Arthur which is the civil administration for the Chinese. Matters of importance, particularly dealing with policy, are referred for decision to the Soviet Commandant in Port Arthur, who, in addition to military affairs, also has complete and final jurisdiction over civil affairs of the Chinese in Dairen and the Area. An employee of the office of Colonel Grekhov recently explained this change in title of the Soviet Commandant as signifying the transition from a war to a peace basis under civilian rule, a change which was probably made as a gesture to the Chinese National Government, when it appeared that they were about to take over Dairen.

Until a peace treaty is concluded with Japan, whether the Chinese take over Dairen or not, the Soviets reserve the right to continue their military supervision according to the Sino-Soviet Treaty of 1945, and Chinese civil officials must fulfill proposals regarding defense and security prescribed by the Soviet military commander. In the Area, excluding the city of Dairen, even after the conclusion of the peace treaty, the Chinese civil administration must take into account Soviet

interests, and therefore, the present Soviet military administration in the Area, or something very similar, will be maintained.

For the convenience of Dairen residents, the Kwantung Government in Port Arthur has opened an office in Dairen, and the President comes over from Port Arthur twice a week.

When negotiations are finally completed between the Soviets and Nationalists for the takeover of Dairen, the present Kwantung Government, and the majority of its officials (with the exception of its Dairen representatives) will probably be presented in toto by the Soviets to the Chinese Government. The acceptance of this government may be one of the conditions proposed by the Soviets before they will allow the Nationalist Government representatives to enter Dairen.

Population

Large numbers of Chinese have been leaving by junk from Dairen during the past months, and the population has been reduced considerably to an estimated 150,000. The serious economic situation, with little opportunity for employment and high food prices, is the reason for the wholesale departure of Chinese.

Russian Emigrants (holding Soviet passports) in increasing numbers have been arriving from Harbin via North Korea. Over one thousand have already arrived, and it is rumored that many more will come. They report that economic conditions in Harbin are very bad, that there is much unemployment and that living costs are extremely high. The Soviet authorities have promised them work in Dairen, but state there will be no chance to return to Harbin at present.

Despite departure of many Soviets for their homeland it is believed that the Soviet population is gradually increasing, with the consolidation of their hold on heavy industry, the railway and the port. Under present stagnant conditions, it is not so important, but with the opening of the port and the assuming of the control of Dairen by the Chinese Government, the increased numbers of Soviets would be more significant. It is estimated there are approximately 7,000 Soviet civilians in Dairen.

With the fall of Chefoo to the Nationalists, Communist leaders, civilians and soldiers crossed to Dairen. Many individual Communist soldiers, not uniformed and not in units, have been observed around the city, although many of them have already departed for Antung and other Communist areas.

Status of American Property in Dairen and the Area

American properties within the narrow limits of the city of Dairen (as interpreted by the Soviets) are recognized as such by the Soviet authorities. Soviet Consular officials have so stated on numerous oc-

casions. These residential properties (there are at least 2) are occupied by Soviets, and under present conditions of disorder and lack of proper police protection, and the added fact that the city is under the military control of the Soviets, it is advisable that they remain in Russian hands. Until the port opens and American citizens and businessmen can again come to Dairen, there is little to be gained in taking them over.

The status of American properties located in the port area (of Dairen) is not clear. American oil company plants are situated in this area, and it is not known whether or not they will eventually be considered to be in the "Free Port of Dairen". That will probably be determined only after the takeover of Dairen and the peace treaty with Japan is concluded. American properties in Hoshigaura and Kakakashi will be even more difficult to reclaim. These towns are definitely included in the Naval Base Area, and even after the conclusion of the peace treaty, they will undoubtedly be a part of the military zone, the defense of which, has been entrusted to the Soviet authorities according to the Sino-Soviet Treaty of 1945.

It has been reported that the Soviets have offered to buy property in Kakakashi and Hoshigaura belonging to foreigners. However, even if compensation is received, it will probably amount to only a small part of the value of the property, especially in terms of United States dollars.

Position of American Consulate General, Dairen

Soviet Consular authorities in Dairen continue to maintain friendly official relations with the American Consulate General, despite the program of intensified anti-American propaganda which is now being waged against the United States. Food provisions and supplies are forthcoming from the Soviets, and they are always willing to give us priority in fulfilling our domestic and consular material needs. Soviet Vice Consul, S. N. Petrov, who was always exceptionally helpful and friendly to Americans and foreigners, departed in October. The present Consul General, I. Baranov, a typical Soviet diplomat, is more stiff and reserved, and does not discuss matters of policy as Mr. Petrov was occasionally willing to do. However he has shown willingness to talk on official problems.

The local Chinese authorities refuse to return official calls and to maintain ordinary relations.

From reliable reports and general personal observation, it is believed that the Soviet authorities take into consideration the existence of the American Consulate General and often act accordingly. Troop movements, shifting of guns and armaments, take place at night, when they can be least observed. Activity in the port is greater at night

than during the day, and it has been reported that loading of certain materials is always done after dark. The railway between Dairen and Port Arthur, and Dairen and Chinchow, transports military equipment only at night. Movement of American Consular personnel is confined to the limits of Dairen and requests to travel further have always been turned down.

A new telephone book was published a year ago, but was immediately recalled after the Soviet Commandant in Dairen observed the strong anti-American propaganda content. Whether they would be so careful now, is another question.

The interest with which they watch our actions is indicated by the number of persons who have confidentially reported to members of the staff of the Consulate General that they have been called by the Soviet secret police, and questioned on American activities. Of course this is similar to the practice in Moscow.

Especially significant is the Soviets' concern over the use of information obtained here, and their hinting at the possibility of the question coming before the United Nations. Since the departure of Mr. Benninghoff, the question has been posed again by a Soviet official.

Respectfully yours,

ISAAC PATCH, JR.

UNSUCCESSFUL ATTEMPTS TO RESOLVE POLITICAL
PROBLEMS IN SINKIANG; EXTENT OF SOVIET AID AND
ENCOURAGEMENT TO REBEL GROUPS IN SINKIANG;
BORDER INCIDENT AT PEITASHAN ¹

893.00/1-647

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] January 6, 1947.

Reference is made to Nanking's telegram 2123, Dec 18 10 a. m.,² a copy of which is attached, in regard to the drift of Sinkiang away from China as evidenced by developments in the Nanking visit of Sinkiang delegates to the National Assembly. Reference also is made to a note of JCV ³ in regard thereto, reading as following: "ARR ⁴— Can you EER,⁵ Ward ⁶ or anybody think of anything we could do to slow down this drift?"

Ward makes the following suggestions:

(1) We should urge upon the Chinese authorities at Nanking the importance of extending fullest possible support to General Chang Chih-chung, Chairman of the Sinkiang Provincial Government. General Chang has the confidence of the Turkis, but alone and unsupported he cannot save Sinkiang for China. Because of the political rivalry and jealousy existing between Chinese leaders immediately subordinate to Chiang Kai-shek,⁷ there is danger that needed support will be withheld from him by T. V. Soong ⁸ and others who for motives of rivalry would like to reduce his prestige. We can combat such tendencies by urging in the highest quarters at Nanking the necessity of fully supporting him.

(2) Urge upon the Chinese authorities, including Chang Chih-chung, the importance of carrying out in Sinkiang visible, constructive public works. Ward explains that the Turkis consider the Chinese to be burned out and hopeless. When General Kuo Chi-ch'iao ⁹ made

¹ For previous correspondence regarding Sinkiang, see *Foreign Relations*, 1946, vol. x, pp. 1201 ff.

² *Foreign Relations*, 1946, vol. x, p. 1221.

³ John Carter Vincent.

⁴ Arthur R. Ringwalt.

⁵ Edward E. Rice, Assistant Chief of the Division of Chinese Affairs.

⁶ Robert S. Ward, Consul at Tihwa, 1944-1946.

⁷ President of the National Government of the Republic of China.

⁸ President of the Chinese Executive Yuan.

⁹ Former Deputy Director of Generalissimo Chiang Kai-shek's Headquarters in the Northwest.

everybody in Tihwa, including Turkis, turn out to assist in digging a defensive ditch entirely around the city, the resulting psychological effect was very good in spite of the fact that it was for defense against Turkis. The latter contemplated this show of determined energy with surprised approval. To both win and hold the Turkis the Chinese should get busy and build streets, roads, or anything visible and useful which will serve as convincing evidence that the Chinese retain a measure of vigor.

Major Chinese difficulties in holding Sinkiang, it would appear from Ward's past reports, are: (1) lack of transport facilities between intramural China and Sinkiang; and (2) scarcity of consumer goods. It is suggested that the Chinese be urged and perhaps aided to establish and maintain regular, frequent air and other transport schedules between intramural China and Tihwa, and thence to the various centers of Sinkiang. These transport facilities should be utilized in part to bring in as large amounts of consumer and other goods as possible. Such facilities should be operated if necessary at a loss, as essential to national defense.

Incidentally, we note from the reference telegram that the Chinese have thwarted efforts to have written into the constitution provisions for safeguarding minorities. We do not perceive why such provisions, if themselves unobjectionable, should not be written into national and provincial basic laws. It would seem to us, for instance, that a roving tribal people, if made responsible to the Chinese authorities through their own tribal leaders, could be controlled both more happily and more effectively than by trying to fit them into the government of a small fixed area such as the hsien. Possibly such views might be presented informally to the Generalissimo or to other responsible Chinese leaders, at an appropriate time, by Ambassador Stuart.¹⁰

A[RTHUR] R. R[INGWALT]

893.00/1-847

The Ambassador in China (Stuart) to the Secretary of State

No. 395

NANKING, January 8, 1947.

[Received January 24, 1947.]

SIR: I have the honor to enclose for the information of the Department an account of an interview with General Chang Chih-chung, Governor of Sinkiang, as published in the English Service of the Central News Agency on January 4, 1947.¹¹

¹⁰ J. Leighton Stuart.

¹¹ Not reprinted.

An officer of the Embassy spoke briefly to General Chang on the evening of January 3 and although the General merely stated that he had come to Nanking to report personally on conditions in Sinkiang, he intimated that one of his primary interests was to urge the allocation of sufficient funds to make possible the early implementation of the agreement between the ex-rebels and the Central Government signed at Tihwa on June 6, 1946 between the Central Government and the Ining regime.¹²

In this general connection, reference is made to Consul Ward's summary of the Sinkiang situation contained in Embtel 2009 of November 30, 1946,¹³ particularly to the fourth numbered section in which he refers to the urgent need for Central Government financial support of General Chang Chih-chung in Sinkiang. At the present time the Embassy feels that Consul Ward's estimate of the situation is valid, but that internal conditions in China and the generally parlous state of economic and financial affairs may make it impossible for the Government to meet the requirements of General Chang. If such proves to be true, further outbreaks in Sinkiang may be anticipated.

Respectfully yours,

For the Ambassador:
W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

893.00/1-3047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 30, 1947—9 a. m.
[Received January 30—5:45 a. m.]

163. Embassy has been informed by a foreign diplomatic source which it considers reliable that Generalissimo has advised Chang Chi-chung that he has another post in mind for him and that if he returns to Sinkiang at all, he will not be expected to remain for any extended period. This is in accord with other information available to Embassy which indicated that Chang Chi-chung would be replaced as Governor of Sinkiang by Pai Chung-hsi, present Minister [of] National Defense.

It is becoming increasingly clear that General Chang has been unable to move Central Government to appropriate sufficient funds to implement the agreement signed with Sinkiang rebels last June, and it is generally rumored here that he has been more outspoken in denouncing Central Government's responsibility for conditions in

¹² See telegram No. 965, June 13, 1946, 11 p. m., from the Counselor of Embassy in China, *Foreign Relations*, 1946, vol. x, p. 1207.

¹³ *Ibid.*, p. 1215.

Sinkiang in private conversation than he was in a recent press conference (reference Embassy's despatch 395, January 8).

It is difficult to estimate effect of General Chang's replacement on situation in Sinkiang, but his capture of public confidence there has been such that it cannot but increase the bitter skepticism of overwhelming non-Chinese population of province with regard to Chinese intentions, even though he may be replaced by the leading Chinese Mohammedan.

STUART

761.93/3-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 17, 1947—5 p. m.

[Received 11:28 p. m.]

578. Following is substance Tihwa's¹⁴ 78, March 10, 79, March 11 and 80, March 12:

"Chinese and Russian refugees from Ining report following which may be exaggerated:

1. Soviet citizenship issued without application to White Russians and natives Ining, Suiting areas.

2. After Chang Chih-chung's August visit Red troops in uniform infiltrated Ili zone. Now appear openly in increasing numbers at Borotala iron mines, Wusu. Over 200 at commercial airfield and other points Ining.

3. Muslims aroused saying, 'we freed ourselves from the yellow men, now we must destroy the white'. Serious native attacks on people of other races frequent. White Russians in terror of uprising. Many high Ining Muslim leaders now planning move to Tihwa and eventually to inner China to escape Soviet pressure. If they repudiate Soviet citizenship acquired under duress, they fear murder by Soviet secret police whose operations extensive and ruthless.

4. General conscription all races continues in Ili zone. Uniforms, military equipment and supplies better than in Chinese Army."

Sent Department; repeat to Moscow.

STUART

761.93/3-2247: Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, March 22, 1947—1 p. m.

[Received March 22—11:06 a. m.]

947. We offer following comment on rumors reported in Tihwa's 78, March 10, repeated to Department in Nanking's 578.

While it is entirely normal that Soviet citizenship should be pressed

¹⁴ J. Hall Paxton was Consul at Tihwa.

on White Russians, it seems improbable to us that natives on Ining and Suiting areas should received similar treatment. These natives can be of more use to USSR as part of indigenous Soviet movement manipulated by USSR.

We assume that by Red troops in uniform, Paxton means Soviet forces. Unless situation has radically changed since first of year, we would be surprised if Soviet troops in uniform were in evidence in Ining-Wusu area. Our reason for saying so is that in Asia as matter of principle USSR seems to be avoiding appearance of armed intervention. Furthermore, there is no apparent need for obvious Soviet garrisons in Sinkiang as native rebel forces appear to be adequately serving Soviet ends.

Rumor of Muslim resentment against Russians seems plausible. Such resentment is typical for areas taken over by Soviet puppet organizations and secret police. How effective resentment is depends on many factors not least of which is ruthless determination of Soviet secret police.

In connection with whole Sinkiang problem, our impression from reading a series of excellent reports prepared late last year and early this year by British Consuls at Tihwa and Kashgar is that extension of Soviet influence into Sinkiang is following closely Iranian-Azerbaijan pattern of last year. Our impression is that present is period of strong-arm consolidation by native stooges along border areas combined with political manipulation designed to bring about disintegration of central authority at Tihwa to the end that "democratic" forces are able to capture government at Tihwa. Simultaneously USSR is using economic tactics (much as Moscow urged oil agreement on Tehran) to insure parallel Soviet economic penetration. Combination of these pressures on gimcrack Central Government Authority in Sinkiang means that, unless there is drastic injection of new elements into situation, Sinkiang will be absorbed into Soviet orbit. Mere reforms introduced by Tihwa Government will not suffice to save Sinkiang. If central authority is to be effectively reasserted throughout province, other forces will be brought into play.

Azerbaijan was regained by a complex of factors: Wide publicity and world concern, UN commitment, active official American interest and Qavam's¹⁵ willingness boldly to force showdown. We are not in position to know whether similar combination of forces can be mustered with regard to Sinkiang. Nanking and Department may be able to answer this question. Our feeling is that question is worth explor-

¹⁵ Ahmad Qavam, Iranian Prime Minister.

ing—provided Department feels Sinkiang is politically and strategically worth attempt at rescue.

Repeated to London as 96. Department repeat to Nanking.

SMITH

893.00/3-3147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 31, 1947—3 p. m.

[Received 11 p. m.]

697. Following is Tihwa's 103, March 24:

"After lunch here March 22 chairman discussed general situation with me. Expressing approval his policies I cited many improvements already evident. He emphasized intent to stay Sinkiang till solution of problems in satisfactory progress. Settlement incidents arising from parades (mytels 49 and 51, February 24, repeated Department as Embtel 395, February 28¹⁶) has been reached in principle. No attempt being made to unravel threads of events but precautions to be taken against further like disorders. These he believes can be prevented by good will both sides (provided no outside incitement given). Paxton."

STUART

893.00/4-1847: Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 18, 1947.

[Received April 24—11:23 a. m.]

A-69. Following is substance of Tihwa's telegrams No. 136, April 11, 7 p. m. and 137 of April 12, 4 p. m., 1947:

"No present evidence apparent of any favorable reception for Communist economic theory here. Native agitation seems instigated by wealthy educated few seeking political liberty rather than economic upset. Political liberty is also Chairman's avowed goal. Accordingly, if China can avoid interference with Islamic customs, improve economic conditions without attacking present distribution of wealth, establish educational and health facilities and continue progressively to satisfy native desires for freedom, serious disorder can probably

¹⁶ Not printed; it reported measures to maintain order in view of demands made by some 800 Turks on the Sinkiang government and of counter-demands by several hundred Kazakhs and several hundred Han (Chinese) Muslims (893.00/2-2847).

be prevented until next winter by which time change policies may be accepted [so?] that it would be hard for agitators to break the peace.

"The danger of this winter's snow, which provided water for cavalry and at same time hampered infantry by blocked roads and unaccustomed cold, has now vanished with its melting. Warmer weather leaves Han foot and motorized units more mobile and better able to use their numerical advantage while lack of adequate waterholes seriously handicaps movement of native mounted troops.

"In event of serious Soviet intervention, even though covert, foregoing picture would of course be completely changed."

STUART

893.00/4-2547: Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 25, 1947.

[Received April 30—8:22 a. m.]

A-78. Following is Tihwa's telegram No. 150, April 18, 4 p. m. to Embassy.

"Section 1 of 6. That Soviet Consulate General was of great assistance in arranging last year's peace terms, General Sung¹⁷ admits. At present, however, its staff seems to him neither cooperative nor even intelligent but merely stupidly grasping at every small advantage. Whether this alteration, if factual, is due to change in personnel or in government policy, there is yet insufficient evidence for judgment."

Following is Tihwa's 152 of April 19, 3 p. m.:

"Section 2 Mytel 150 April 18. Admitting that Chinese oppression, bad faith and cultural intolerance even at present stage would be enough to alienate considerable native support; and that Chinese xenophobia has always inclined conveniently to blame ills due to their own shortcomings on foreign interference, still there are certain indications that the USSR has not failed to add to China's recent problems by fomenting disorder here."

Following is Tihwa's 158 of April 21, noon:

Section 3 Mytel 150 April 18. Chinese charges of Soviet military assistance to insurgent forces have been previously reported. Recently Chairman told me that on his visit last year to Ining he himself saw 8 military planes and supply of artillery and machine guns which could only be of Soviet origin. While perhaps a modicum of small arms and ammunition might have been smuggled by tribesmen across the border, it is obvious that these larger weapons, (and ack-ack guns

¹⁷ Sung Hsi-lien, Commander of Chinese garrison troops in Sinkiang.

previously repeatedly seen by British Consul) could not have been brought in without official consent.”

Succeeding sections will be forwarded as received.

STUART

893.00/4-3047 : Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 30, 1947.

[Received May 7—9: 28 a. m.]

A-85. Ref. Embassy's airgram A-78, April 25, 1947, following is Tihwa's telegram 159, April 21, 3 p. m.:

“Section 4, mytel 150 April 18. Polinoff¹⁸ (See pg. 8 Ward's despatch 2, Dec. 10,¹⁹ and telegrams 4-6, November 17 and 18, all 1944²⁰), apparently the military brains of the Ili group in their revolt, though still claims to be ‘White Russian’, seems to have been in USSR 1940-44 for further strategic studies (after imprisonment by Sheng) and it is clear that his European associates have, to say the least, not often been in opposition to current Soviet policy. Most are perhaps soldiers of fortune with no stake in either state who are merely serving Soviet purposes at their own present convenience. The label of ‘White’ is no sure indication of side which each support at any given time, past, present, or future.”

Following is Tihwa's telegram 160, April 22, 8 a. m.:

“Section 5, mytel 150 April 18. Irregularities in Soviet citizenship practices seem established beyond cavil. Chairman recently remarked in this connection, ‘The land is ours but they are making the people theirs.’ (Soviet record elsewhere indicates little reluctance to support an additional neighboring territory ‘popular demand’ for union with racial brethren across the border.)

“Chairman added three groups are now here: Pro-Soviets, who work for incorporation USSR; reactionaries who consider Sinkiang ‘just another Chinese province’ with certain lawless elements needing discipline; and those who recognize that this area presents a distinct cultural problem called for special treatment.”

Following is Tihwa's telegram 161, April 22, 9 a. m.:

“Section 6, mytel 150 April 18. When asked if there was another group who seek independence without alliance with USSR he denied its existence. Chang claims that the third group has his full support.

¹⁸ Former White Russian leader and adviser to Gen. Sheng Shih-tsai, Chinese Defense Commissioner (*tupan*) and virtual ruler of Sinkiang, 1933-44.

¹⁹ Not printed.

²⁰ Not found in Department files.

These last he holds are racing against time on a basis of justice and permanence. The first two, from opposing motives but to the same effect, are blocking each forward step and the sands are running out. End. Paxton”

STUART

893.00/5-2047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 20, 1947—8 a. m.

[Received—12:20 p. m.]

1093. Following is Tihwa's 196, May 14, 8 a. m.:

“General Sung told me last night that announcement is to be made within a week of appointment Masud Sabri²¹ as new Chairman of the Sinkiang Provincial Government. General Chang is expected, however, to remain as Chief of the National Government Northwest Headquarters and will presumably continue to exert influence on further steps in carrying out policies of his own initiation. Paxton”

STUART

893.00/5-2747: Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 27, 1947.

[Received June 4—9:41 a. m.]

A-109. Following is Tihwa's 215, May 22, 10 p. m.:

“First section of 4. a) Sung claims belief that USSR is giving rather than selling arms to rebel forces in northwest Sinkiang (Mytel 193, May 12²²) as he says is being done for Manchurian Communists. Gift of military supplies to followers of Marxist line in Manchuria would seem, however, a better investment than like donation to natives in this area with whom Communist theory is not popular. Such presents unless their use were fully controlled would only muddy Sinkiang political waters and returns on cost would be problematical as there appears to be little natural wealth in Province except in northwestern portion, which is even now not under Chinese control. Paxton”.

STUART

²¹ Turki leader. In telegram No. 1178, May 29, the Ambassador in China repeated the report from Tihwa that Masud Sabri formally took over the chairmanship on May 28 (893.00/5-2947).

²² Not printed.

893.00/5-2747 : Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 27, 1947.

[Received June 4—9 : 41 a. m.]

A-110. Following is Tihwa's 218, May 23, 9 p. m. :

"Mytel 215, May 22, second section. *b*) If Soviet Union is nevertheless planning an eventual advance into Sinkiang when the world situation becomes more propitious, it might well be encouraging purchase of arms by dissidents to prevent Han troops from patrolling border and to keep alive native spirit of opposition to Central Govt for turning to Russian purposes later. Postulation of such a long term policy, apparently called for by evidence cited mytel 186, May 10²³ *inter alia*, could also explain assistance afforded in peace negotiations (mytel 150, April 18²⁴) and Ward's tel 6, January 3, last year,²⁵ in order that a grateful China might be put off guard while Soviet preparations for expansion continued. Third section to come. Paxton".

STUART

893.6359/5-2747 : Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 27, 1947.

[Received June 4—9 : 40 a. m.]

A-112. Following is Tihwa's 222, May 24, 9 p. m. :

"Mytel 215, May 22, section 3: *c*) Russia might also be motivated by need for certain strategic minerals reported to exist in this Province, presumably thoroughly explored by the several Soviet mineralogical advisers to Sheng Shih-tsai. Wusu oil wells are still working (ante-penultimate para Mytel 184 May 9²³) and were observed with binoculars as we passed. There are said to be considerable wolfram deposits in Ashan zone (mytel 74, Mar 7²³) already being exploited by Russian engineers as well as some mines near Borotola, variously claimed to be of iron or some unidentified heavy mineral (Clubb's despatch 20, July 28, 1943²⁵) conceivably uranium, though we saw no signs of operation on our way. Should any deposits of this ore exist, they alone would of course be enough to account for Soviet interest. USSR might accordingly be willing to make considerable temporary ideologi-

²³ Not printed.²⁴ See airgram No. A-78, April 25, from the Ambassador in China, p. 552.²⁵ Not printed, but see despatch No. 1449, August 9, 1943, from the Ambassador in China, *Foreign Relations*, 1943, China, p. 312. O. Edmund Clubb, Second Secretary of Embassy in China, was detailed as Consul at Tihwa in 1943.

cal compromise and even forego immediate political sovereignty, allowing the natives assemblage or the independence they desire (mytel 202, May 15²⁶), provided Russian extraction of ores is permitted to continue. Chinese Central Govt could hardly be expected to consent to this if they exert eventual control over production areas as they do not now. Section 4 follows. Paxton."

STUART

893.00/5-3047: Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 30, 1947.

[Received June 4—9: 41 a. m.]

A-116. Following is Tihwa's 223, May 26, 10 p. m.

"Mytel 215, May 22, section 4: *d*) It is finally within reason that Russia is glad to keep restlessness stirring here and will continue to furnish enough ferment to prevent any conclusive settlement each time one approaches. Present amorphous status may suit Soviet book since it provides all that is required without serious effort or cost. Current 'war of nerves' which keeps everyone agitated, may be intended to conceal basic purpose of merely fomenting continued disorder. Chinese fear of actual Soviet attack calls for more Central Government armed forces than are needed to maintain local order and their presence in province is another disturbing factor in addition to general alarm arising from recurrent rumors of trouble to come.

"This hypothesis would of course render plausible Sung's proposition rebutted in foregoing paragraph (*a*) and would also account for failure of Ining group to implement terms of military agreement without explanation.

"No one with whom I have discussed the situation has brought forth any such suggestion nor have I yet mentioned it. However, analysis in past six months has produced no explanation accounting for more facts and indicating motivation for more rumors than this does. Paxton."

STUART

893.00/6-447: Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 4, 1947.

[Received June 10—12: 09 p. m.]

A-120: Following is Tihwa's 242, June 1, 10 a. m.:

"Have learned from Foreign Office delegate Liu²⁷ that replace-

²⁶ Not printed.

²⁷ Liu Tse-jung, Chinese Foreign Affairs Commissioner for Sinkiang.

ment of Chang by Masud as chairman of Sinkiang provincial Govt was determined at Nanking prior to Chang's return here in mid-March but Liu himself was only recently informed. Chang disclaims initiative but move clearly suits his policy. His relief apparently also necessitated by general order expected shortly from Nanking cancelling civil appointments of military personnel.

"Liu feels appointment perhaps somewhat premature but Gen. Sung is much pleased. Soviet Congen unenthusiastic however and Achmad's coterie apparently in bitter opposition. On May 21 when rumor of imminent change in chairmanship reached Tihwa public, two sets of handbills appeared on streets; one attacked Achmad²⁸ and the other Masud and Central Govt. Although no other handbills have since been reported, opposition of Ili group will have to be reckoned with as a factor.

"New chairman has high repute for integrity and justice. He is probably only Turki well known to Central Govt qualified for position. His appointment seems intended to prepare the people, by giving them practice in self-govt under a high native official, for next year when chairman is to be elected. However he [is] over 60 years old and in poor health. Paxton".

STUART

761.93/6-1147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 11, 1947—noon.
[Received June 11—2:22 a. m.]

1256. Following is Tihwa's 257, June 8, 5 p. m. to Embassy :

"Yesterday General Sung told me he had just received delayed telegram reporting that June 5, 4 marked Soviet planes bombed Peitashan near Ashan and Tihwa zone border. Bombing occurred on expiration of 48-hour ultimatum demanding return of 8 Outer-Mongolian soldiers captured by Chinese. These were taken when a combat battalion of Outer-Mongolian troops supported by Soviet battalion and 4 trucks attacked Chinese forces at point well within Sinkiang. Sung's order authorizing release of prisoners had not reached Peitashan commander before bombing occurred. Two Chinese soldiers killed and 30 horses destroyed.

Sung ascribes both Outer-Mongolian offensive and Soviet air attack to presence of Osman and their desire to break his hold on Kazaks in Ashan zone which he has strengthened by his long struggle. Sung still questions wisdom of Chang's appeasement policy as he feels it

²⁸ Achmad-Jan, Turki revolt leader, formerly Vice Chairman of the Sinkiang provincial government.

merely encourages further Soviet sponsored advances. He says Foreign Office delegate Liu has reported attacks to Nanking for protest through Chinese Embassy to Outer-Mongolian Legations, Moscow planes also having come from East. Paxton."

STUART

893.00/6-1247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 12, 1947.
[Received June 12—3 a. m.]

1277. At the regular weekly press conference at the Ministry of Information on June 1 [11], the Director of the Division of Publicity and Intelligence of the Foreign Office made a statement on the Sinkiang situation as follows:

"The Chinese Government is in the position of reporting regarding the entrance of Outer Mongolian forces in Sinkiang and their attempt on the garrison at Peitashan, which is not far from the Sinkiang-Outer Mongolian border. This is no ordinary frontier incident. The Government views the matter with the deepest concern. While the local military authorities will be ordered to exercise all possible restraint in the defense of their position, the Government is instructing its Ambassador in Moscow²⁹ to protest to the Soviet Government as well as to the Outer Mongolian Government, through its Minister in Moscow. In the meantime, the Government is contemplating the despatch of a high-ranking official to Sinkiang to give the necessary directions to the local authority."

STUART

893.00/6-1247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 12, 1947.
[Received June 12—4 a. m.]

1278. Following is Central News Agency release under Nanking, June 11 dateline:

"China is preparing to protest the invasion by Outer Mongolian troops of eastern Sinkiang Province, Central News learned from an authoritative source.

"Sources close to the Foreign Office informed Central News that at the time of writing, the Vice Minister of Foreign Affairs, Dr. George Yeh, is conferring with officials of the Soviet Embassy here on the matter.

²⁹ Foo Ping-sheung.

“An informed source indicated that should a protest be lodged against the invasion, it is likely that it would be handed to the Soviet Embassy since Outer Mongolia has no diplomatic representatives here nor has the Chinese Government any diplomatic representative at the Outer Mongolian capital.”

STUART

893.00/6-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 12, 1947—7 p. m.

[Received 11 : 45 p. m.]

1284. Reference Embassy's telegrams 1277 and 1278, June 12. The announcement of an Outer Mongolian invasion of Sinkiang has been surrounded by a number of curious circumstances. The incident has provoked a flurry in Chinese Governmental circles which seems somewhat artificial and out of proportion. The information on which action was taken would appear to have been in possession of the Government for several days before any announcement was made. The announcement did not appear as an ordinary Central News Agency release but was drafted in the Foreign Office which then directed the Chinese Government Information Office to distribute it as a news item. Foreign correspondents were first informed orally at 8:30 a. m., June 11 at the Chinese Government Information Office that “Soviet planes had bombed Peitashan”. The official Government release 3 hours later, however, spoke of “planes bearing Soviet emblems”. A Foreign Office spokesman at the regular weekly press conference of the Chinese Government Information Office on the same day confined himself to the written statement contained in Embassy's telegram 1277, June 12, and refused to answer any questions on the incident, most of which were directed toward eliciting more specific information with regard to Soviet complicity and evidence on which such charges could be based.

The Embassy understands that the Foreign Office policy meeting on June 10 which decided on a protest to the Soviets and publicity thereof was attended by Mr. J. John Beal [*John R. Beal*], on loan from Time-Life, Inc. to the Executive Yuan as adviser on foreign press relations. Another American employee of the Chinese Government Information Office told an Embassy officer that the attention given this incident is deliberate and designed to influence American public opinion in favor of financial aid to China.

It is also interesting to note that assistant American Naval and Military Attachés who attend their usual weekly briefing on military developments by Chinese G-2 on the morning of June 11 were sur-

prised to find that there was no information for them on any area except Sinkiang and in this case they were given an elaborate account of the background of Sinkiang problems and informed that Chinese armies would be moved to Sinkiang to repel invasion.

Official statement on the incident appear[s] to be designed to create the impression that the occurrence is a new and startling event. On the basis of information available it is impossible to determine whether the current raid is of an elaborate nature, well planned, and with a definite objective. In the Chuguchak area of Sinkiang where international frontiers are ill-defined at best, forays by rival nomads or unpremeditated clashes between border patrols have been of frequent occurrence in the past.

The question of the extent of Soviet complicity is academic. The Outer Mongolian Republic is to all intents and purposes Soviet puppet, its armies Soviet-trained, equipped, and disciplined, and thus Outer Mongolia itself is an instrument of Soviet foreign policy whenever it suits the purpose of Moscow. On the basis of what is presently known, there would appear to be three possible explanations: (1) a minor border clash without significance, (2) a Soviet attempt to embarrass the Chinese Government, having in mind China's current military difficulties in Manchuria and North China, and (3) Chinese exploitation of any incident involving the Soviet Union at this time to influence American public opinion. While Chinese Government reporting of the incident would tend to add weight to third possibility, it should be remembered that Soviet interest in Sinkiang and readiness to create and to exploit any opportunity to its own ends are beyond any reasonable doubt.

Sent Department as 1284; Department please repeat to Moscow as 20.

STUART

893.00/6-1347

*Memorandum by the Chief of the Division of Chinese Affairs
(Ringwalt)*

[WASHINGTON,] June 13, 1947.

On June 13, Counselor Tswen-ling Tsui of the Chinese Embassy transmitted by telephone the following oral statement from his Government on the recent Outer Mongolian—Sinkiang Border Incident.

According to a report from the Garrison Commander in Sinkiang, on June 5, Soviet planes invaded Chinese territory in Sinkiang. They bombed Peitashan, about 200 miles from the border of Sinkiang and Outer Mongolia, and strafed Chinese troops so as to protect the troops of Outer Mongolia in an attack on Chinese Garrison Forces at Peita-

shan. Both Chinese soldiers and civilians there suffered losses. In view of the fact that such acts on the part of the Soviet planes in invading Chinese territory are in violation of international law and particularly the Sino-Soviet Treaty of Amity,³⁰ the Chinese Minister of Foreign Affairs³¹ instructed the Chinese Ambassador to Soviet Russia on June 10 to lodge a protest to the Soviet Government demanding that the Soviet Government punish those connected with this incident, and guarantee that there be no recurrence of such incidents. At the same time the Chinese Government reserved the right to demand compensation of the Soviet Government for losses sustained by Chinese civilians and soldiers.

The Chinese Ambassador has also been instructed to lodge a protest with the Outer Mongolian Minister at Moscow demanding that the Outer Mongolian troops be withdrawn immediately from Chinese territory.

Peitashan, which is about 200 miles east of Tihwa, is garrisoned by Chinese as well as Kazak troops which are loyal to the Chinese Government. The main purpose of this Soviet and Outer Mongolian invasion is to try by the use of force to intimidate the chieftain of the Kazak tribes in Sinkiang to be pro-Soviet; as well as to create disturbances in Sinkiang.

The Chinese Government has now instructed the loyal garrison forces to avoid aggravating the incident. The outcome will of course depend upon what action Soviet Russia and Outer Mongolia may take.

A[RTHUR] R. R[INGWALT]

761.93/6-1447: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 14, 1947—1 p. m.

[Received June 14—7:45 a. m.]

1304. Following taken from Tihwa's 259, June 10, full text being sent airgram:³²

General Sung states that USSR resents presence Central Govt troops in Nanchiang because Aqsu and Kashgar are nearer Turki's railway just across border. Excessive shipments supplies for Soviet C[onsul] G[eneral] Kashgar reported being distributed to interest natives in Soviet citizenship, many applications resulting. Ili infiltration there also reported. Liu stressed Russia desires to prevent use Sinkiang as base for attack by China or other powers, but Soviet action hard to explain merely on score of defense.

One reason for interest of USSR in Nanchiang probably mineral resources including oil deposits which Russians know about. Sung

³⁰ Signed at Moscow, August 14, 1945, United Nations Treaty Series, vol. 10, p. 300; for English translation of text, see p. 334.

³¹ Wang Shih-chieh.

³² Not printed.

indicated long term intention for Russian interest in Nanchiang is occupation of India, Nanchiang being needed as springboard to reach India. If freedom for exploitation rather than political sovereignty is immediate goal of Soviet Union, this might best be won by preventing peace and order in Nanchiang as well as elsewhere.

STUART

893.00/6-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 17, 1947—4 a. m.

[Received 8:01 a. m.]

1320. Following is Tihwa's 267, June 15, 6 p. m.:

"Sung has shown us 1938 Soviet map, captured from Outer Mongolians in recent Ashan encounter, indicating border far west of Chinese claims apparently including Peitashan and other places he declares long held by Chinese. Copies of Chinese military map going forward this week show border east even of National Geographic and 1 to 4 million British maps but it seems never to have been clearly defined. Outer Mongolians said to be seeking 'recapture' of Peitashan from Chinese seizure.

Sung has also displayed military caps taken showing Red Star with hammer and sickle insignia but marked with owner's name in Mongolian and Soviet medals as well.

He states that after bombings by 5 planes on 4 days, no attacks reported since June 8.

Hope to transmit also photographs of Soviet map and Mongolian ultimatum with translation of latter this week. Paxton."

STUART

761.93/6-1747: Telegram

The Chargé in the Soviet Union (Kohler) to the Secretary of State

Moscow, June 17, 1947.

[Received June 17—3:16 p. m.]

2182. Soviet press June 14 carries Tass denial:

"Chinese Central News Agency disseminated declaration by representative Chinese Ministry Foreign Affairs to effect airplanes with recognizable insignia Soviet Union took part in border incident which took place June 5 on Mongol-Sinkiang frontier between Chinese military detachment and border patrol Mongolian People's Republic. Tass is empowered to announce this declaration of representative

Chinese Ministry Foreign Affairs doesn't correspond to reality and is provocatory invention."

Dept please repeat Nanking as Moscow's 15.

KOHLER

893.00/6-1847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 18, 1947.

[Received June 18—7:25 a. m.]

1332. Following is statement by director of Chinese Government Information Office at weekly press conference June 18:

"On behalf of the Government I wish to make the following statement in regard to question raised in connection with Sinkiang. There cannot be any dispute regarding the fact that Peitashan lies within the province of Sinkiang and therefore on Chinese territory. Either before or since the signing of the Sino-Soviet treaty of 1945 there has always been a Sinkiang police station at Peitashan manned by a small Chinese police force together with Chinese sentry posts. Therefore, I must categorically deny the reported allegation that Chinese troops have ever either before or since the Peitashan clashes crossed any part of the Sinkiang border into Outer Mongolia. The Outer Mongolian communiqué as broadcast by Moscow is absolutely false. Pending the receipt of official replies from the Outer Mongolian and Soviet Governments I do not wish to say more than just to reiterate that the Peitashan case is neither a casual frontier incident nor a boundary dispute but involves political questions of wider significance."

In reply to question regarding present status of Peitashan, director said:

"Clashes in Sinkiang have come to a standstill. The Ministry of National Defense has received no new report since June 15th."

STUART

893.00/6-2047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 20, 1947—10 a. m.

[Received June 20—5:05 a. m.]

1347. Following is Tihwa's 268, June 17:

"General Chang makes following comments on Peitashan incident: It was partly due to confusion whether place in question lies in

Chinese or Outer Mongolian territory lacking official demarcation of border.

This is complicated by mutual irritation engineered by accumulation of disputes between Russia and China particularly in Sinkiang.

He ascribes Chinese publicity to apparent willingness of Central Government to magnify incident for Chinese consumption in order to direct mind of public away from student strikes and other domestic difficulties and toward a border situation alleged to constitute a real threat. This is being done in hope of rallying all factions which may be loyal to Nanking but by so doing they may actually evoke the bogey whose existence they merely wish to pretend.

Nevertheless, general understanding that Outer Mongolia is Soviet satellite seems supported by evidence presented by General Sung (reference my telegram 267, June 15 sent Department as 1320, June 17). Activities previously reported in Ashan zone (my telegrams 223, May 25 to Department A-116, May 30 and 257, June 8 to Department 1256, June 11) also indicate that Soviet Union seeking to keep situation disturbed for its own purposes. Paxton."

STUART

893.00/6-2047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 20, 1947—11 a. m.

[Received June 20—4: 45 a. m.]

1349. Following is Shanghai's 1008, of June 18, 4 p. m. to Embassy :

"UP despatch datelined Moscow 17 reports *Pravda's* publication on that date of despatch from its Shanghai correspondent [that] reports 'circulating' here that Consul Paxton 'was connected with organization of June 5 Mongolian frontier incident' and that Paxton was acting under orders General Eisenhower³³ as 'substantiated by a report of a representative of State Department' at Shanghai.

"Have no knowledge on [of] any member of our staff making statements regarding incident or any related matter which could conceivably have been construed as basis for allegation. Am canvassing staff with view to discovering if any basis exists for attributing such statement to us and will report developments if any."

Actually text of Tass story stated that State Department Shanghai employee had said American Consul, Tihwa, reports coincided with recent news version, from which coincidence it was speculated that the Consul had been implicated in the incident. Tass story then went on to add its own details without giving the source.

³³ General of the Army Dwight D. Eisenhower, Chief of Staff, United States Army.

Embassy inclined to believe that Tass in putting out this foolish story was merely using the same tactics adopted by Chinese press for which accuracy is no desideratum.

Sent Department 1349, Department please repeat to Moscow.

STUART

761.93/6-2047: Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 20, 1947.

[Received July 1—8: 57 a. m.]

A-139. Reference Embassy's telegram No. 1270, June 11.³⁴ It has been noted that Chinese Government releases on the Peitashan incident make two seemingly contradictory statements. One is that Peitashan is 117 miles northeast of Kitai, which according to available maps would place it almost directly on the Sinkiang-Outer Mongolian border. Second statement is that Outer Mongolian forces have penetrated 200 miles inside Sinkiang, an obvious contradiction to the first statement.

In this connection, a usually reliable Embassy source discussing the question with Dr. George Yeh, Vice Minister of Foreign Affairs, was shown a map containing two different boundary lines. One line roughly is that shown on the map of the Union of Soviet Socialist Republics published by the National Geographic Society in December, 1944 and near which Peitashan is located. Dr. Yeh admitted that this line is the present *de facto* line between the two areas. The second line is some 200 miles east of the first one and is, according to Dr. Yeh, the *de facto* line of some 40 years ago. In admitting further that there had never been any formal demarcation of the boundary, he added that the lines had changed because of the migration of Mongol tribes westward during the last 40 years.

STUART

893.00/6-2147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 21, 1947.

[Received June 21—6: 55 a. m.]

1359. The following is Hsin Hua Agency release from north Shensi, datelined June 17:

"Tass broadcast reported this statement by the Ministry of Foreign Affairs of the Outer Mongolian Republic (issued on June 15) on the Peitashan incident on June 5 as follows:

³⁴ Not printed.

“The Central News Agency of the Chinese Government reported on June 9 that a cavalry unit of the Outer Mongolian Republic attacked Peitashan (Mongolian name: Peitake-Buke) on June 5 and penetrated 200 miles into Chinese territory. The Central News release further reported that 4 airplanes, bearing the Soviet emblem, participated in this attack. At a press conference on June 11, held in Nanking, the spokesman of the Chinese Ministry of Foreign Affairs did not refute this Central News release. Furthermore, the Central News on June 11 affirmed that Peitashan is situated in Chinese territory, and is far from the Mongolian border. In view of this, the Ministry of Foreign Affairs of the Outer Mongolian Republic is instructed to state that the statement by the Chinese Foreign Office spokesman, as well as Central News release, regarding the invasion of China by Mongolian cavalry units under the cover of Soviet planes, are not true but purely fabrications of a provocative nature.

“Peitake-Buke is not, as alleged by the spokesman of the Chinese Ministry of Foreign Affairs, situated in Chinese territory, but is well within Outer Mongolian border.

“As to what has taken place on June 5 on the Mongolian-Sinkiang border, the true story is as follows: Chinese troops crossed the border and entered Outer Mongolia. At the foot of Peitake-Buke, 15 kilometers beyond the boundary line, Chinese troops pitched their tents and began searching activities and also erected defense constructions. At the same time, they assaulted the Mongolian border sentries, customarily stationed near there. Upon the discovery of the illegal entry of Chinese troops by the Mongolian National Defence Headquarters, the Mongolian authorities hoped to prevent the occurrence of any incidents, and sent officers to the Chinese troops requesting them to retreat from Mongolian territory. The Chinese commander not only refused to comply with this request, but, contrary to international practices, detained the Mongolian envoys, at the same time he ordered further advances into Mongolian territory. Under such conditions, the border forces of the Outer Mongolia Republic were compelled to drive the invaders out of Mongolian territory, which was successfully accomplished by the Outer Mongolian border forces with the aid of several Outer Mongolian aeroplanes. In doing so, Outer Mongolian troops did not enter into Chinese territory. After the Chinese troops were driven out, the bodies of the Mongolian officers were found at the old site of the Chinese tents. From the bodies, it could be seen that they were killed in a ruthless manner. Their hands and feet were burned to mere stumps, and even the abdomens were opened up. Besides these bodies, the bodies of four Mongolian sentries were also found with their eyes scooped out.’”

STUART

893.00/6-2147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 21, 1947—11 a. m.

[Received June 21—6 a. m.]

1360. Paxton's 272, June 19 states that as he considers visit without delay to scene of Peitashan incident important he had that day sent

Mackiernan³⁵ in command car with Consulate chauffeur and Chinese-Kazak interpreter in attempt to reach that place. As Mackiernan speaks no Chinese, General Sung agreed send along his own interpreter. As road reported impassable in spots for motor vehicles, they may travel last part on horseback. Trip will probably last 10 days. Sung pledged to secrecy and no one else informed.

STUART

893.00/7-647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 6, 1947—8 a. m.

[Received July 6—3:05 a. m.]

1466. Second of 4 telegrams.³⁶ Mackiernan's trip (Tihwa's 287, June 27, 4 p. m.):

"Following evidence observed of Soviet activities and influence:

Russian military matériel captured from Mongolians include: OBK single shot, 50 caliber, anti-tank rifle; several Degtyarev sub-machine guns; 30 caliber light machine guns; fragmentation grenades; and first aid kits.

No evidence Russian personnel actually directing Mongolian operations. Planes which bombed and strafed Chinese positions reported to have been single engine bi-planes with the insignia on wings and fuselage, Red Star with hammer and sickle thereon. (The addition of the implements on the regular Soviet star might have been imagined on analogy of captured Mongolian cap insignia thus marked as reported my telegram 267, June 15,^{36a} since the planes were bombing from a height and were not observed during strafing owing to personnel being busy seeking cover and planes flying fast. Five planes bombed on June 5, 3 and 2 on succeeding days, on 8th plane reconnoitered but without bombing. On 17 June another plane was heard but unseen.

Soviet mining expedition of about 200 men, according to Osman, Kazak chieftain, entered Ashan zone May 1946 through Fuwen and Ining by truck accompanied by Red Army guards and established airfield at Chenghua. Expeditions still in Ashan working mines near Chenghua and Fuwen for four types of minerals, called by Russians: 'Wolumbyet, beryl and spodumene,' fourth unidentified. Russians pay biggest price in cloth for first to Kazak natives. Chinese claim it

³⁵ Douglas S. Mackiernan, American clerk at the Consulate at Tihwa.

³⁶ First and fourth of this series of 4 telegrams not printed; they gave details of trip and of military situation (893.00/7-247 and 893.00/7-347, respectively). Mr. Mackiernan returned on June 25.

^{36a} See telegram No. 1320, June 17, 4 a. m., from the Ambassador in China, p. 562.

is wolfram but specific gravity as determined on return to Tihwa is 6.3 while wolfram is 7.5 (samples follow with despatch).

Coordinates of foregoing places mentioned as follows: Koktobai also called Fuwen 47 degrees 13 minutes north, 89 degrees 38 minutes east, Chenghua also called Aertai also called Sharasume 47 degrees 50 minutes north 88 degrees 7 minutes east.

Sample expedition Osman claims furnished matériel including mortars and light artillery to his Kazak opposition under general direction of Talihan, usurper of Osman's position but under the field direction of Bai Talihan, brother of former and this March Mongolians provided them some 100 rifles.

Soviet propaganda work performed by about 20 Kazak families, according to Kapaz. Russian born Karak, Ahung, a Muslim religious leader educated in Egypt, now working for Osman on counter-Soviet propaganda among Kazaks in (?) zone. They are now based on Chingho (90 degrees 30 minutes east by 46 degrees 30 minutes north) but operated from Peitashan to Chenghua. Kapaz declares his own appeal to Muslim faith provides effective counter-Soviet propaganda. Paxton."

STUART

893.00/7-247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 2, 1947—10 p. m.
[Received July 3—12:10 a. m.]

1448. Tihwa's 3 of 4; Mackiernan trip (Tihwa's 288, June 28 to Embassy):

"Osman Bator, leader of Peitashan Kazaks, retreated there from Kurte (89 degrees 10 minutes east by 47 degrees 10 minutes north) with some 250 families mid-April this year. In May 100 odd more families came and others joined him later until he now has about 1200 yurts (families) under him.

Shortage of food at Peitashan reported by Osman. Kazaks brought all their goods with them as far as Chingil River (90 degrees 32 minutes east by 45 degrees 55 minutes north) but its water was too high to bring their 300,000 odd sheep across. Lack of mutton, their staple food, is causing hardship and discontent. Osman intends to meet this difficulty by sending men to bring back as many sheep as possible when military situation permits. The Chinese are also helping with provision of some sheep and flour. The Russians are playing on this discontent, he says, by promising sheep to all who return to northern Ashan Zone.

Most of Ashan Zone, according to Osman, is to all intents a part of the Soviet Union. He further says that Ili and Tahcheng zones are also Soviet dominated though activities are less openly carried on in these areas than in Ashan zone.

The Outer Mongolians now aim, Osman believes, to occupy Peitashan completely in order to secure eastern flank of Altai range and thus remove the last of Chinese influence from entire zone. Later on he says they may attempt to push southeast to the Barkul and Karliktagh mountains and thus threaten the roads from Kansu into eastern Sinkiang.

The Kazaks in Peitashan are all loyal to Osman and regard him as an able leader who will do his best to get them back to their native home in northern Ashan. Osman declares that given an initial supply of weapons and ammunition, sufficient to start an offensive, he could remove Outer Mongolian threat to Peitashan and clear Ashan zone of the Reds under Talihan, keeping themselves supplied as they advance by capture of material from the opposition. Paxton"

STUART

893.00/7-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 12, 1947.

[Received July 12—10:57 a. m.]

1513. Following is Central News Agency English service at Nanking, July 11:

"It is learned from an official source that the Chinese Government has lodged fresh protests with Outer Mongolia.

In its note of June 22, 1947, the Outer Mongolian Government replied to the Chinese protest concerning Outer Mongolian attacks on Peitashan, giving an account composed mainly of falsehoods and evasions. On June 27 the Outer Mongolian Government addressed a note to the Chinese Government, making the false charge that Chinese troops had crossed the border to attack Outer Mongolian position. Based on facts ascertained through careful investigations, the Ministry of Foreign Affairs has on July 8 and 10 ordered the Chinese Ambassador at Moscow to lodge again notes of protest with the Outer Mongolian Government. The main points of the notes are as follows:

1. When the Chinese Government recognized the independence of Outer Mongolia it was agreed that the existing boundary of Outer Mongolia should become the boundary of that country after its independence. As Outer Mongolia was a part of China up to that moment, the legal existing boundary is the one defined by the Chinese Government before that date. Peitashan is clearly on this side of the boundary line and within the territorial limits of Sinkiang Province. This is substantiated by the fact that Chinese police and troops as-

signed by Sinkiang provincial authorities guard and patrol the district. It was the case before the independence of Outer Mongolia; it has been so ever since.

2. The troops of Outer Mongolia have penetrated over 200 kilometers of Chinese territory to make attacks on Chinese troops stationed at Peitashan. Such a grave situation certainly cannot be regarded as an ordinary border incident.

3. Even if the military attack of June 5 is regarded as having originated from a so-called "boundary incident", why did the Outer Mongolian Government fail to seek a peaceful settlement in accordance with international practice and terms United Nations Charter?³⁷ Why did Outer Mongolian Government dispatch a 48-hour ultimatum to the local Chinese garrison and immediately afterwards launch an attack on the Chinese troops there? The conduct of Outer Mongolia clearly indicates that she has no regard either for peace or for international law observed and respected by other nations.

4. From June 6 to June 30, 1947, Outer Mongolian forces continued to violate Chinese territory and make attacks on Chinese troops. Military planes from Outer Mongolia also repeatedly flew over Chinese territory for purposes of observation, bombing and strafing.

5. Besides demanding the punishment of those responsible for the attacks and a guarantee against any further occurrence of similar attacks and reserving the right to claim damages, the Chinese Government insists that the Outer Mongolian Government must immediately order the withdrawal of its troops from Sinkiang."

Nanking, July 11 (Central): The Chinese Government has, after careful investigation of facts, addressed another note to the USSR reiterating the previous Chinese protest against air attacks made by Soviet military planes on Peitashan.

STUART

893.00/7-2547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 25, 1947—3 p. m.

[Received July 25—7:55 a. m.]

1587. Following is Tihwa's 311, July 21.

"Yesterday I again discussed with Abasoff³⁸ present tension between Ili and Chinese. We conversed in Chinese lacking any reliable interpreters. He complains bitterly that the natives are being oppressed beyond endurance and while the Chinese spoke very fair words last fall, their actions are now becoming the same as Sheng's

³⁷ Signed at San Francisco, June 26, 1945; Department of State Treaty Series No. 993, or 59 Stat. (pt. 2) 1031.

³⁸ Ili-appointed Deputy Secretary General of the Sinkiang provincial government.

regime. He claims that over 100 natives have been arrested here recently; repeats charge that no information regarding terms of agreement is yet permitted in Nanchiang (Embassy's A-51 April 8)³⁹ even in China and no Tihwa Turki news [or?] newspapers are allowed to circulate there; and adds that Ili publications are regularly intercepted and destroyed at Manass River crossing at Sulai and bearers imprisoned, 5 not having been heard from for over a month.

I pointed out that I had repeatedly requested Achmad, Abasoff himself, and other Ili leaders to provide a statement of their case written in Chinese or a Chinese Turki interpreter for Consulate, trusted by them, who could bring to my attention matters they felt should be reported to American Government. I made it apparent that the failure to furnish this information necessarily made [me dependent?] merely on Chinese sources and also left the impression that either the Ili case was too weak for presentation or that they felt no need for international interest in their problems. Abasoff promised to have Chinese translations made of news items from Turki press which would, he said, present their grievances clearly and have them sent to Consulate within a few days. While not sanguine of receiving them without further request if at all, I plan to send them to Embassy when received for carefully supervised translation.

General Sung believes that Ili troop effectives number more than 60,000 men and has reports that they are now being mobilized. General Chang seemed disturbed when I saw him on July 17. Mackiernan and I consider it possible that a sudden attack from several directions accompanied by cutting of the vulnerable road communications might produce a China routing. Paxton"

STUART

761.93/8-1147: Telegram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, August 11, 1947.

[Received August 11—3:45 p. m.]

2624. All Soviet papers August 9 carried text of communiqué by Mongolian People's Republic denying Mongolian and asserting Chinese responsibility for border incidents in Sinkiang.

Department pass Nanking.

SMITH

³⁹ Not printed.

893.00/9-947: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 9, 1947—5 p. m.

[Received 10: 57 p. m.]

1883. Embassy informed by credible source in West Asiatic Department, Foreign Office that General Chang Chih-chung will arrive Nanking within next week. Source states that Chang will probably make recommendations to Government amounting to granting of immediate Sinkiang autonomy. Source believes that Chang's recommendations will be unacceptable in Nanking and that Chang will request to be relieved of duty in the northwest. Source believes, however, that Chang's report on Sinkiang may result in early public promise from Nationalist Government of eventual Sinkiang autonomy and some preliminary steps may be taken to establish larger number local people in positions of authority in the province. Source is definitely skeptical that latter course will be carried out.

Sent Dept 1883; repeated Tihwa 156.

STUART

893.00/9-2347: Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, September 23, 1947—10 a. m.

[Received 11: 26 p. m.]

49. Gen. Sung says that Osman's forces have been pushing forward rapidly in Ashan zone and have taken Chingho and Fuwen. In their progress they have killed and captured many of the enemy, seized much booty and accumulated local Kazaks who welcomed Osman's victories and joined his fighters. One motive for advance was desire of most of Osman's men to rejoin their families long isolated in the north.

Reference my telegram to Nanking 306, July 19 and despatch to Department 20, June 30.⁴⁰ Sung states Osman's reports substantially confirm previous Chinese intelligence (my telegram to Nanking 72, March 6⁴¹) in regard to Soviet wolfram mines at Fuwen. These he has occupied but apparently not closed. Campaign for Chenghua is now under way and fighting spirit high.

Sung also reports that Soviet CG earlier orally protested Osman's attack on Ili forces in Ashan as violation of peace agreement, presumably in spirit as no specific mention made therein of truce line or

⁴⁰ Neither printed.⁴¹ Not printed.

even cessation of hostilities. Chinese replied that his troops have not been, consequently are not, under its control (rather than former justification to me that Osman was attempting to return after having been forcibly expelled from his post as legally appointed zone commissioner, Chuanyuan). Sung admits that Osman's advance was aided by Chinese materiel but insists no Chinese troops were sent and declares that present drive was disapproved by Chinese.

Sent Embassy 367; repeated Department 49.

PAXTON

893.00/10-647: Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, October 6, 1947—9 a. m.

[Received October 7—4: 51 a. m.]

57. Yesterday informed by Garrison Commander Sung that delayed news recently received by courier from Osman, in absence of radio communications, that Chenghua (remytel to Nanking 367, repeated Washington 49, September 23) fell to his forces about September 21. Opposing leaders have fled leaving all important places in Ashan zone under Osman's control.

Sung maintains that no Chinese regular troops have been engaged in this fighting, [garbled group] cavalry (see page 7 of memo enclosed Tihwa despatch to Department 20, June 30⁴²) remaining at Peitashan.

Sent Nanking 379, repeated Department.

PAXTON

893.00/10-2347: Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, October 23, 1947—4 p. m.

[Received October 24—8: 30 p. m.]

61. Garrison Commander Sung says that according to Kazak reports, supported by Chinese intelligence agents and relayed over latter's portable radio, on October 16 about 100 trucks transporting over 3000 heavily armed troops accompanied by 6 tanks entered northern Ashan zone from the west at Chimunai and reached Puerhtsin (see map enclosed Tihwa⁴³ at Puerhtsin and route thither was merely conjectured).

⁴² Not printed.

⁴³ Reference is to Tihwa despatch 16, June 17; neither despatch nor map is printed.

2. Ili troops have no source other than Russia of reported matériel particularly tanks which could not be claimed to have been captured from Chinese Army during the insurrection as it had none there.

PAXTON

893.00/10-2447 : Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, October 24, 1947—6 p. m.

[Received October 26—10: 37 p. m.]

62. Analysis by General Sung (reference my telegram to Nanking 400, repeated Washington as 61, October 23) of possible plans of attackers follows:

1. Despite the supposed presence of Red Army personnel this force may have entered zone only to eject the Kazak troops and take back the mining project ("wolfram" mines at Fuwen, see Tihwa telegram to Nanking 215, May 22,⁴⁴ particularly sections 3 and 4, and despatch 32, August 29⁴⁵).

2. On the other hand even without active Soviet help it may still be planning to drive on south to the Peitashan area with the intention of eliminating the Chinese National troops stationed there. Assistance could be expected on this plan by a simultaneous attack of the Outer Mongolians from the east. Success in this sector might embolden the two bands to launch a joint full-scale push across the desert on Kitai (see Tihwa telegram to Nanking 200, May 14⁴⁵) in an attempt to cut the important northern line of communications. This menace would greatly distress Chinese Army and if accompanied by a sortie from Outer Mongolia threatening sole present through motor road at Hami, might panic and paralyze Chinese military effort throughout the entire province.

Sung added that he hoped to prevent premature Chinese publicity such as followed previous Peitashan incident. He felt that former might have been a Russian trap calculated to elicit just the type of response it did in order that world opinion, put off guard by first canard, might fail to recognize present attack as planned by USSR from the start.

Sent Embassy as 401, repeated Department as 62.

PAXTON

⁴⁴ See airgram No. 109, May 27, from the Ambassador in China, p. 554.

⁴⁵ Not printed.

893.00 Sinkiang/11-1047

The Consul at Tihwa (Paxton) to the Secretary of State

No. 46

TIHWA, November 10, 1947.
[Received August 23, 1948.]

SIR: I have the honor to refer to the Consulate's despatch No. 45 of November 6, 1947 entitled "Visits to Ili and Tahcheng Zones"⁴⁶ and other despatches in the enclosed list⁴⁷ and to enclose copies of Tihwa's telegrams to the Embassy⁴⁸ giving reports of recent Soviet irregularities and interference in Sinkiang and to give a brief analysis of the policies that may be directing the program of the U. S. S. R. in this area.

It is a well-known tendency of the Chinese to blame most of the ills that curse their country on foreign machinations. To admit that they themselves are at fault is psychologically impossible in their ethos because it would involve a "loss of face" from which no escape is provided. Their system lacks the solution for this sort of moral problem, developed by Christianity in the west, which allows that "repentance" can be followed by "forgiveness". However, in our apportionment of blame for the present chaos in Sinkiang, the Chinese in this area do not appear alone guilty nor are those they accuse entirely innocent. It seems increasingly clear that considerable responsibility for existing conditions must be borne by agents of the Soviet Union.

As will be noted from the telegrams enclosed, though much unverified evidence has been cited from Chinese sources, whenever possible it has been confirmed by personal observation or from "White Russian", or other non-Chinese reports.

This documentation indicates to my personal satisfaction that Soviet agents have given "aid and comfort" to dissident elements in the province in armed revolt against the Chinese Government's control.

They provided matériel and military advice (either gratis or more probably for payment) for the Ili revolt. The strategy of this revolt, it seems well established, was Soviet-inspired. The date of its commencement in 1944 was November 7, the anniversary of the October revolution. The date of the truce negotiations, moreover, was also apparently timed to suit Russian purposes. It was just when the

⁴⁶ Not printed.

⁴⁷ None printed.

⁴⁸ Not printed as enclosures to this despatch. Many of these telegrams, however, are quoted or summarized in telegrams from the Embassy in China printed in this section.

Provincial Capital was the rebel army's for the taking but before such an outright threat to the National sovereignty, as the capture of the city would have been, was answered by a full-scale attack by the Chinese Army that it suited Moscow's current plans to end hostilities.

Parenthetically, Russia seems to have been involved also in the Sarikol "revolt" in August 1945, of which I have learned from Mr. Shipton, British Consul General at Kashgar, though little attention appears to have been paid to it by this Consulate at the time. According to his account, the Sarikol range in Nanchiang, not far from Kashgar, was occupied by a force of alleged tribesmen coming over the Sino-Russian border. Advancing from this base they laid siege for some weeks to Yarkand in early 1946. They were finally driven back over the border by August of that year. Other information implying Russian complicity in the Sarikol revolt was received from the Sinkiang Garrison Commander, Lt. General Sung. He had earlier stated that detailed Russian staff maps of Nanchiang were found on the bodies of uniformed Red Army officers killed in this area. If these accounts are correct, it would seem that this uprising failed because insufficient propaganda preparations had been made in advance of the invasion and the expected support of the people largely did not materialize. The Chinese troops, accordingly, were able in the end to settle the matter without need for any truce arrangements by the Soviet authorities.

Besides participation in open armed revolts it is common knowledge that Russian agents have been active in keeping the natives in a turmoil of opposition to their Chinese-appointed governors. This work is greatly assisted by the instability of the Turki population and the frustrated ambitions of their leaders as well as by the ineptitude of the Chinese as colonizers and their egregious blunder in sending corrupt and unimaginative satraps to represent them in outlying portions of the province. These subordinates antagonize the local people by abusing power to their own advantage at the expense of both the natives and their own national interests.

In addition to the simple task of stirring up dissensions to weaken Chinese control over its northwest province, there is evidence that considerable Soviet propaganda has been used to incline the predominantly Turki population toward the political ideology of the U. S. S. R., though here Communist economy is less stressed than in areas where conditions are more favorable to its development.

Another method of strengthening Soviet influence has been the Russian program of procuring additional nationals. Reports have been received that pressure has been applied in many cases and there is usually no requirement that the new citizens renounce their existing

allegiance. This creates a great deal of confusion since many inhabitants carry Chinese papers as well as Soviet passports, which they can use at choice as seems most advantageous at the moment. There is little reason to doubt that most of these citizens could be persuaded to cast their votes in favor of the Soviet Union if a plebiscite were held.

Opposition from "unreconstructed White Russian" refugees from the Communist State has not been permitted. Soviet officials resent their presence in this area and have been particularly flagrant in their attempts to convert them to the true faith or failing that, at least to prevent their escape into China proper beyond the borders of this province, where they could make reports of existing conditions here.

The purpose of Soviet Russia in interfering in Sinkiang affairs and assisting in armed revolts, it has been said, is that she has stood to gain sovereignty over the entire province or at least its pro-Soviet orientation. If this were true the Ili insurrectionists might temporarily have maintained a precarious independence under tacit protection of their Westerly Neighbor and the Russians would hardly have prevented the native armies from pursuing their Chinese oppressors, then in rout, to the very borders of the province. In opposition to this conjecture, however, is the fact that the truce negotiations unquestionably began at the initiative of the Consulate General of the U. S. S. R. in Tihwa.

Russia seemed disinclined to take early sovereignty over Sinkiang, even at the time of Sheng Shih-tsai, according to information I have recently received from my British colleague at Kashgar, which he had earlier collected from certain German missionaries who escaped during Sheng's ascendancy. They claimed to have knowledge of plans for a plebiscite to have been held in 1946 had the Tupan remained in power. This would have been a development of Sheng's plan, allegedly discussed during his visit to Moscow, for him to continue for his lifetime in supreme control of Sinkiang as a province of the Soviet Union. If such a plebiscite had been held it would have been a simple matter for Sheng to arrange its "satisfactory" outcome and the USSR would thus, in due course, have been able to acquire the area under a guise of legality.

That Russia may not now want full political control over Sinkiang was further suggested by information received by Mr. Robertson, a leftish sympathizer of Australian nationality, who has visited Kashgar. He stated that the Soviet Consul General there, one evening in an expansive mood being somewhat "fatigued" with wine, told him that the U. S. S. R. could have, at any time in recent years, taken all Sinkiang into the fold but did not consider it "worth the trouble".

Russian present reluctance to advance in Sinkiang may be due to the fact that they are not yet ready to take overt steps to arouse the ire of the Chinese Central Government or world opinion and they will probably not act now unless they can find a suitable stooge to hand over the territory to them without their having to seize it.

Little evidence is apparent that Russia has ever considered the whole of Sinkiang a desirable possession. Although Imperial Russia did in fact occupy the Ili Valley for a period in the mid-nineteenth century, there is no record known of its ever having exercised full political suzerainty over the area to the east of the Manass River—though the Soviet will was completely unopposed by Sheng during his pro-Russian period. Despite the undeniable economic connection of the entire area and its geographically easy trade communications (though officially blocked, at present, by Moscow's refusal to renew the trade pact with Nanking) political connections have generally followed the long and arduous desert route eastward to China.

Perhaps due to the fact that the U. S. S. R. is able to draw out of the three Zones all the advantages that might accrue from assuring the outright pro-Soviet alignment of the remainder of the province, it may not consider the assumption of responsibility for the whole province now desirable. These advantages presumably consist of trade (even though the border is officially sealed, barter undoubtedly continues), exploitation of natural resources (such as known workings of petroleum wells, alleged wolfram mines and conjectured uranium deposits), and establishment of a buffer-state friendly to the Soviet Union, in order to absorb the first shock of an attack against the latter or to mount one against Chinese territory.

At the same time Russia seems unwilling to consent to the exertion of actual Chinese control over any part of the three dissident zones. This was shown in the recent recapture by the Ili group of Ashan Zone from the Kazaks under the anti-Soviet Osman who had made a quick raid in the summer of this year and taken almost all the towns.

The withdrawal of the Ili group representatives from further negotiations at Tihwa was reported to the Chinese authorities through the Soviet Consul General here and, therefore, obviously had his approval. As a result of this cessation of negotiations in regard to the implementation of the terms of the Ili Agreement it remains impossible for Chinese troops to patrol the Soviet borders; it is consequently doubtful whether implementation of this step was ever planned by the Russian authorities. Perhaps they permitted the Ili group to agree merely because of Chinese insistence on the point (which was only natural) and because the Soviet advisors already had in contemplation the effective methods to burke it that they have now adopted.

It, accordingly, appears that the U. S. S. R., after Sheng's defection, followed by his overthrow, has had no immediate plan to take political suzerainty, either openly or through native puppets, over any of the trans-Manass River region. My conjecture is that, so long as Chinese troops are not patrolling the border, no direct move to expand the part of Sinkiang now under effective control by the Soviet Union is at present planned by their local representatives. This picture could be changed overnight, however, if the Kremlin world policy called for an advance in this area, when it considered that the price of world repercussions would be worth the prize of the rest of Sinkiang.

Respectfully yours,

J. HALL PAXTON

893.00/11-1347 : Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, November 13, 1947—6 p. m.

[Received November 14—11:48 a. m.]

69. Mme. Hate-Wan, Tihwa zone commissioner, yesterday brought Hereld Estson, recently with other Kazaks at Chenghua fighting, to Consulate. He confirmed previous reports (refmytel to Nanking 401, repeated Dept 62, October 24) of Red Army assistance in recent expulsion by Ili forces of Osman's men from zone capital, saying that entire campaign was under political direction of Dipshatoff, Acting Soviet Consul at Chenghua, and that expedition had entered from USSR under military leadership (see Tihwa telegram to Embassy 159, April 21⁴⁹) of Generals Polinoff and Madjoroff.

Much the same story was told by two White Russian "old believers" fleeing from same region who called earlier yesterday.

Sent Embassy, as 431, repeated Dept as 69.

PAXTON

893.00 Sinkiang/11-1647 : Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, November 16, 1947—3 p. m.

[Received November 17—4:02 p. m.]

70. Garrison Commander Sung has loaned me Chinese translation of Ili reply dated October 16 to General Chang's letter, see Tihwa despatch 35, September 19.⁵⁰ Ili note was transmitted to local foreign affairs commander [*commissioner?*] by Soviet CG October 22.

⁴⁹ See airgram No. A-85, April 30, from the Ambassador in China, p. 553.

⁵⁰ Not printed.

Achmad-Jan was summoned to Nanking but before going will probably await Chinese reply to Ili terms for reopening negotiations which are:

(1) Cessation of Chinese oppression of progressive elements in province.

(2) Release of all Muslim prisoners (taken in recent incidents at Kashgar, Turfan, Tokosun and Shanshan) and punishment of those responsible for their arrest.

(3) Recall of Masud as province chairman and

(4) Complete fulfillment by Chinese of terms of peace agreement. Chinese authorities may be expected to deny oppression; consent to release of some prisoners refusing punishments demanded; possibly change the chairman; but maintain stoutly that implementation of peace terms has been their unchangable objective which is blocked wholly by Ili procrastination.

No real change in the situation is likely to result from these discussions alone since, as reported in mytel to Embassy 43, February 15, the outcome for this area seems to depend less on plans or arrangements in China than on Moscow's world attitude. Furthermore it is believed that continued confusion in Sinkiang suits Soviet purposes. (See mytel to Embassy 223, May 25⁵¹) better than any clear settlement.

Sent Embassy as 439, repeated Dept. as 70, November 16, reference mytel to Nanking 422, repeated Washington as 66, November 10.⁵²

PAXTON

893.00/11-1847 : Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, November 18, 1947—10 p. m.
[Received November 19—10:05 p. m.]

72. Halibek, leader of 20,000 Kazaks in the Wusu and Chingho vicinity, appointed by Ili group as magistrate of Shawan (all towns in Tahcheng or Ili zones) is said by Garrison Commander Sung to have secretly become pro-Chinese early this year, resenting Soviet domination of the three separatist zones and to be supplying info as to Ili activities and plans. Despatch quoting details given by Sung follows as soon as courier service is resumed. (Refer mytel to Nanking 403, repeated Washington as 63, October 26.⁵²)

General Sung has reports that Halibek's forces, against Chinese advice, are now attacking Ili troops near Wusu which might result in a debacle similar to that at Chenghua (see Tihwa telegram to Embassy

⁵¹ See airgram No. A-116, May 30, from the Ambassador in China, p. 556.

⁵² Not printed.

431, repeated Dept as 69, November 13) with further possibility that Kazaks fleeing across Manass River might draw their pursuers beyond the former "truce line" and greatly complicate the already tense situation along this clear cut boundary.

PAXTON

893.00 Sinkiang/11-2847

The Consul at Tihwa (Paxton) to the Secretary of State

No. 53

TIHWA, November 28, 1947.
[Received August 23, 1948.]

SIR: I have the honor to refer to Tihwa's despatch to the Department No. 31 of August 27, 1947 on the subject: "Implementation of the Military Terms of the Ili Agreement"⁵⁴ and to make the following report of the present status of implementation of the political terms.

A translation of the Chinese text of the agreement was transmitted to the Department under cover of Tihwa's despatch No. 19 of June 24, 1947, entitled "Translation of the Agreement for the Settlement of the Ili Revolt"⁵⁴

Copies of this office's telegrams to the Embassy at Nanking pertinent to the subject, are enclosed.⁵⁵

There is, as will be shown, little question that the Chinese authorities have carried out fully to the letter and, to surprising degree, in spirit as well, all the formal pledges given in the political terms, but the Ili faction is still not content.

The following possibilities, to explain the continued dissatisfaction of the Ili dissidents with the Chinese Government's actions to conciliate the native opinion, seem to cover the ground:

(a) The continued failure of the Ili group to accept the Chinese actions at face value is due entirely to the latter's persistence in its time-honored policy toward non-Chinese minorities. This policy is one of cultural imperialism, disguised in many forms, now waxing as opportunity permits, now waning as resistance strengthens, but never altogether abandoned, or possible to abandon, so long as Chinese culture remains convinced that it is the best for all mankind.

(b) The refusal of the Ili group to cease their obduracy springs wholly from Soviet instigation. It would vanish immediately were the support of the U. S. S. R. in arms (either by sale or gift) and advice (so extended as almost to imply control, in all but name, of the government of the dissident zones) withdrawn. This assistance

⁵⁴ Not printed.

⁵⁵ Not printed as enclosures to this despatch. Many of these telegrams, however, are quoted or summarized in telegrams from the Embassy in China printed in this section.

has been given due to the Russian desire to take over, as soon as possible, full sovereignty of these zones with a view to the eventual absorption of the rest of Sinkiang and its incorporation in the Soviet Union under the name of "East Turkestan".

(c) The cultural intolerance of the Chinese and their feeling of innate superiority to the natives has played into the hands of Soviet agents operating in the three zones. It is assisting them to strengthen their influence, amounting in fact to effective control of this area, but there is little present probability of their taking the overt step of assuming political sovereignty over any part of the Province until Russian world polity calls for a forward movement. This advance would undoubtedly be regarded with disfavor in international circles and might be expected to lead to complications in Russian relations with other powers, since it would be hard to disguise it as other than unprovoked aggression on China. Despite the case that could be made out for Chinese past misgovernment here, General Chang Chih-chung has said that open Soviet assistance to the Ili group would imply war on China. Though this risk may later appear justified to the Kremlin, it is felt that there is little likelihood of such a step being taken before the end of the summer of 1948. It is interesting to note that, despite the fact that the natural avenues of commerce are between Sinkiang and Russia rather than China, though the Tsar did have political sovereignty over the area of the present dissident zones for a brief period in the mid-nineteenth century, Russia has never taken over open political control of any part of Sinkiang east of the Manass River.

The presumed reasons for the former relinquishment of Russian control over the cis-Manass territory probably still govern now, i. e. the difficulty and expense involved in maintaining order in the area where mineral and agricultural resources exist, with the addition that, though the mineral resources are now understood to be more important than was formerly believed, there is less necessity to exert actual sovereignty in order to continue their exploitation. All that is needed is to prevent the patrolling of the border by Chinese National Government troops and to keep the local authorities of the area well disposed toward Russia. Both of these objectives seem to be gained by merely preventing a complete settlement between the representatives from Ili and those from Nanking. This the Soviet agents are in a position to do at little cost. It merely requires giving advice to the Ili leaders designed to prevent the implementation of the agreement and selling arms to them. The failure to reach full agreement on the political terms will continue to give excuse for refusal to permit the National troops to take up their stations along the border as provided by the military terms which form part of the same agreement. As this appears to be exactly what the Russians desire and as they seem able to keep the leaders of the three dissident zones compliant to their will in this respect, no early change in the picture is anticipated. The

hour when Moscow is willing to risk international disapproval to the extent of an open attack on Chinese territory in order to seize this mostly barren land may not come very soon.

(1)⁵⁶ As discussed in detail in the enclosed telegrams the Chinese Central Government has undoubtedly permitted and assisted in carrying out the elections called for under Article I of the agreement. Both the Ili group and independent Turki informants claim that the Chinese have, in certain instances, been guilty of coercion or fraud. This appears likely but the Chinese, on their part, make the same charges against their opponents, with apparently equal reason. It seems undeniable that elections have really been held and that where an obvious majority has been firmly in support of one candidate, this feeling was taken into consideration by the local administration. The people already have in their hands a democratic tool for power, faulty though it may be, and if they fail to use it to the full, the primary responsibility should fall on themselves. The significant fact is that these are the first direct popular elections ever held in China and that the Australian secret ballot has not yet been introduced is somewhat compensated for by the absence of ward-healers. Both may come later.

The Ili group seems to have accepted the elections in principle or they would not have sent delegates at all to the Provincial Consultative Assembly which met in Tihwa. Its disbanding in disorder, they claimed, was for another reason—the appointment of Mesud, a Turki, as Chairman of the Provincial Government.

(2) There is no present evidence of anything that could be called “religious discrimination” by the government in the area. There is no attempt to prevent anyone following his own religious observances as he sees fit, provided no proselytizing is done and others are permitted their own liberty. However, as this article was inserted at Muslim request, it is probably used as the basis for their recurrent charge that Muslim girls, being married by Chinese army personnel, are weakening their religious and cultural habits. The Chinese declare that this is now prohibited and that the prohibitions are being enforced. A few instances of violation might easily have been greatly exaggerated by zealous Mullahs and popular resentment could be fanned to flames by Soviet propaganda.

(3) The recognition of the use of the native language can not be denied. It is in effect and is a great step forward.

(4) The use of the native languages in the schools appears to be working satisfactorily though as yet there are not nearly enough schools, but this situation is gradually being improved. The prin-

⁵⁶ Marginal notation states that numbers in parentheses refer to articles of the June 6, 1946 agreement.

principle of respect for the non-Chinese tongues is being undeniably observed for the first time at least since the last Chinese conquest of the area.

(5) Presumably the insertion of this article in regard to free development of racial cultures and arts was a result of the feeling of Chinese cultural intolerance. If so, the natives can take satisfaction from the success of the musical and dancing troupe from Sinkiang, now apparently having a successful tour in the coast cities under the sponsorship of the government.

(6) Freedom of publication, assembly and speech, while not yet complete, is greatly improved over anything previously experienced in the province.

(7) Taxation no longer appears a serious ground for popular complaint, particularly in view of the remission of all taxes for 1946.

(8) Trade between Sinkiang and China is now permitted and even encouraged, though blocked absolutely during Sheng's time. The Chinese Government cannot be blamed for the failure of Moscow to make any reply to its proposed terms for renewal of the Sino-Soviet Trade Pact.

(9) Until the break-up of the Provincial Consultative Assembly over the appointment of Mesud to the chairmanship and the departure of the dissident members the "coalition" Provincial government committee had been functioning perhaps not perfectly, but well enough to weather the serious storm of the February incident. (See Tihwa's despatch No. 43 of October 28, 1947 on the subject: "Incident of February 25, 1947".)⁵⁷

(10) This article is exclusively concerned with military dispositions. The recriminatory charges of responsibility for failure to fulfill them have been previously discussed. (See Tihwa's despatch No. 31, "Implementation of the Military Terms of the Ili Agreement", dated August 27, 1947.)

(11) There is little reason to believe that either the Chinese or the Ili group now hold any prisoners who can properly be considered covered by this article. However the Chinese have charged that several months after the signing of the agreement, some seven hundred Chinese were murdered by a Turki mob in the Tacheng zone. The Ili group claims, on the other hand, that arrests during the summer of 1947 in Tulufan, Shan-shan, and Kashgar are connected with the Ili Revolt, though the Chinese deny any relation with these events of several years past.

Annex I—The selection of personnel of the Provincial Government Committee and specific appointments to the various positions of re-

⁵⁷ Not printed.

sponsibility in the government appear to have been governed meticulously by the terms of this annex. In certain instances appointees have never appeared to assume their responsibilities and their absence has greatly handicapped the efficient operation of the government. Some of these absences, such as that of the Chief of the Board of Sanitation, have produced serious gaps. No effective public health program is possible without trained medical personnel in charge and, in this instance, it happens that the Vice Chief is a local (Tungan) Chinese Muslim who has only had limited education as a pharmacist. Chinese Government doctors can hardly be expected to work under his direction so the local hospitals are without medical specialists, except for two women volunteers whose husbands have other positions here. Not even a satisfactory supply of drugs is possible in these circumstances. Those patients not eligible for the attention of the Chinese military hospital can receive treatment only at the Soviet Consular hospital, with resultant credit to the U. S. S. R. It is conceivable that this situation is attractive to the Russian agents and their advice to the Ili group to insist on reservation of the post of Board of Sanitation for them may have had in mind this outcome. Certainly it was clear that the natives have no qualified physician for this post.

A similar case is that of the Chief of the Educational Bureau, an Ili appointee, who has returned to the dissident zones, leaving the responsibility for these important functions in the hands of the Vice Chief, a Chinese, who is making a valiant attempt under adverse conditions.

Accordingly, no charges can reasonably be laid against the Chinese authorities of failure to make a reasonable gesture toward implementation of all the political terms of the agreement and of apparent willingness to discuss any reasonable suggestions made by the Ili group for further compromises.

The Ili group, for its part, appears to have failed to assist in fulfilling the terms in every instance where any concession is required from them, meanwhile seizing on all points that serve their own advantage. They have not permitted government committees to supervise the elections in the zones under their control. They have blocked traffic in much needed food supplies across the Manass River, though continuing to carry on barter trade across the Soviet border. Also they have completely failed to carry out their obligations under the military terms agreed on in Article 10 of the main agreement and Annex II thereanent.

The Ili leaders, despite repeated requests by the Consulate, have failed to cite specific instances of Chinese noncompliance with the political terms. It is plausible, therefore, that the principal reason

for the reluctance of the dissidents to proceed with any of the concessions promised is that the Kremlin's agents refuse consent lest peace and popular satisfaction should disturb Soviet propaganda against the Chinese Government. It is difficult to see what the Chinese Government could do that it has not already attempted in order to alleviate the conditions of the people. Even granted that there may be full basis in fact for all charges of corruption and oppression by Chinese military and civilian officials which have been brought to the attention of the Consulate, as well as the common cultural intolerance of the Chinese for any way of life other than that of the Hans and their still rumored plans to Sinicize all the Muslims of Sinkiang, the Chinese Government has obviously made a far greater attempt to live up to its obligation under even the political terms of the Ili agreement than have the dissidents. The three zones appear to have fulfilled almost none of their commitments, either military (which they have flouted) or political (which they have ignored insofar as any occasion for action on their side arose).

The Administrative Program is being analyzed in a separate despatch.⁵⁸

Respectfully yours,

J. HALL PAXTON

893.00/12-1747 : Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, December 17, 1947—9 p. m.
[Received December 19—12: 14 a. m.]

83. Foreign Office representative Liu says that another letter from General Chang in reply to Ili group is being translated into Turki and will shortly be given to Soviet CG for delivery.

Remytel to Nanking 439, repeated Department 70, November 16. Liu characterizes answer as firm since it refuses recall of Chairman Masud on the score that approaching elections will indicate popular choice and requires return of Ili leaders before negotiations will be resumed. Liu states that other choices: Use of force or full acquiescence to Ili demands were rejected by Nanking authorities so this alone remained. However he does not expect Ili leaders to appear here for conference for several months at least and hopes time will be used to improve conditions in remaining 7 zones under Chinese control.

It is doubtful whether provincial administrators generally will have the foresight to use such a fortunate respite for other purposes than their personal profit. The waste of this opportunity may shorten the

⁵⁸ No. 54, December 12, not printed.

remaining period of grace before the rest of the natives throughout Sinkiang join in revolt against present government and, working with Ili, attempt to overthrow Chinese rule altogether. They seem likely in this event to be given Soviet support or at least technical and strategical advice.

Sent Nanking 479, repeated Department.

PAXTON

893.00/12-2247 : Telegram

The Consul at Tihwa (Paxton) to the Secretary of State

TIHWA, December 22, 1947—10 a. m.

[Received December 23—4:22 a. m.]

85. Certain Sinkiang elements are rumored to be favoring closer relations with bordering Muslim states of Afghanistan and Pakistan in order to escape dilemma of choice between present alleged Chinese oppression and supposed Russian plans for absorption of this area. Any available information as to attitude of first two nations toward USSR and estimate of future prospects of their entry into Soviet sphere would accordingly be appreciated.

Opposition to new direction of policy is to be expected from far-sighted natives on score that region needs quicker help in development of economic possibilities than is likely to come from such backward nations and that it would be better to choose between the known evils of the two large powers than to gamble on dubious benefits hoped for from the smaller ones, despite their religious, cultural affinity with the latter.

PAXTON

STATUS OF TIBET; TIBETAN TRADE MISSION

711.93 Tibet/1-1347

The Chargé in India (Merrell) to the Secretary of State

No. 913

NEW DELHI, January 13, 1947.

[Received February 7.]

Subject: Letters to the President from the Dalai Lama, the Regent, and the Kashag of Tibet; Political and Strategic Considerations Pointing to Desirability of Returning Courtesy Visit of Tibetan Goodwill Mission.

SIR: I have the honor to refer to my despatch no. 616 dated May 31, 1946 on the subject "Letters and Gifts for the President from the Dalai Lama, the Regent and the Kashag of the Government of Tibet"; to the Department's written instruction no. 590 dated November 5, 1946—received in New Delhi December 6—under cover of which the letters in question were returned with the request that they be translated; to my secret despatch no. 869 dated December 3, 1946 on the subject "Policy on Status of Tibet: Desirability of Continuing Non-committal Attitude", in which, *inter alia*, were set forth reasons why, in my opinion, it would be in the best interest of our Government to return the courtesy visit of the Tibetan Goodwill Mission; and to my telegram no. 24 dated January 13, 1947¹ transmitting translations of the letters from the Dalai Lama and the Regent; and to enclose for transmission to the White House the letters to the President from the Dalai Lama, the Regent, and the Kashag and translations thereof.

Upon receiving the letters returned under cover of the Department's instruction of November 5, 1946 the Embassy made an unofficial request of the External Affairs Department for assistance in obtaining translations, and Mr. A. J. Hopkinson, Political Officer in Sikkim, who happened to be visiting New Delhi at the time, offered to have translations made by his personal assistant, Lobzang Tsering. Since Mr. Hopkinson and Lobzang had to return to Sikkim immediately thereafter, the translations were made in Gangtok and mailed to the Embassy, where they were received on January 12.

TIBETANS' DESIRE TO STRENGTHEN RELATIONS

It will be noted that in each of the letters there is a clear indication that the Tibetan Government desires to strengthen friendly relations

¹ None printed.

between Tibetans and the United States. The Dalai Lama says: "As before, I hope Your Excellency will still think of promoting the good relations which exist between the two governments." The Regent writes: "In future also, please extend further kindness toward strengthening the friendship which already exists between our two governments." The Cabinet Ministers in their letter ask the President to "endeavor to increase good relations that exist between our two countries . . ." As was stated in my despatch of May 31, 1946 the members of the Tibetan Goodwill Mission who called on me in New Delhi conveyed the impression that if the President sent an official to Lhasa to deliver replies to the letters in question, he would be given a cordial reception. As I have also reported, I have gathered from remarks of British officials interested in Tibet that they more or less take it for granted that the President's replies will be conveyed by hand of an official.

PRACTICAL REASONS FOR RETURNING COURTESY

Reasons as to why it would be in the best interests of our Government to return the courtesy extended by the Tibetan Goodwill Mission were outlined in my despatch of December 3, 1946. They may be summarized as follows:

Strategic Position

Tibet is in a position of inestimable strategic importance both ideologically and geographically. In a central position in a continent threatened by Soviet expansionism and torn by internal strife in its two most populous countries, China and India, the people of Tibet will probably resist Soviet influence and other disruptive forces longer than any other Asiatic people. The conservative and religious nature of the Tibetan people and the relatively firm control exercised by their government combine to produce comparatively stable conditions in a vast area completely surrounded by territories seriously affected by political upheavals or Soviet schemes of aggrandizement.

Military Considerations

While it is to be hoped that the necessity of sending United States military forces to the Asiatic mainland will never recur, the present unsettled state of affairs in Asia makes it impossible to avoid the conclusion that such operations might again be forced upon our Government; and while it is also to be hoped that friendly relations will be maintained with such governments as may eventually gain control of India, Burma, Indochina, and China during the next few years we cannot ignore the possibility that any or all of these governments might adopt an unfriendly attitude toward the United

States, or that a state of anarchy might develop in the countries in question, or that an unfriendly power might gain control of these areas.

In view of these unhappy possibilities it is therefore conceivable that Tibet might offer the only extensive territory where air and rocket-launching operations might be based. Needless to say such operations would be greatly facilitated if they could be carried on without the interference of a hostile populace. For religious reasons Tibetans at present do not look with favor on aerial operations within the borders of their country, but I believe it may be assumed that if a situation arose in which they were made to realize that preservation of their independence hinged on such operations their current prejudices could be effectively modified.

Ideological Importance of Tibet

In addition to Tibet's potentialities as a military base, the importance of the conservative outlook of the Tibetan people cannot be over-estimated at a time when countries all around them are in the throes of revolutionary upheavals or civil wars. The Tibetans represent a relatively stable element in the midst of a continent where conditions are for the most part highly unstable, and it is unlikely that conditions in Tibet during the next few years will change nearly as rapidly as in other parts of Asia.

To date Tibet, virtually surrounded by countries in which Communist programs are being conducted with varying degrees of success, appears to have been unaffected by Communist influence. On the contrary, Tibetans' seeming aversion to Communist doctrines may tend to counteract the effect of Communist activities in many parts of Asia, for the Dalai Lama's influence extends to followers far beyond the borders of Tibet.

Tibet may therefore be regarded as a bulwark against the spread of Communism throughout Asia, or at least as an island of conservatism in a sea of political turmoil, and a gesture of friendship from the United States might go a long way toward encouraging the Tibetans to resist possible Soviet or Communist infiltration into the Tibetan Plateau which, in an age of rocket warfare, might prove to be the most important territory in all Asia.

ATTITUDES OF CHINESE AND BRITISH

Since the Chinese regard Tibet as an integral part of their Republic, and would like to regain the direct control of Tibetan affairs formerly exercised by the Manchus, a courtesy visit to Lhasa made for the purpose of delivering the President's replies to the letters sent by the Dalai Lama, the Regent, and the Kashag, should be conducted in such a manner as to allay any Chinese suspicion that it reflects in any way on

Chinese claims to suzerainty. However, in view of the precarious position of the present Chinese National Government, and the uncertainty regarding its future, I feel it is far more important for our Government to take advantage of its present opportunity to offer Tibet concrete evidence of its friendship than to be unduly concerned over any objections which the present Chinese Government might offer.

Since the British, while recognizing China's suzerainty, favor preservation of the autonomy gained by Tibet in 1912, it may be assumed there would be no opposition from this quarter. In fact, care would have to be exercised to avoid giving the impression that the trip was being made under British auspices, for British officials in Delhi and in Gangtok (the point from which the trek to Lhasa would start) have indicated that if the Tibetan's courtesy call is returned they will offer all possible assistance. Since the British control the trade route to Gyantse, half way to Lhasa, such assistance would, of course, be useful.

FACTORS INVOLVED IN A TRIP TO LHASA

An officer carrying the President's replies to Lhasa would travel more than 300 miles over a mule track which crosses four Himalayan passes ranging from 14,300 to 16,400 feet in altitude. Since the trip takes almost a month each way and Tibetan standards of courtesy would require a stay of from four to six weeks in Lhasa, the round trip would take approximately three months.

If a courtesy visit to Lhasa is authorized, it would be desirable if it were made this year as soon as weather conditions are favorable, for Tibetan etiquette requires that a courtesy visit such as that paid by the Tibetan Mission last March be repaid within a year. An officer carrying the President's replies should, therefore, leave India for Lhasa not later than June 1. Were he to start in May he might encounter snow, and were he to delay until July he would have to cope with the monsoon in the early stages of the trip.

An officer of the Embassy who has recently made a trip through North Sikkim under conditions similar to those encountered in Tibet (including the crossing of a 17,500 foot pass), has indicated to me his willingness to make the trip to Lhasa in the event that one is authorized by the Department. Out of courtesy to the Tibetans, who designated two members of their Goodwill Mission to deliver the letters addressed to the President, I feel it would be desirable to send two Americans to Lhasa. If one were a Foreign Service Officer, the other might well be an Army officer who would have an opportunity to make observations which might prove to be of great value to his superiors.

If one or more officers were to leave for Lhasa early in June, supplies for the trip obtained in the United States would have to be

shipped from the United States not later than the last week in March, and since several weeks would probably be required for the purchase and packing in the United States of the customary gifts for Tibetan officials, provisions, and gear, it would be necessary to start assembling these items some time in February.

A memorandum discussing in some detail the supplies which would be needed on a trip to Lhasa is going forward under cover of my despatch no. 915 of today's date² on the subject "Courtesy Visit to Lhasa: Requirements for Journey".

Respectfully yours,

GEORGE R. MERRELL

[Enclosure 1—Translation]

The Dalai Lama of Tibet to President Truman

To: His Excellency President Truman who is gifted with wealth of luck and power.

I thank you for Your Excellency's good health and for Your Excellency's benevolent deeds which are so deep with wisdom and brightness.

Here I am also well. Although I am young, I am doing my best to spread the Buddhist religion in Tibet. I pray wholeheartedly for peace to reign amongst the peoples of the World. Lately, there has been a Great World War, but through Your Excellency's genius and skill the war has now ended and peace has been restored to the World, for which I rejoice. In view of the good relations which have been established between the Governments of the United States of America and Tibet I am specially deputing two Dzasas viz:—Lachag Thupten Samphel and Cha-Tsa Khe-med-pa (Kusangtse) to convey my best wishes (Tashi-De-Le) and congratulatory presents on the Victory. As before, I hope Your Excellency will still think of promoting the good relations which exist between the two Governments.

Again, I pray for Your Excellency's good health and for Your Excellency's good works to the World as heretofore.

Sent with a special scarf (Nang/Zod) of greetings with a sealed and framed portrait of myself on the 3rd day of 2nd 11th month of the Tibetan Wood Bird Year (corresponding to 5th January 1946).

[Enclosure 2—Translation]

The Tibetan Regent to President Truman.

To: His Excellency President Truman who is gifted with wealth of luck and power.

Your Excellency being the "Tree of Life" of all the countries in

² Not printed.

the world at present; I thank Your Excellency for your good health. Here I am also keeping good health by the kindness of the Dalai Lama and am doing my work well and praying wholeheartedly for the welfare of all living beings. I am happy to say that although there has been a Great World War lately, yet with the patience, skill and genius of Your Excellency it has now ended and that peace has been restored to the people. In view of the good relations which have been established between the Governments of the United States of America and Tibet; I am specially deputing two Dzasas viz:—Lachag Thupten Samphel and Cha-Tsa Khe-med-pa (Kusangtse) with letters from His Holiness the Dalai Lama and myself, to convey our best wishes (Tashi-De-Le) and congratulatory presents on the Victory. In future also, please extend further kindness towards strengthening the friendship which already exists between our two Governments.

Again, I pray for Your Excellency's good health and for Your Excellency's kind thought towards the responsibility of the world peace.

Sent with a silk scarf of greetings, a gold badge inscribed "Tashi-De-Le" and a framed portrait of myself on the 5th day of 2nd 11th month of Wood Bird Year (corresponding to 7th January 1946).

[Enclosure 3—Translation]

The Tibetan Cabinet Ministers to President Truman

To: His Excellency President Truman.

We hope this will find you in good health and doing well. We are all also well through the kindness of His Holiness the Dalai Lama and executing our work satisfactorily.

Recently there has been a great world war but through the genius and skill of American Ministers the war has now ended and peace has been restored to the world for which His Holiness the Dalai Lama, His Highness the Regent Trak-dra Pundite and the people of Tibet are very pleased. Moreover, the American Government and the Tibetan Government have established good relations and because of this the Dalai Lama and His Highness the Regent have deputed two Dzasas viz., Lachag Thupten Sangpo (Dzasa Chhoden Tender) and Dzasa Khemedpa (Kusangtse) to convey our best wishes with present (Tashi Dele) on the Victory through your representative at Delhi, Mr. George Merrell. In future, please look after your health and endeavour to increase the good relations that exist between our two countries and also help to increase the Buddhist religion. Again I pray that your health may be good and affairs prosperous.

Sent with a silk scarf on Wood-Bird year.

811.001 Truman, H. S./5-3146

The Acting Secretary of State to the Chargé in India (Merrell)

No. 671

WASHINGTON, April 14, 1947.

SIR: Reference is made to New Delhi's despatches no. 616 of May 31, 1946, no. 869 of December 3, 1946,³ no. 913 and no. 915 of January 13, 1947 and no. 925 of January 22, 1947,⁴ all in regard to letters addressed by the Tibetan authorities to President Truman and the related question of a possible visit to Lhasa by a member of your staff. In these despatches the Department was urged to give consideration to the questions of the strategic importance of Tibet and the desirability of a noncommittal attitude with respect to the status of that area.

An officer of the Department has discussed with officers of the War Department's Plans and Operations Division the question of Tibet's strategic importance. They have stated informally that in their opinion that area would not readily lend itself to development as a base from which ground, air or rocket operations could be effectively launched. Moreover, from the standpoint of Sino-American relations, the Department feels that no useful purpose would be served at the present time by action likely to raise the question of our official attitude with respect to the status of Tibet. Specifically, the Department considers that a visit involving the degree of ostentation apparently envisaged in the reference despatches is likely to create misapprehension with respect to American intentions both among Tibetans and Chinese.

The Department nevertheless desires that the authorities and people of Tibet should regard the United States as friendly and well-disposed, and wishes to be kept informed of the more important trends and developments in that region. Accordingly, it is preparing for the President's signature a reply,⁵ which may be forwarded from Delhi by readily available means of communication, to the letters of the Tibetan authorities. Moreover, it will be disposed to regard with favor, subject to the availability of personnel and travel funds, occasional visits to Tibetan areas by Foreign Service Officers. It is felt, however, that such visits should, under present circumstances, be unobtrusive and unofficial.

Very truly yours,

DEAN ACHESON

³ Neither printed.⁴ Despatches Nos. 915 and 925 not printed.⁵ Apparently no reply was sent.

693.0031 Tibet/8-147

The Ambassador in India (Grady) to the Secretary of State

[Extract]

No. 100

NEW DELHI, August 1, 1947.

[Received August 18.]

Subject : Tibetan Trade Mission : Plans for Washington Visit ; Political Background.

SIR : I have the honor to refer to the Embassy's despatch No. 913, dated January 13, 1947, on the subject "Letters to the President from the Dalai Lama, the Regent, and the Kashag of Tibet ; Political and Strategic Considerations Pointing to the Desirability of Returning Courtesy Visit of Tibetan Goodwill Mission", and to enclose for the information of the Department a copy of a translation of a letter from the "Foreign Office" of the Government of Tibet dated June 11, 1947 ; a copy of a letter from Tsipon Shakabpa, a Tibetan official ; and copies of the Embassy's replies thereto. It will be noted that the Tibetan "Foreign Office" states that, with a view to promoting trade between Tibet and India, China, the United States and Great Britain, Tsipon Shakabpa, head of the Tibetan Mint, has been appointed leader of a trade mission which intends to visit the countries under reference ; and requests that the Embassy inform the Department in order that Tsipon Shakabpa may "have cordial talks there on arrival".

Arrangements in Washington

Tsipon Shakabpa, in his letter, states he will carry letters of introduction to the President, "and also to high officials with whom" he will "have to discuss trade matters"; and that he will be grateful if the Embassy will furnish "names of the officials in America" in order that "introductory letters" may be prepared. He also states he will appreciate receiving "any essential advice" regarding his contemplated journey.

In view of the Department's desire to avoid any action which may reflect on the Chinese claim to sovereignty over Tibet, the Embassy has addressed its reply to the letter from the "Foreign Office" to the "Foreign Bureau". The Embassy has informed the Bureau that a copy of its letter is being forwarded to the Department for such action as may be deemed appropriate, and has indicated that if Tsipon Shakabpa visits Delhi he will be welcome to call at the Embassy.

In its reply to Tsipon Shakabpa the Embassy has stated it is conveying to the Department the particulars set forth in his letter and that the Department is being requested to make appropriate arrangements during his visit. It is pointed out that while the Embassy would be glad to furnish names of individual officials, it is felt that the Depart-

ment would be in a better position to advise him in regard to the calls he wishes to make.

It is hoped that these non-committal replies will leave the Department free to do as little or as much as it deems appropriate in looking after the visitors.

Respectfully yours,

For the Ambassador:
HOWARD DONOVAN
Counselor of Embassy

[Enclosure 1—Translation]

The Tibetan Foreign Office to the American Chargé in India (Merrell)

LHASA, 11 June 1947.

SIR: We are pleased to announce you that for the welfare of the Tibetan people and merchants and establishing good relations between Tibet on the one hand and India, China, U. S. A., and England on the other, we are devising ways and means to promote the export and import trade between Tibet and the above countries. To achieve this end in view, we have deputed Tsepon Shakabpa who is the head of the Tibet Government Mint House as the leader of the trade mission to visit the above mentioned countries and have talks with the respective governments. We shall deem it highly obliged if Your Excellency will be kind enough to intimate this to the State Dept. at Washington also so that he may have cordial talks there on arrival. We empower Tsepon Shakabpa fully in this matter and solicit Your Excellency's help in every respects.

Your Excellency's faithfully,

[SEAL]

[Enclosure 2]

The Leader of the Tibetan Trade Mission (Shakabpa) to the American Ambassador in India (Grady)

LHASA, 14 June 1947.

DEAR SIR: I have been ordered by my Government (Tibetan Government) to proceed to the United Kingdom and the United States of America on a Trade Mission during this year as soon as necessary arrangements for the journey are complete. Official intimation of my proposed visit has already been sent to your office addressed to Mr. George Merrell.

The primary object of the mission is to make enquiries and to study the possibilities of improving both import and export trade between Tibet and U. K. and U. S. A.

I might mention here that I shall carry letters of introduction to your President and also to high officials with whom I shall have to discuss trade matters. I shall, therefore, be grateful if you will kindly let me know the names of the officials in America. The information is required urgently for preparing introductory letters.

Any essential advice regarding my journey, accommodation, etc. during my stay in America will also be appreciated.

I myself do not know English excepting a few words but I shall have a good interpreter with me.

Tibetan exports at the moment are wool, musk, skins and furs, yak-tail, etc. and as regards imports we want all sorts of articles about which I shall make enquiries in your country.

Thanking you in anticipation,

Yours truly,

(TSIPON SHAKABPA)

[Enclosure 3]

The Counselor of the American Embassy in India (Donovan) to the Tibetan Foreign Bureau

NEW DELHI, July 30, 1947.

SIRS: I acknowledge with thanks your letter of June 11 in which it is stated that with a view to promoting trade relations with India, China, the United States, and Great Britain, you have deputed Tsepon Shakabpa, Head of the Tibetan Government Mint, to lead a trade mission which will visit the countries in question for the purpose of holding discussions with the governments concerned; and in which you request that this information be conveyed to the Department of State.

I am glad to inform you that a copy of the translation of your letter is being forwarded to the Department of State for such action as may be deemed appropriate.

Should Tsepon Shakabpa visit New Delhi in the course of his projected trip, I hope he will call at the Embassy.

Faithfully yours,

HOWARD DONOVAN

[Enclosure 4]

The Counselor of the American Embassy in India (Donovan) to the Leader of the Tibetan Trade Mission (Shakabpa)

NEW DELHI, July 30, 1947.

SIR: The Embassy is in receipt of your letter of June 14, 1947, in which you state you have been ordered by your Government to visit the United Kingdom and the United States for the purpose of study-

ing the possibility of increasing trade between Tibet and the United States and the United Kingdom; and in which you request the names of officials with whom you might discuss trade matters.

I am glad to inform you that the Embassy is conveying to the Department of State in Washington the particulars set forth in your letter under reference and in the letter of June 11 addressed to the Embassy by the Foreign Bureau. I am requesting officials of the State Department to make appropriate arrangements during your visit. While I should be glad to furnish names of individual officials I feel the State Department would be in a better position to advise you in regard to the calls you may wish to make.

Should you visit New Delhi in the course of your trip I should be very happy if you would call at the Embassy.

Very truly yours,

HOWARD DONOVAN

693.0031 Tibet/8-2147

The Ambassador in India (Grady) to the Secretary of State

No. 142

NEW DELHI, August 21, 1947.

[Received September 8.]

Subject: Additional Background on Tibetan Trade Mission; Questions Regarding Policy Toward Tibet.

SIR: With reference to my secret despatch No. 100 dated August 1, 1947, on the subject "Tibetan Trade Mission; Plans for Washington Visit; Political Background", I have the honor to transmit for the information of the Department excerpts from a personal letter dated August 4, from Mr. A. J. Hopkinson, Political Officer, Sikkim, to T. Eliot Weil, Second Secretary of Embassy, Delhi.

It will be noted that Mr. Hopkinson states that the Tibetan Trade Mission has been considering leaving Lhasa in August, but that nothing more definite has been learned in Gangtok; that Shagapa [Shakabpa] is "an intelligent man"; that other members of the mission have not yet been definitely named; that he now understands Pangda Tshang⁶ does not want to make the trip; and that so far as he has been able to gather the chief object of the mission will be to obtain gold and possibly silver. Mr. Hopkinson also states that Shagapa has been trying for over a year to accumulate 10,000 tolas (about 4,000 ounces) of gold, perhaps mainly "for the joy of the chase" and that he (Hopkinson) is afraid that "a gold rush and all that it implies" will undermine Tibet's "simplicity and sincerity and its adherence to its own culture".

⁶ Prominent Tibetan trader.

While the last view might be interpreted as an effort on the part of a British official to discourage closer relations between the United States and Tibet, the officer of the Embassy receiving the letter believes Mr. Hopkinson is expressing a sincere opinion, since in the course of an acquaintance of a year and a half with the officer in question Mr. Hopkinson has made it quite clear that as an individual he favors the strengthening of friendly relations between the United States and the people of Tibet.

[Here follow excerpts from Mr. Hopkinson's letter.]

Treatment of Mission in Washington

While it may be assumed that such arrangements as the Tibetan Trade Mission might make in Washington would be of small significance vis-à-vis the foreign trade of the United States in general, and while Shakabpa may have a direct personal interest in the negotiations he hopes to carry out, I feel that members of the Mission, if they reach Washington, should be treated with the utmost courtesy; and that the Chinese Embassy should not be permitted to interfere with friendly contact between the Tibetans and the Department.

As has been reported in previous despatches from this Embassy, the Tibetan Government has on several occasions during the past year and a half shown a genuine desire to develop friendly relations with the United States, and I feel it would be to our advantage to reciprocate. While I am aware of the Department's strong desire to avoid offending the Chinese Government by taking any action which the latter might choose to interpret as a reflection on its claim to sovereignty over Tibet, I feel that our Government should not throw away its unique opportunity to strengthen the friendly feelings which the Tibetans have exhibited.

Importance of Tibet

It has been pointed out in a number of earlier despatches that Tibet's position as a vast island in Asia still apparently unaffected by Soviet influence cannot safely be ignored, and it is an area which in the future might prove extremely useful for military operations. While the War Department's Plans and Operations Division may believe that under present conditions of warfare, the Tibetan plateau would not readily lend itself to development as a base if the necessity arose in the immediate future, it occurs to me that in the course of the next ten or fifteen years there might conceivably be developments in logistics which would render the Tibetan plateau extremely important for military operations at a time when China and India might be in a state of chaos.

So far as the attitude of the War Department toward the practica-

bility of utilizing Tibet as a base at some time in the future is concerned, it would be interesting to know how many Army officers in 1935 would have taken seriously a prediction that ten years later a single aerial bomb could be utilized to demolish a city.

Policy Toward Tibet

In this connection it would be helpful to the Embassy to know whether the Department has reached any further conclusions regarding our policy toward Tibet. It will be recalled that in the policy statement on China, transmitted to the Embassy under cover of the Department's secret instruction No. 581 dated October 28, 1946,⁷ it was stated that "the United States and China both regard Tibet as an integral part of China" and that in the Embassy's despatch to the Department No. 869 dated December 3⁸ on the subject "Policy on Status of Tibet: Desirability of Continuing Non-Committal Attitude", the Embassy pointed out that in the Department's *aide-mémoire* to the British Embassy dated May 15, 1943,⁹ the Department had stated that our Government had "at no time raised a question" regarding either the British or the Chinese claims and that no useful purpose would be served by opening at that time a detailed discussion of the status of Tibet.

It will also be recalled that in the despatch under reference the Embassy inquired whether the policy statement in question represented a change in our official attitude toward Tibet. Since the Embassy has not seen a policy statement on China since it received the one under reference, it is not yet clear whether the statement of policy transmitted last October still holds.

Respectfully yours,

For the Ambassador:
HOWARD DONOVAN
Counsellor of Embassy

693.0031 Tibet/8-2147

The Secretary of State to the Ambassador in India (Grady)

No. 46

WASHINGTON, October 28, 1947.

The Secretary of State acknowledges the receipt of the Embassy's despatches No. 100 dated August 1, 1947 and No. 142 dated August

⁷ Not printed; it enclosed a Policy and Information Statement on China, dated October 1, 1946, on page 22 of which was the following: "Great Britain has long manifested a special interest in Tibet, and has exercised a considerable political influence there. As the U. S. and China both regard Tibet as an integral part of China, British attempts to prevent the exercise of Chinese sovereignty over that area or to change its political status would constitute a source of friction in Sino-British relations and could not fail to be of concern to the U. S."

⁸ Not printed.

⁹ *Foreign Relations*, 1943, China, p. 630.

21, 1947 in regard to a proposed official Tibetan trade mission to the United States, Great Britain, India and China.

It is not apparent whether the members of this mission would proceed to the United States on official Chinese passports or whether they would expect to carry passports issued by the Tibetan "Foreign Office". In this connection it should be recalled that China claims sovereignty over Tibet and that this Government has never questioned that claim; accordingly, it would not be possible for this Government to accord members of the projected mission other than an informal reception unless the mission enjoyed the official sanction of the Chinese Government. If the members of the mission carry only Tibetan travel documents, any visas issued them should be placed upon Form-257 rather than upon their passports. Should they apply for visas and should it appear that there exist technical grounds for denying them entry to the United States, the Embassy should promptly apprise the Department of the attendant facts by telegraph; the Department may then in its discretion seek to make arrangements with the immigration authorities for necessary waivers.

Residents of Tibet visiting the United States for the purpose of exploring possibilities for conducting trade between that area and this country could of course expect to receive certain types of assistance from the Department of Commerce. As long as possible in advance of their arrival, that Department would wish to know the number of persons comprising the mission, their names, their public and private economic interests, the date of their arrival in the United States and the duration of their expected stay. The Department of Commerce would arrange on their behalf itineraries, introductions and meetings with interested people in the United States; it does not have funds for activities in behalf of trade missions going beyond those cited above. The Embassy indicates in its despatch of August 1 that the proposed leader of the mission wished to have the names of United States officials with whom he might discuss trade matters; it is believed that the official in the Department of Commerce most suitable for the conduct of such discussions would be Mr. Thomas E. Hibben, Adviser for Foreign Economic Development.

It is stated in the Embassy's despatch of August 21 that the chief object of the mission may be to obtain gold and possibly silver. Silver can be purchased freely on the U. S. market. In general the Gold Reserve Act of 1934¹⁰ prohibits the purchase of gold except on foreign government account—which ordinarily is interpreted to refer to purchase by the Central banks of such Governments. Gold refined in this country from foreign ore has been exempt from this prohibition and

¹⁰ Approved January 30, 1934; 48 Stat. 337.

could sometimes be purchased in New York at a premium of several dollars above the official price of \$35 per ounce. However, gold refined from foreign ore imported into the United States after November 24, 1947 may be exported from this country only if the domestic refiner does not participate in the sale of such gold and if the export of gold from the country of origin of the foreign ore and the import of gold into the country of destination is permitted under the respective laws of the countries concerned.

Please keep the Department informed of any further developments of importance in regard to this mission.

693.0031 Tibet/11-2147

The Ambassador in India (Grady) to the Secretary of State

No. 353

NEW DELHI, November 21, 1947.

[Received December 8.]

Subject: Particulars Regarding Members of Tibetan Trade Mission.

SIR: With reference to the Department's secret instruction No. 46 dated October 28, 1947, and to the Embassy's despatch No. 142 dated August 21, 1947, on the subject "Additional Background on Tibetan Trade Mission; Questions Regarding Policy Toward Tibet", I have the honor to state that further particulars regarding the Mission have been obtained from Mr. A. J. Hopkinson, former political officer in Sikkim, now Government of India representative in that State, who has been visiting Delhi during the last few days.

Mr. Hopkinson says that the Mission, which he believes has now reached Kalimpong, may visit China before going to the United States and the United Kingdom. According to Mr. Hopkinson members of the mission may feel that if they visit China after visiting the other two countries, the Chinese will endeavor to learn all details of their activities, whereas if they make a courtesy visit to Nanking first they will be able to return to Tibet directly from the United States or United Kingdom and avoid cross-examination in Nanking. Mr. Hopkinson feels that members of the Mission probably have no idea of the complications they will encounter if they endeavor to purchase silver or gold in the United States, not the least of which would be the problem of obtaining dollars—presumably in India. Mr. Hopkinson is also of the opinion that despite their acumen as traders, members of the mission may prove to be "babes in the wood" when they come face to face with exchange and banking regulations and import and export restrictions.

Mr. Hopkinson has confirmed information previously given an of-

ficer of the Embassy to the effect that the mission appears to be primarily the brainchild of Rimshi Pangda Tsang who is understood to be the richest trader in Tibet. Hopkinson says Pangda Tsang told him about a year and a half ago that he wanted to visit the United States and the United Kingdom, and it seems likely that the trade mission is an outgrowth of this desire. As was indicated in the Embassy's despatch under reference it is obvious that if the Tibetan group visits Washington, its negotiations—official or unofficial—cannot have any appreciable effect on our foreign trade. In the interest of friendly relations, however, the Embassy hopes the Department will find it possible to insure a courteous reception, and to take such steps as may be feasible to prevent members of the mission from falling into the hands of unscrupulous persons.

Mr. Hopkinson has furnished the following information on the four members of the mission :

[Here follows information on each of the four members of the mission.]

The Embassy has noted the Department's reminder that if members of the Mission carry only Tibetan travel documents visas should be placed on Form 257. The Embassy understands that at present members of the mission are provided only with travel documents issued by the Tibetan authorities. It is possible, however, that if the mission visits Nanking before visiting the United States the Chinese may persuade its members to accept Chinese passports.

Respectfully yours,

For the Ambassador:

HOWARD DONOVAN

Counselor of Embassy

150.93/12-2247 : Telegram

The Chargé in India (Donovan) to the Secretary of State

NEW DELHI, December 22, 1947—4 p. m.

[Received 11:11 p. m.]

1146. Department's instruction 46, October 28, 1947. Counselor Chinese Embassy called on me today and mentioned press reports regarding Tibetan trade mission just arrived Calcutta. Counselor said Chinese Government had no desire prevent mission from proceeding U. S. A. but Chinese Government felt they should travel on Chinese passports. He said GOI¹¹ had for some time past extended special privileges to Tibetans regarding travel to and within India which were not granted to Chinese. I was noncommittal in reply.

¹¹ Government of India.

If Tibetans apply for visas, Embassy favors issuance Form 257 and advising Chinese Embassy [policy?] our Government regarding travel documents and keeping conversation on visa level. Should we at same time inform Chinese US Government has never questioned Chinese sovereignty over Tibet? Please telegraph reply Delhi and Calcutta.

Sent Department 1146, repeated Calcutta as 125, repeated Nanking unnumbered.

DONOVAN

150.93/12-2247 : Telegram

The Acting Secretary of State to the Chargé in India (Donovan)

WASHINGTON, December 26, 1947—6 p. m.

812. No objection issuance visas members (urtel 1146 Dec 22) Tibetan Trade Mission. Should they bear Chinese official passports designating them officials proceeding on official mission you may issue 3 (1) visas. If they do not present Chinese passports it would seem appropriate particularly in view their intention visit Nanking Shanghai (Calcutta's Dec 24 midnight ²²) inquire whether they intend apply therefor. If they evince unwillingness do so you may then your discretion grant 3 (2) visitors visas on Form 257.

Should you issue visas on Form 257 you may in any further discussion subject with Chinese colleague point out this is standard procedure cases where applicant presents passport of Govt US does not recognize. Should turn conversation make such comment appropriate no objection your stating you understand US Govt has never questioned Chinese sovereignty over Tibet. (Sent New Delhi as 812. Repeated Calcutta as 279, Nanking as 1573 and Shanghai as 2201.) Dept neither desires you put pressure Tibetans to subordinate themselves Chinese authorities nor that this Trade Mission become issue between US and China.

LOVETT

693.0031 Tibet/12-3047

The Chargé in India (Donovan) to the Secretary of State

No. 459

NEW DELHI, December 30, 1947.

[Received January 14, 1948.]

SIR: With reference to the Department's telegram to the Embassy No. 812, December 26, and to the Embassy's recent despatches on the

²² Telegram No. 340, not printed.

subject of the Tibetan Trade Mission,* I have the honor to transmit for the information of the Department a memorandum of a conversation between officers of the Embassy and members of the Tibetan Trade Mission which called at the Embassy today.

As the Embassy has indicated in earlier reports, the Tibetan Trade Mission has no very definite plans for increasing trade between Tibet and the United States, but is clearly interested in purchasing gold and silver. In the course of the conversation under reference Tsepon Shakabpa, leader of the delegation, stated that they wished to buy gold and silver for the Tibetan Government, and when asked whether this was to be used as backing for their currency, replied in the affirmative. As the Department is aware, two questions arise in connection with the Mission's desire to purchase gold and silver: (a) Will they be able to obtain the necessary dollars from the Government of India? and (b) Will their intended purchases, in view of the provisions of the Gold Reserve Act of 1934, be regarded by our Government as purchases on a foreign government account? If the Mission obtains enough dollars from the Government of India to purchase gold and silver in the United States, our Government will presumably be faced with the problem of deciding to what extent the Tibetan Government may be regarded as autonomous.

As is indicated in the enclosed memorandum, there is reason to doubt that the Government of India will grant any substantial amount of dollars to the Mission. This has been insinuated in remarks made to an officer of the Embassy both by an official of the Ministry of External Affairs and by the Government of India representative in Gangtok.

Another point which the Embassy wishes to call to the attention of the Department, and of the Embassy at Nanking and the Consulate General in Shanghai, is the fact that Tsepon Shakabpa stated that since in the past a certain amount of trade had been carried on between Japan and Tibet, the members of the Mission hoped to visit Japan en route to the United States. They were told that since they planned to visit China en route to the United States it would be advisable to inquire at the Consulate General in Shanghai or the Embassy in Nanking regarding formalities connected with visits to Japan.

The Chinese Embassy has not raised the question of visas for the Tibetans with this Embassy since the occasion of the Counselor's call reported in the Embassy's telegram to the Department No. 1146 dated December 22. That the Government of India does not look with favor

*No. 100, August 1, 1947, "Tibetan Trade Mission: Plans for Washington Visit; Political Background". No. 142, August 21, 1947, "Additional Background on Tibetan Trade Mission; Questions Regarding Policy Toward Tibet". No. 353, November 21, 1947, "Particulars Regarding Members of Tibetan Trade Mission". [Footnote in the original.]

on the possibility of Chinese interference with the proposed trip of the Mission was indicated by the fact that an official of the Ministry of External Affairs remarked to an officer of the Embassy on December 28 that members of the Mission were anxious to call on various foreign missions in Delhi; that he hoped this Embassy would be able to receive them soon; and—smilingly—that it was quite unnecessary for the Ministry of External Affairs to encourage the Chinese Embassy to get in touch with the Tibetan Mission.

As has been indicated in earlier communications, the importance of the Tibetan Trade Mission's visit from a purely commercial point of view will be small, but a friendly reception in the United States may go a long way toward strengthening relations with a government which controls a large and strategic area bordering on territory where Soviet influence is widespread.†

Respectfully yours,

HOWARD DONOVAN

[Enclosure]

Memorandum by the Second Secretary of Embassy in India (Weil)

NEW DELHI, December 30, 1947.

Having written the Ambassador requesting an interview, the Tibetan Trade Mission called at the Embassy this morning and was received by the Chargé d'Affaires, Mr. Day, and Mr. Weil. The members of the Mission present were Tsepon Shakabpa, leader; Rimshi Pangda Tsang; Khenchung Changkhyimpa; and Depon Surkhang. They were accompanied by an interpreter named Ratna who, according to Dayal of External Affairs and Depon Surkhang, is a Nepalese by birth. Depon Surkhang told me this morning that Ratna had Tibetan citizenship and carried Tibetan travel documents. While Depon Surkhang speaks English with some degree of proficiency and seems to have been originally designated as interpreter for the Mission, Ratna acted as interpreter throughout the conversation this morning.

After Tsepon Shakabpa had presented Mr. Donovan with a photograph of the Regent and letters from the Regent and the Kashag (Cabinet), discussion centered on the subject of trade between the United States and Tibet, and the specific objectives of the Mission's intended trip to the United States.

†Despatch No. 869, December 3, 1946, "Policy on Status of Tibet: Desirability of Continuing Noncommittal Attitude". Despatch No. 913, January 13, 1947, "Letters to the President from the Dalai Lama, the Regent, and the Kashag of Tibet; Political and Strategic Considerations Pointing to Desirability of Returning Courtesy Visit to Tibetan Goodwill Mission". [Footnote in the original; despatch No. 869 not printed.]

Shakabpa referred to the fact that the Mission was holding talks with External Affairs with a view to obtaining dollars from the Government of India. He said that while they hoped to proceed to Calcutta around January 2, it was possible that the talks might last until a later date. This ties in with remarks made to me by Dayal of External Affairs and A. J. Hopkinson, Government of India representative in Sikkim, to the effect that the Government of India might not readily grant the Tibetan Trade Mission any substantial quantity of dollars.

In the course of the conversation Shakabpa referred to the fact that all dollars received for exports of Tibetan products to the United States—particularly wool, yak tails, and musk—were held by the Government of India, which in turn paid the Tibetans the equivalent in rupees. In this connection Depon Surkhang told me that along with the dollar question, the Mission was taking up the matter of customs duty collected by the Government of India on imports into Tibet passing through India. I believe it is very doubtful that the Tibetans will get very far in their efforts to have these customs duties waived.

When Shakabpa was asked just what American products they were particularly interested in buying, he was rather vague and said the present trip was in the nature of a survey to find out what products they might really be interested in. He did say, however, that they were definitely interested in buying gold and silver for the Tibetan Government. When asked whether this was to be used for backing of their currency, he replied in the affirmative; and when asked whether any of the metal would be used for coinage, he indicated that very little, if any, would be utilized for this purpose. In this connection the question arises whether our Government would consider an order from the Lhasa Government as falling under the general prohibition in the Gold Reserve Act of 1934 of purchases of gold in the United States except on foreign government accounts.

Shakabpa asked for some sort of introductions to use in the United States. Mr. Donovan told him as soon as they knew approximately when they would arrive in the United States, the Department of State would be informed; and that since they planned to visit China en route to the United States it would be possible for the Consulate General in Shanghai or the Embassy in Nanking to notify the Department. This seemed to satisfy the members of the Mission.

Shakabpa said that since in past years there has been a certain amount of trade between Japan and Tibet, they were interested in visiting Japan, and he inquired whether there would be any difficulty in this connection. Mr. Donovan said he felt it would be advisable for the members of the Mission to make inquiries on this subject in

Shanghai or Nanking where the Consulate General or the Embassy would be able to give them full particulars.

At Mr. Donovan's suggestion the members of the Mission said they would be glad to get in touch with the Embassy following the conclusion of their talks with the Government of India.

In view of the fact that members of the Mission were advised to apply for visas from the United States in Nanking or Shanghai, no direct reference was made to the exact nature of their travel documents or to the question of Chinese claims of sovereignty over Tibet.

T. ELIOT WELLS

COUNCIL OF FOREIGN MINISTERS MEETING AT MOSCOW: UNITED STATES OPPOSITION TO PLACING CHINA QUESTION ON AGENDA; EXCHANGE OF VIEWS BETWEEN THE UNITED STATES AND THE SOVIET UNION REGARDING WITHDRAWAL OF TROOPS FROM CHINA

740.00119 Council/3-1047: Telegram

The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State

[Extracts]

Moscow, March 10, 1947—11 p. m.

[Received March 10—5:54 p. m.]

741. Delsec 1288. For the President and Acting Secretary Acheson from Marshall.² The opening meeting of the Council of Foreign Ministers convened this afternoon with Molotov,³ Bidault,⁴ Bevin⁵ and myself present. [Here follows discussion of procedural matters.]

Molotov then proposed that the agenda include an information report by each of the four signatory powers to the Moscow Declaration as to the fulfillment of promises contained in the declaration as regards China.⁶ I stated that the submission of such a report appeared to be a reasonable request but that I was concerned as to just how China would be represented at the discussions. Molotov stated that since China was not a signatory of the Moscow Conference he saw no reason why they should be represented. (I do not think such report should be rendered to these four Ministers, that is, to this Council, but only to Molotov and Bevin.)

. . . Mr. Molotov then asked if I agreed to include the China problem in the agenda, and I stated that I wished to think it over further and would report tomorrow. . . .

[Marshall]

SMITH

¹ For additional documentation on this meeting, see *Foreign Relations*, vol. II, pp. 139 ff.

² George C. Marshall, Secretary of State.

³ Vyacheslav Mikhailovich Molotov, Soviet Minister of Foreign Affairs.

⁴ Georges Bidault, French Minister for Foreign Affairs.

⁵ Ernest Bevin, British Secretary of State for Foreign Affairs.

⁶ Section IV of the Communiqué on the Moscow Conference of the Three Foreign Ministers, December 27, 1945; Department of State *Bulletin*, December 30, 1945, p. 1030, or *Foreign Relations*, 1945, vol. II, pp. 815, 821.

740.00119 Council/3-1147 : Telegram

The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State

[Extracts]

Moscow, March 11, 1947—11 p. m.

[Received March 11—6:03 p. m.]

761. Delsec 1291, for the President and Acting Secretary Acheson from Marshall. The CFM met today 11 March from 4 to 7:30 p. m. with me presiding.

On the information report Molotov desired on China, both Bevin and myself agreed, and so stated, that it was not a matter for CFM but that we had no objection to an informal exchange of data among the three Ministers concerned as an item entirely separate from the Council table. Bidault disassociated France from any discussion thereof. Molotov proposed that any discussions result in a communiqué such as that of the Moscow Conference. I and Bevin opposed any discussion of such a matter at the Council table. There being no agreement, we passed to the next item.

[Marshall]
SMITH

740.00119 Council/3-1447 : Telegram

*The Chinese Ambassador in the Soviet Union (Foo) to the Secretary of State*⁷

Moscow, March 12, 1947.

YOUR EXCELLENCY: Under the instruction of the Ministry of Foreign Affairs I have the honour to communicate to Your Excellency the following statement made by the Foreign Minister, Dr. Wang Shih-chieh in Nanking on March 11, 1947.

"The Chinese Government has not been officially notified of the reported proposal of Mr. Molotov to include problems relating to China in the agenda of the Moscow Conference of four Foreign Ministers. But on this matter the Chinese Government has previously made it clear in Notes to the four Foreign Ministers that the agenda of the

⁷ Copy transmitted to the Department by the American delegation at the Council of Foreign Ministers in Moscow in despatch No. 93, March 14; received March 18. The Ambassador in China (Stuart) received the text on March 11 which he submitted to the Department in his telegram No. 522 of the same date.

Moscow Conference should be strictly confined to problems of Peace Settlements for Austria and Germany.

It cannot be over stressed that the internal problems of any state represented in the Council of Foreign Ministers do not lie within the Council nor can such problems be allowed to form the subject of Agreement among the other Members of the Council and that any extension of the agenda must be a matter for prior consultation and agreement among the five Foreign Ministers.

China's stand in this respect has received the support of Great Britain, France, and the United States of America, and in the reply from the Soviet Government no objection was raised.

The Chinese Government will not in any manner agree to the inclusion of such problems in the agenda of the Conference.

I avail myself [etc.]

FOO PING-SHEUNG

740.00119 Council/3-1247

Memorandum of Conversation, by the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] March 12, 1947.

Participants: The Acting Secretary
The Chinese Ambassador⁸
Mr. Vincent

The Chinese Ambassador called at 5:15 yesterday afternoon at his request. He expressed his concern over the Soviet proposal that discussion of China be placed on the agenda of the Foreign Ministers' Conference at Moscow. He said he had no instructions but that he knew his Government was opposed to this proposal, and he went to some length in expressing his ideas on sovereignty, interference in internal affairs of state, et cetera.

Mr. Acheson informed him that we had a report from the Secretary on the subject; that the Secretary wanted time to consider the matter; and that if such discussions were to take place at the Conference, a representative of the Chinese Government should be present. He reminded the Ambassador of our recent exchange of notes⁹ on this subject, and Mr. Vincent recalled the Secretary's recent oral comment¹⁰ to Ambassador Koo, the sense of which was that the Secretary himself had no intention of putting Far Eastern matters on the agenda of the Moscow Conference.

⁸ V. K. Wellington Koo.

⁹ Note from the Chinese Ambassador dated January 15 and the Department's reply dated February 5 and *aide-memoire* from the Chinese Embassy dated February 25, none printed.

¹⁰ See memorandum by the Secretary of State, February 17, p. 1066.

The Ambassador then launched forth into a long circumlocutory discourse on the difficulties of the China situation, China's desire to bring about order in the country, the need for time and patience in accomplishing this, et cetera, et cetera. Mr. Vincent informed him that the Department certainly was not impatiently pressing the Chinese to find a solution, although it was certainly our desire that one be found. The Ambassador inferred that, whereas we were showing considerable interest in Eastern Europe (particularly Greece) we were not showing similar interest in China. Mr. Acheson and Mr. Vincent assured the Ambassador that there was a continuing and very lively interest in China; that we were anxious to be helpful in any practicable way; and that the Secretary was very much aware of the importance of finding a solution for China's problems.

The Ambassador wanted to know what he might tell his Government with regard to the issue raised at Moscow. Mr. Acheson suggested that he refer to our recent note and to his conversation recently with General Marshall. He added that he was sure General Marshall would reach a wise and correct decision in the matter.

893.00/3-1347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 13, 1947.

[Received March 12—11: 45 p. m.]

543. Supplementing statement issued by Foreign Minister March 11 on the Soviet proposal for inclusion discussion of China on the agenda at the current Moscow Conference, the Vice Minister for Foreign Affairs at the regular weekly press conference of the Ministry of Information March 12 added as follows:

“Having fought for over 8 years the Chinese people cannot accept and indeed rightfully resent any proposition that matters within her domestic jurisdiction may be deliberated upon or made the subject of agreement among the governments of other countries. It will be taken as a complete disregard of China's sovereign rights and her position as an ally. Furthermore it is contrary to the spirit and letter of the United Nations Charter¹¹ which forbids intervention in the domestic affairs of a member. You might ask whether the discussion may take place with Chinese participation. I concur definitely that China's participation or not will in no way alter the position that such problems should not be discussed at the Conference.”

STUART

¹¹ Signed at San Francisco, June 26, 1945; Department of State Treaty Series No. 993, or 59 Stat. (pt. 2) 1031.

893.00/3-1447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 14, 1947—11 a. m.

[Received March 14—9:01 a. m.]

559. Having been prepared by weeks of reiteration of the Chinese position, the reaction to the Molotov proposal for the inclusion of China on the agenda of the Moscow Conference was instantaneous. Within a few hours after the news had been received in China, the Foreign Minister issued a strongly worded statement which was reinforced the following day by the Vice Minister for Foreign Affairs. (ReEmbtels 526, March 12¹² and 543, March 13). Both have received wide dissemination as has declaration by Dr. Sun Fo¹³ terming proposal an "insult" to China.

Among the newspapers which have already commented are the Kmt¹⁴ *Chung Yang Joh Pao*, CC clique¹⁵ *Sin Wan Pao* and *Ta Kang Pao*, the influential independent *Ta Kung Pao* and *Hsin Min Pao*. All have thrown full support to the official Chinese stand that the proposal derogates Chinese sovereignty, is in violation of the UN Charter and can only be considered as unfriendly act by a power which in recent months has committed a series of unfriendly acts. All made the point that no form of foreign intervention can be tolerated since the current crisis is purely an internal affair which only China can and must settle. So far there has been no reaction from Communist, Democratic League or left-wing organs of opinion such as the Shanghai *Wen Hui Pao*.

Some indication of what the reaction may be in circles represented by the Democratic League was given several days ago to a reliable Embassy source of information by Lo Lung-chi, spokesman of the Democratic League. He said he had for some time now been turning over in his mind the desirability of a manifesto from the Democratic League calling for international consultation and an offer of assistance in settling civil war since American mediation had failed and there now appeared to be no prospect that the Government and the Communists could or would resume peace negotiations for at least some time to come. He indicated he was inclined to favor such a manifesto. He added that he had discussed this possibility with Tung Pi-wu, head of the Communist delegation in Nanking, but he did not give any indication of Tung's reaction. It is possible that it was at Communist instigation that the Democratic League manifesto of March 8 con-

¹² Not printed.

¹³ President of the Chinese Legislative Yuan.

¹⁴ Kuomintang.

¹⁵ Chen brothers, Li-fu and Kuo-fu.

tained the following sentence as a trial balloon, "We, the Democratic Leaguers, will welcome foreign mediation either by one nation or by a group of nations if such mediation is well intended and not designed to interfere with our domestic affairs". A somewhat similar statement was made by General Chou En-lai¹⁶ to foreign correspondents who went to Yen-an a week ago during repatriation of Communist delegations.

Department please repeat to Moscow and Tokyo.

STUART

893.00/3-1747

*The Secretary of State to the Soviet Minister for Foreign Affairs (Molotov)*¹⁷

[Moscow,] March 15, 1947.

DEAR MR. MOLOTOV: I have your letter of March 11¹⁸ regarding the matter of the execution of the provision in the Moscow protocol of December 1945 with reference to China.

When this question was raised by you in the Council of Foreign Ministers, I stated that I would be pleased to exchange with you and Mr. Bevin, while I am in Moscow, but not in the Council of Foreign Ministers, information concerning the execution of the provisions of the Moscow declaration regarding China. This I will do, but I do not think it desirable to engage in any conference, however informal.

I suggest that each of us furnish the others with the stated information before April 1 and that each of us make available a copy of the information so furnished to the Chinese Government.

Please accept [etc.]

[GEORGE C. MARSHALL]

893.00/3-1547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 15, 1947.

[Received March 17—3:55 a. m.]

571. Following is translation text of telegram appearing in *Ta Kung Pao*, March 13, which was sent to Foreign Ministers Conference, Moscow, March 12, by 56 prominent Chinese leaders in Shanghai including Chang Lan, chairman Democratic League; Ma Hsu-lun,

¹⁶ Vice chairman of the military council of the Chinese Communist Party and head of the Communist delegation during 1946 negotiations with Gen. George C. Marshall and the Chinese Government.

¹⁷ Copy sent to the British Secretary of State for Foreign Affairs (Bevin).

¹⁸ Not found in Department files.

[for?] civic leaders; Lo Lung-chi, spokesman Democratic League; Ma Yin-chu, professor economics; Huang Yen-pei, Shen Chun-ju and Chang Po-chun, Democratic Leaguers, and Kwo Mo-jo, writer:

“We hope that those countries participating in Foreign Ministers Conference now being held in Moscow will be able to: 1, abide by agreement not to interfere with China’s domestic affairs and immediately withdraw all their troops from China. Pending the inauguration of real democratic and unified coalition government in China, they will cease any help to either one of the warring parties; 2, make utmost efforts to bring civil war in China to early end and to realize democracy and unity in this country in accordance with agreement re China issue reached at Three Power Foreign Ministers Conference held in December 1945.

“We are fully aware that these two hopes represent real desire of Chinese people and earnestly hope that governments and peoples of all our friendly neighboring countries will be able to help the Chinese people to realize their hopes at an early date.”

STUART

893.00/3-1547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 15, 1947.

[Received March 17—9:40 a. m.]

573. Yenan radio 15th broadcast following item:

“General Chou En-lai, representative of China’s Communist Party, made following statement about discussion on China question in Moscow Foreign Ministers Conference:

Four power Foreign Ministers Conference now being held in Moscow is proposing that countries participating in Moscow Conference of December 1945 should review carrying out of agreements reached in China question at that conference. We believe that this is necessary and moreover reasonable. Countries which were parties to agreements reached at that time unanimously held that civil war should cease and democratization should be realized in China and that democratic elements should widely participate in all organs of Chinese Government. Foreign Ministers of Great Britain, United States and Soviet Union had reiterated policy of nonintervention in Chinese internal affairs. United States and Soviet Union also mutually agreed to withdraw troops stationed in China. After publication of agreement, United States representative immediately carried out mediation during Kuomintang-Communist negotiations in China. But a year has proved that civil war in China has not only not ceased but has grown more violent. Democratization of Chinese Government has not only been unrealized but has become more dictatorial.

One of main causes giving rise to such phenomena is policy of American Government, in not only intervening in China internal affairs but moreover siding Chiang Kai-shek’s civil war and of not only not with-

drawing American forces from China but moreover participating of American air, navy and land forces in this civil war. Such state of affairs is obviously in violation of principle agreed on at Moscow Conference of December 1945. Countries participating in this conference have real responsibility to review the matter.

China's Communist Party as one of parties in Chinese question obviously has right of inquiring into matter. If Kuomintang Government has formally demanded or if four power Foreign Ministers Conference decide to invite China to participate in any decision of China question, Chinese Communist Party demands same rights as Kuomintang Government to send its representatives to participate in discussion of China question by four powers Foreign Ministers Conference. Because Kuomintang Government cannot represent 140 million people in Chinese liberated areas and democratic elements throughout country and moreover United States representative in mediation of China's internal question has long ago recognized equal relative status on Kuomintang and Chinese Communist Party, we therefore will definitely not allow unilateral participation of Kmt Government in discussion of China question."

Please repeat to Moscow.

STUART

893.00/3-1747

*The Chinese Embassy to the Department of State*¹⁹

AIDE-MÉMOIRE

1. The Chinese Ambassador at Moscow, Dr. Foo Ping-sheung, has reported to the Chinese Foreign Minister that the Secretary of State informed him personally of the receipt of a letter from M. Molotov proposing a meeting of the Foreign Ministers of the United States, the United Kingdom and the Soviet Union in order to exchange views regarding the decision concerning China reached at a meeting of the Foreign Ministers of the three Powers held in Moscow in December 1945, and conveying his concurrence in the participation of a Chinese representative in the proposed discussions.

2. Dr. Foo has further reported that the Secretary of State and Mr. Bevin had only consented to have an exchange of views with the Soviet Foreign Commissar in regard to the question of the withdrawal of American and Soviet troops from China and were unwilling to discuss any question concerning China's domestic affairs, and that the Secretary was desirous of soliciting the views of the Chinese Government in regard to the proposed meeting since there was a possibility of the Soviet Union bringing up China's internal situation for discussion.

¹⁹ Handed on March 18 by the Chinese Minister-Counselor of Embassy (Tan) to the Director of the Office of Far Eastern Affairs (Vincent).

3. In reply to this inquiry, Dr. Wang Shih-chieh, the Chinese Foreign Minister, has directed the Chinese Ambassador in Moscow to communicate to the Secretary of State and Mr. Bevin that, since the Chinese Government was not a party to the statement relating to China as embodied in the Communiqué of the Moscow Conference of December 1945, and since that statement has been strongly objected to by the Chinese people as being at variance with their cherished principles of independence and sovereignty, the Chinese Government cannot participate in, or agree to, a meeting of the Foreign Ministers for the purpose of discussing any question in connection with the aforementioned statement as proposed by the Soviet Foreign Commissar, and that it earnestly asks that the Foreign Ministers of the United States, the United Kingdom and the Soviet Union refrain from any discussion of matters relating to China's domestic affairs.

4. The Chinese Ambassador in Moscow has also been directed by the Chinese Foreign Minister to thank the Secretary of State and Mr. Bevin for the position they have taken in declining to make China's internal affairs a subject of discussion. He has been further directed to convey to Mr. Marshall the Chinese Government's appreciation for the assurance given by the United States Ambassador at Moscow, Mr. Walter Bedell Smith, to Ambassador Foo to the effect that the United States would decline to accept any commitment detrimental to China's interests.

5. Moreover, Ambassador Foo has been instructed to express to the Secretary of State the hope that China's position regarding the question of procedure concerning the conference on peace settlements for Germany and Austria will not be overlooked on account of the discussions arising out of the aforementioned suggestion of the Soviet Foreign Commissar.

[WASHINGTON,] March 17, 1947.

893.00/3-1747

*The Consul General at Peiping (Myers) to the Ambassador in China (Stuart)*²⁰

No. 16

PEIPING, March 17, 1947.

SIR: I have the honor to report that on March 14, 1947, a mass demonstration numbering some 80 to 100 thousand persons was held under Kuomintang auspices in the main court of the Forbidden City in protest against Foreign Minister Molotov's request that the China

²⁰ Copy transmitted to the Department by the Consul General at Peiping: received April 1.

situation be included on the agenda of the Foreign Ministers' Conference now under way in Moscow.

The demonstration was primarily anti-Soviet and only secondarily anti-Communist. According to eye-witnesses, no anti-American or generally anti-foreign sentiment was expressed, a fact which is believed due to the rejection by the other powers represented at Moscow of Molotov's suggestion. It is reliably reported that the Deputy Chief of the Kuomintang in Peiping began organizing the demonstration when Molotov's request was announced and that he decided to go through with his plans despite the other foreign ministers' disapproval of the request. It can be assumed that he was influenced in this decision by the agreement of the American and British delegates at Moscow to discuss Chinese problems informally and outside the agenda of the Conference.

The schools and universities suspended classes in order that the students might participate in the demonstration. The strongly pro-Kuomintang universities such as Chungkuo, Chungfa and Huapei furnished the largest student contingents. A bus sent to pick up students at Tsing Hua returned almost empty and decorated with slogans derogatory to the demonstrators. The bus was later literally demolished and the driver severely beaten by the angry participants who did not, apparently, appreciate the students' sense of humor. It is believed that beggars and coolies were paid to attend in order to swell the crowd. Many small children also took part. The demonstration, which was orderly, displayed prepared posters and shouted slogans apparently rehearsed. The shibboleths employed included "Down with the robber Molotov," "Down with Soviet Russia," "Down with the Communist Party," "We demand return of Dairen and Port Arthur," "We demand indemnity for things taken from Manchuria" and "Let us oppose foreign interference in the internal affairs of China." Boy and Girl Scout contingents in the subsequent parades were supplied with adult leaders who read from lists slogans which were then chorused by the Scouts. The heat generated while in the Forbidden City did not last, however, and the parades, one of which meandered through the Legation Quarter, were not impressive.

The Consulate feels that a demonstration so obviously inspired should be interpreted as indicative of official Kuomintang policy rather than of public sentiment, despite the fact that such a field day undoubtedly whipped up some temporary feeling on the part of the people.

Respectfully yours,

M. S. MYERS

893.00/3-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 20, 1947.

[Received March 20—1:20 a. m.]

603. Following is *China Press* report of Democratic League press conference March 17 Shanghai on Soviet proposal at Moscow Conference concerning China:

“Joint mediation but not joint intervention in China’s affairs by the participants of the 1945 Moscow Foreign Ministers Conference was advocated by the Chinese Democratic League in a press conference yesterday afternoon.

“Such friendly mediation will not be opposed by the Chinese people because mediation in China’s civil strife and intervention in China’s domestic affairs are ‘two different things’, the League claimed. It is an open secret that the civil war in China involves international complications; in addition, the appropriate settlement of the Chinese issue is a condition to promote mutual understanding and cooperation between the United States and Soviet Russia, the League members explained.

“‘We could not see the necessity’ for the Chinese Government to reject the review over the Chinese situation as proposed by Soviet Foreign Minister Viacheslav Molotov who finally decided to invite the Chinese representatives to participate in the discussion. This invitation, however, was mainly adapted to the demand raised by China’s Foreign Minister Wang Shih-chieh in a statement that the big powers could not discuss the Chinese issue without the presence of the Chinese representatives, the League members stated.

“At present, the Chinese people suffer tremendously from the merciless civil strife which might possibly affect stability and peace throughout the world. It is indeed not possible for the people to ‘bind their hands waiting for death’ without doing anything in struggling for the realization of peace and democracy in the country, they contended. Based upon that very demand of the people, the League would seek a new way for peace that would save the people from their hazardous situation, the sponsors of the meeting declared.

“Claiming that the League today ‘absolutely holds a peaceful, open and oppositional stand’ toward the present situation in China, the Leaguers emphasized that their party would ‘never participate in the government’ before the establishment of a ‘really democratic and united coalition government’.

“The League, they added, would firmly stick to the principle of not being involved in armed struggle despite the fact that it would definitely meet with difficulties and dangers along with its ‘unflinching struggle for democracy in China’.

“Touching on the wholesale arrest of persons in Peiping and Tsing-tao and the frequent disappearance of citizens here during the past two weeks, the League members expressed great surprise over such

'unlawful acts'. They remarked that these startling incidents were 'unprecedented in the history of the Chinese Republic'.

"The League raised strong protest against the unlawful acts by saying that they ran exactly in contravention to constitutional practices as widely propagated by the Government during the past several months.

"If these acts were meant for the preparation of constitutionalism, the significance of that constitutionalism would be 'unimaginable', the Leaguers alleged.

"Concluding, the League stressed that 'human rights that made laws' and not the contrary. There might be no constitution in a country but the Government still has no right to destroy human rights, the party asserted."

STUART

893.00/3-2047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 20, 1947—10 a. m.

[Received March 20—5:20 a. m.]

609. Several groups of Nanking University students—all members of the San Min Chu I Youth Corps—planned a large demonstration for March 18 to protest Soviet attitude toward China at the current Moscow conference. This demonstration was to follow the other demonstrations throughout China on the same question and apparently had at least the tacit consent of the Govt. On March 17, Minister of Information instructed all Nanking newspapers that no information on this demonstration was to be published in the local press. All papers complied that day with the exception of the *Chiu Kuo Jih Pao*, organ of the Board of Political Education of the National Military Council, famous for its rabidly anti-Communist attitude, which ran an editorial stating that as long as Peng Hsueh-pei is Minister of Information, the paper will follow the policy of doing the exact opposite of his instructions. On the morning of March 18, the Generalissimo is reported to have informed the Minister of Education that he did not desire at this time to permit any step which might antagonize the Soviet Union and therefore the demonstration should be called off or at least held to a minimum. It is known that the same day the Minister persuaded universities to withdraw from the projected demonstration which was finally composed of not more than 2,000 middle school students, mostly from their appearance under 15 years of age, and a few stragglers. The parade therefore lacked a certain inspiration and, though plastering parts of town and passing automobiles with anti-Soviet posters, never succeeded in reaching the Soviet Embassy. Nanking press March 19 was permitted to print

brief announcement of the event issued by Central News Agency. A few papers ran brief and inconsequential reports of their own.

STUART

893.00/3-2047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 20, 1947.

[Received March 20—7 a. m.]

615. Following item from Shanghai *Ta Kung Pao* March 15:

"Yesterday, Carson Chang, chairman of the Democratic Socialist Party, expressed his views on the current Moscow Conference as follows:

"The recent proposal brought forth by Soviet Foreign Minister Molotov that the China problem should be included in the agenda of the Moscow Conference has aroused the attention of the world as well as that of China. The consensus of opinion in this country indicates that China would not tolerate the interference by any foreign country in her internal affairs. In other words, China would not allow any foreign countries to discuss the China problem.

"However, I am of the opinion that if China will not send any representative to the Moscow Conference, she naturally should not allow other countries to discuss her own problem. Yet inasmuch as the Four Powers have agreed to an informal discussion of the China issue, China should immediately notify the conference of her participation in the talks, so that she can defend her position openly. Therefore, [China] should immediately plan to organize a delegation to take part in the conference, and Dr. Sun Fo, President of the Legislative Yuan, and Foreign Minister Wang Shih-chieh would be the right men to be sent for this mission.

"The policies which our delegation should adopt can be outlined as follows: 1—to further strengthen the friendly relations between China and the Soviet Union; 2—to tell the Soviet Union frankly that China and the United States have not signed any secret agreement against the Soviet Union; 3—to tell the Four Powers that disunity in China would become an obstacle to Sino-Soviet friendship as well as to world peace; 4—to urge the Soviet troops to withdraw from the northeast and restore communications along the Chinese Changchun railway, and 5—to tell the Four Powers that China is willing to settle the CCP²¹ problem by political means, namely, (a) implementation of the army reorganization and integration plan,²² (b) the participation of the CCP in the Government, (c) the reorganization of the administration of various provinces within the framework of the constitution. The Chinese delegation should give a clear explanation of the above-stated five points to the Four Powers. In doing so, China will

²¹ Chinese Communist Party.

²² February 25, 1946; *Foreign Relations*, 1946, vol. ix, p. 295.

not only be able to achieve peace and unity in her country but also to help improve Soviet-American friendship and promote world peace.'”

STUART

893.00/3-2447

The Soviet Minister for Foreign Affairs (Molotov) to the Secretary of State

[Translation]

Moscow, March 24, 1947.

DEAR MR. MARSHALL: I am in receipt of your letter of March 15 on the question of an exchange of information with regard to the carrying out of the Moscow Agreement with respect to China.

The Soviet Government continues to hold to the opinion as to the complete consistency of exchanging information on the above-mentioned question in an informal conference of the three ministers, in behalf of which you and Mr. Bevin spoke out at the meeting of the Council of Foreign Ministers.

I have no objection to offer to your suggestion that we should up to April 1 of this year keep each other informed respecting the fulfilment of the Agreement with regard to China and that each of us should send a copy of the text of such information to the Chinese Government, although such a way of communicating the information does not seem to me to be entirely satisfactory.

I ask [etc.]

V. MOLOTOV

893.00/3-2447

The Secretary of State to the Soviet Minister for Foreign Affairs (Molotov)

Moscow, March 31, 1947.

DEAR MR. MOLOTOV: In response to your letter of March 24, 1947, and in connection with that portion of the Moscow Agreements of 1945 referring to China, I attach for your information copies of self-explanatory statements made public by the President of the United States on December 15, 1945,²³ and again on December 18, 1946.²⁴ The United States forces mentioned therein assisted substantially during the period covered by these reports in the repatriation from China of approximately 3,000,000 Japanese to their homeland, as laid down by the Potsdam Agreement and the Surrender Terms. As for

²³ Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 607.

²⁴ *Ibid.*, p. 689.

the disposition of the estimated 700,000 Japanese taken in Manchuria by the Soviets, I have no information.

On January 29, 1947, the Government of the United States announced ²⁵ its decision to terminate its connection with the Committee of Three which was established in Chungking for the purpose of terminating hostilities in China, and its concurrent decision to terminate its connection with Executive Headquarters which was established in Peiping by the Committee of Three for the purpose of supervising the execution of the agreements for the cessation of hostilities and the demobilization and reorganization of the armed forces in China. A statement regarding the withdrawal of the marine forces, which had the mission of assuring the security of the United States personnel with the Executive Headquarters and its communications with the sea, was made at the same time. This action permitted a substantial reduction in the number of United States military and naval personnel required in China, and removals are continuing as rapidly as shipping becomes available. When current reductions are completed (estimated date June 1, 1947), there will remain, at the request of the National Government of the Republic of China, approximately 6,180 military and naval personnel, distributed substantially as follows:

United States Army (All staff and service) :

Advisory Group	750
Office and Property Guards	351
Air Transport	160
Graves Registration Service	94
Miscellaneous Staff and Services	155
	Total
	1510

United States Navy (All staff and service) :

Advisory Group	128
Services in connection with port and weather facilities in Shanghai, Tsingtao and Tientsin	1043
	Total
	1171

United States Marines (all on guard and security duty) :

Combat type:	
Infantry	1636
Air	499
	2135
Staff and Service:	
Ground	1154
Air	210
	1364
	Total Marines
	3499

²⁵ *United States Relations With China*, p. 695.

I have furnished a copy of this letter to Mr. Bevin, and another copy to the Chinese Ambassador in Moscow for the information of the Chinese Government.

Faithfully yours,

[GEORGE C. MARSHALL]

893.00/4-147

The Soviet Minister for Foreign Affairs (Molotov) to the Secretary of State

[Translation]

Moscow, April 1, 1947.

DEAR MR. MARSHALL: Supplementing my letter of March 24 of this year, in connection with the accord reached on the furnishing of information concerning the fulfillment of the Moscow Agreement on China, I consider it necessary to call your attention to the following:

In the Agreement on China concluded between the Foreign Ministers of the United States of America, Great Britain and the Soviet Union at Moscow in December 1945, it was stated:

“The three Foreign Secretaries exchanged views with regard to the situation in China. They were in agreement as to the need for a unified and democratic China under the National Government, for broad participation by democratic elements in all branches of the National Government, and for a cessation of civil strife. They reaffirmed their adherence to the policy of noninterference in the internal affairs of China.”

I hereby affirm that the Soviet Government continues to adhere to those views which were set forth in the aforementioned Agreement of the three Ministers. Assuming that the accomplishment of the unification and democratization of China, which requires the broad participation of democratic elements in all branches of the National Government of China, is the affair of the Chinese people themselves, and considering that the interference of foreign powers in the internal affairs of China and especially the participation of foreign armed forces in the civil war in China may lead only to aggravation of the civil war and the creation of additional difficulties in the restoration of the national unity of China, the Soviet Government in its relations with China has adhered and is adhering to the policy of non-interference in the internal affairs of China. The Soviet Government assumes that the Moscow Agreement on China will actually be fulfilled only if the Governments of the United States of America and the Soviet Union do not disregard the Agreement concluded in respect

to non-interference in the internal affairs of China and if they really put this Agreement into effect.

In the Moscow Agreement it was also stated :

“Mr. Molotov stated that the Soviet forces had disarmed and deported Japanese troops in Manchuria but that withdrawal of Soviet forces had been postponed until February 1st at the request of the Chinese Government.

“Mr. Byrnes²⁶ pointed out that American forces were in north China at the request of the Chinese Government, and referred also to the primary responsibility of the United States in the implementation of the Terms of Surrender with respect to the disarming and deportation of Japanese troops. He stated that American forces would be withdrawn just as soon as this responsibility was discharged or the Chinese Government was in a position to discharge the responsibility without the assistance of American forces.

“The two Foreign Secretaries were in complete accord as to the desirability of withdrawal of Soviet and American forces from China at the earliest practicable moment consistent with the discharge of their obligations and responsibilities.”

Thus, both the Soviet Union and the United States of America undertook the obligations of “withdrawal of Soviet and American forces from China at the earliest practicable moment consistent with the discharge of their obligations and responsibilities”. The Soviet Government has attached and is attaching great importance to the exact fulfillment of these obligations.

For its part, the Soviet Government in due course discharged the obligation which it undertook in regard to the withdrawal of Soviet forces from China. The evacuation of Soviet forces from Manchuria was fully completed on May 3, 1946.

Since then almost a year has passed and the evacuation of American forces from China not only has not been completed but it is not known at all when the United States of America will discharge its obligation concerning the withdrawal of American forces from China.

In view of such a situation the Soviet Government has considered and does consider it desirable for the Foreign Ministers of the powers participating in the Moscow Conference, who are now present in Moscow, to exchange information concerning the fulfillment of the Agreement on China. Such an exchange of information would be useful, because it might assist in clarification of the actual situation in respect to the fulfillment of the Moscow Agreement on China, in as much as the existing situation in this respect is not satisfactory, for it arouses doubts in the public mind as to the readiness to discharge obligations undertaken according to the aforementioned Agreement.

²⁶ James F. Byrnes, then Secretary of State.

One copy of this letter I have sent to Mr. Bevin and another copy to the Chinese Ambassador at Moscow for the information of the Chinese Government.

Please accept [etc.]

V. MOLOTOV

740.00119 Council/4-847 : Telegram

The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State

Moscow, April 8, 1947—6 p. m.

[Received April 8—1:32 p. m.]

1251. Delsec 1401 for Acheson from Marshall. Cable following²⁷ will give you Molotov's note on China, dated April 1, and received by delegation April 5. Soviets released to Russian press on 7 April and our press here had copy of translation. We consider it neither necessary nor desirable to make reply. Your views requested. [Marshall.]

SMITH

893.00/4-1047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 10, 1947.

[Received April 10—8:12 a. m.]

783. Minister Information Peng Hsueh-pei at regular weekly press conference 9th voiced full appreciation for Molotov's reaffirmation of Soviet-noninterference in internal affairs of China in his exchange of letters with Secretary Marshall on the withdrawal of Soviet and US troops from China. Peng again reiterated his Govt's firm attitude against any foreign interference in Chinese domestic affairs.

Commenting on US aid to China, Peng said: "Whatever help the US Govt may have given to China, it has been given to the legitimate Chinese Govt and not to subversive and disloyal elements who are resorting to armed rebellion. There is nothing wrong in giving help to the gov't of an ally, and it would not be justifiable if US aid were given to a rebellious army in this country."

Sent Dept, please repeat Moscow.

STUART

²⁷ Telegram 1250 (Delsec 1402), April 8, 6 p. m., not printed.

740.00119 Council/4-847: Telegram

The Acting Secretary of State to the Ambassador in the Soviet Union (Smith)

WASHINGTON, April 11, 1947—7 p. m.

901. Secdel 1453. For the Secretary from Acheson. With regard to Molotov's note on China we agree that it would not be advisable to make a reply (Delsec 1401) which took up and debated the various points raised in the Soviet note. We suggest however for your consideration the advisability of a brief acknowledgment which would express satisfaction over receiving the Soviet Govt's reaffirmation of intention not to intervene in the internal affairs of China and which would reaffirm this Govt's adherence to the policy of nonintervention in the affairs of China and our continuing advocacy of a unified and democratic China under the National Govt. We might also state that, if occasions arise in the future when it would be mutually helpful to have further exchange of information with respect to the fulfillment of the Moscow Agreement on China, we would be prepared to enter into such exchange with the appropriate Govts.

Our reasoning in making the foregoing suggestion is that there would seem to be no disadvantage that might arise from acknowledging the note and at the same time there may prove to be distinct advantages in having taken official notice of the Russian attitude on nonintervention and also there may come a time when we may wish to cite the Soviet note and our reply as basis for requesting information from the Soviet Govt.

ACHESON

740.00119 Council/4-1447: Telegram

The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State

Moscow, April 14, 1947—5 p. m.

[Received April 14—10:41 a. m.]

1344. Delsec 1420 for Acheson from Marshall. Your Secdel 1453 refers. I have reconsidered the matter in the light of your suggestions and do not wish to make a reply to Molotov's letter. [Marshall.]

SMITH

711.61/4-1647: Telegram

*The Ambassador in the Soviet Union (Smith) to the Acting Secretary
of State*

[Extracts]

Moscow, April 16, 1947—11 p. m.

[Received 11:55 p. m.]

1405. Kosmos 46. Personal for Acheson for his eyes only from Marshall. There follows complete "memorandum of conversation" of my talk with Stalin²⁸ last night. Please deliver it to the President. I want no publicity whatsoever at this time. Please request the President accordingly.

"He [Marshall] said he would like to say a few words on China where, as the Generalissimo knows, he had spent over a year in a struggle between two concepts of government—one of which was the Communist and the other the National Government. He said the Communists were operating on a revolutionary basis with armed force and the National Government had many rotten elements in it. He said in the first months when he was there, the Communists had been more disposed to negotiation and compromise than the National Government and he felt that the first breakdown of the agreed truce was due more to the fault of the National Government than the Communist[s], but that subsequently events had gotten worse and both sides had committed impossible acts, until at last the United States had been forced to withdraw from any participation in this matter."

[Marshall]

SMITH

²⁸ Iosif Vissarionovich Stalin, Chairman of the Council of Ministers of the Soviet Union.

CONSIDERATION OF WITHDRAWAL OF AMERICAN CONSULAR OFFICERS FROM CITIES IN DANGER OF COMMUNIST OCCUPATION

123 Clubb, Oliver Edmund/6-2147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 21, 1947—5 p. m.

[Received June 21—6: 20 a. m.]

1367. In light of deteriorating situation Manchuria which may entail partial or complete Govt withdrawal from northeast (reEmb-tel 1356, June 20, 9 p. m.¹), Embassy has been giving consideration to future position consular establishments there.

During recent visit Mukden, Clubb² expressed to Minister-Counselor³ a willingness to remain at Changchun in event it comes under Communist control. In view of past policy in China of retaining consular offices at posts controlled by authorities other than Central Govt, Embassy considers that Clubb's desire is basically sound and would be of advantage to US. However, it is likely in event Communists occupy Changchun that Clubb would be out of communication with Embassy for considerable period and therefore his immediate usefulness definitely limited. On other hand it is very possible that Communists may desire to have in their then enlarged areas an official American representative who at some future time might be useful as a channel for truce or other negotiations. Conversely, sight must not be lost of fact that Soviet influence may so work upon Chinese Communist leadership that all American representatives will be completely silenced or expelled from Communist occupied areas.

From point of view of Clubb's personal safety it seems unlikely that Changchun if taken by Communists will be taken by assault. It is more likely that there will be either Nationalist evacuation or surrender and the only real danger, aside from period of active hostilities close to city, would be during period of transfer of authority.

Embassy has been informed by British Ambassador⁴ that some

¹ *Ante*, p. 192.

² O. Edmund Clubb, Consul General at Changchun.

³ W. Walton Butterworth.

⁴ Sir Ralph Stevenson.

time ago instructions were sent British Consul General at Changchun which in effect encourage him to remain in event Communist occupation of city. While at Mukden, Minister-Counselor was informed by Clubb that his British colleague intended to remain.

Embassy has insured that ESD⁵ has issued instructions that all its American personnel are to be evacuated prior to any Communist occupation in order that position of Consuls will not be jeopardized by their presence.

Although less immediate than in case of Changchun, same general conditions prevail with regard Mukden. In order that Embassy may make adequate plans for possible evacuation of personnel from Manchurian offices, guidance of Dept in the premises would be appreciated.

STUART

123 Clubb, Oliver Edmund: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 26, 1947—4 p. m.

780. Taking into consideration all advantages and disadvantages set forth Embtel 1367 June 21 regarding Clubb's remaining Changchun in event Communist occupation and his willingness remain that city, Dept is of opinion he should maintain consular establishment Changchun even though city taken by Chinese Communists. We also feel same considerations exist in case Mukden in eventuality Communist capture. If Ward⁶ for reasons family or otherwise recommends withdrawal from Mukden, can Embassy suggest other officer who might be sent Mukden to take his place?

Dept notes with approval Embassy action regarding ESD American personnel. In general believed desirable retain consular officers in present posts unless events show definitely no useful purpose served thereby. Even though officers may be out of communication with Embassy for some time, long range value of even limited first-hand observation Chinese Communist activities would offer definite advantages. Dept assumes all families and female members consular staffs would, of course, be evacuated, leaving only officer in charge and needed male clerical personnel. Dept is drawing up plan for establishment of funds for payment of per diem or special allowance to officers and employes whose families are evacuated to places of safety in China.

Dept contemplates transferring Clubb to Peiping but his departure for that post will of course be made contingent upon situation at Changchun.

MARSHALL

⁵ External Survey Detachment, an intelligence unit.

⁶ Angus Ward, Consul General at Mukden.

125.0093/12-547 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 5, 1947—4 p. m.

1471. Same considerations as those set forth Embtel 1367 Jun 21 and Deptel 780 Jun 26 continue valid but in view present picture Manchurian situation given Embtel 2297 Nov 26[†] we feel desirable review entire matter and establish regular procedure applicable all such situations.

Dept generally feels we should not withdraw consular officers from cities in danger Communist occupation. Once withdrawn it would probably be difficult restore consular offices except on Com terms. Observation Com controlled areas even though immediately communications might be cut offers long range advantages and withdrawals might be taken by Coms as indication they could force our withdrawal elsewhere. Coms might, of course, attempt latter either directly or indirectly. In case Manchuria it might be advisable evacuate Changchun if necessary due imminent Com occupation and retain skeleton staff Mukden, latter to remain regardless military situation. In this connection Robert Ward, whose health expected permit his assignment to field early 1948, has expressed willingness go Changchun. Dept unwilling instruct consular officers remain posts in view possible personal danger and feels in any event officers remaining should be language officers or those with China experience. Families and female staff members would, of course, be evacuated.

Emb requested comment on foregoing and report views consular officers in posts where Emb feels situation within next few months may require decision regarding withdrawal. Advantage should be taken Inspector Muccio's[‡] presence in China to consult him with respect foregoing.

LOVETT

125.0093/12-1047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 10, 1947—5 p. m.

[Received December 11—3:08 p. m.]

2373. We have requested by courier opinions of officers in charge Changchun, Chungking, Hankow, Peiping, Tientsin, Tsingtao, and Mukden with regard course of action in event their posts are in danger

[†] *Ante*, p. 377.

[‡] John Joseph Muccio, Career Minister.

of being overrun by Communist Forces (reDeptel 1471, December 5, 4 p. m.)

In common with Department, we are also unwilling instruct officers remain at posts where grave personal danger likely. In the absence of specific instructions from the Department, we consider officers in own areas best fitted estimate local conditions and possible developments and that decision to remain or to withdraw in face of Communist advance should be voluntary on part of officer concerned.

Although Embassy does not doubt that concerned officers would elect to remain, pending clarification by Department they have been informed that it is not our purpose to require officers to remain at posts where they are subject to abnormal risks and if at any time, in their opinion, they feel that conditions require withdrawal we are prepared make use all available facilities effect evacuation. Furthermore, concerned officers have been informed that if they are reluctant to request evacuation on own initiative, Embassy should be informed in order that we may assume responsibility by issuing formal instructions.

As pointed out in Embtel 1367, June 21, 5 p. m., Embassy considers it unlikely that cities now held by Government if taken by Communists will be taken by assault. From available information as evidenced by fall of Shihchiachuang it is more likely that there will be either Government evacuation or surrender, and danger to our officers aside from period of active hostilities close to cities would be during period of transfer of authority. We are of the firm opinion that consular establishments should not be closed in face of Communist advance and that skeleton male staffs should remain. We feel, however, that our personnel should not be required to remain in absence of specific instructions. In this connection we assume that Department appreciates the extra hazardous duty which personnel might be called upon to perform and that consideration is being given to provision for adequate Government insurance covering injury and pension provisions for dependents in case of death. We have in mind provisions made for members of the armed services in like circumstances and in the absence of such provisions we do not feel that officers or other personnel should be required to subject themselves to unusual risks, even though such risks would normally be for limited periods.

Department will be advised further when replies from Consuls have been received, and in the meantime we should appreciate Department's comment on immediately preceding paragraph.

Sent Department 2373, December 10, 5 p. m.; by mail to Changchun, Chungking, Hankow, Peiping, Tientsin, Tsingtao, Mukden.

STUART

125.0093/12-1047 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 29, 1947—6 p. m.

1581. In light Embtel 2373 Dec 10 and other previous tels this subject Dept feels following procedures should govern evacuation consular offices from cities threatened by Com occupation :

Consulates should be informed Dept does not wish require officers remain posts in view possible personal danger involved and prefers decision be left individual officers who most familiar local situation and possible developments particularly, utility maintaining office. If officers recommend evacuation, all personnel should be evacuated points safety under arrangements effected by Emb and/or offices concerned. If officers recommend and Emb concurs keeping skeleton staff, all other personnel should be evacuated. Dept assumes Emb can arrange with AAG⁹ for necessary planes and will obtain appropriate ChiGovt clearance cooperation.

Emb should keep in mind possibilities developing situation over period several months in choosing points safety for evacuees, particularly families and female staff members, in order prevent possible necessity second evacuation same personnel later date. Emb should bring to attention Consulates concerned, for consideration in connection their decision re evacuation, increasing Com efforts arouse anti-US feeling and probability even stronger antagonism resulting from prospect additional US aid ChiGovt when Congress convenes Jan.

Accordance Sections 103.605 (g), 103.607 (j) (1) and 103.696 FonServRegs¹⁰ travel orders 8-5845, 8-5846 and 8-5847 dated Dec 29, 1947 authorize principal officer Nanking his discretion issue individual written orders to American and alien personnel, including families and effects, at posts under Emb supervision authorizing travel expenses to place or places safety in China. Each order should cite above pertinent TO number and date. Expenses chargeable respectively to allotment E-135224 regular FonServ personnel, E-417024 OIE personnel, and X-903224 Foreign Relief Program personnel. Place safety is that point or successive points to which evacuated in connection with one or more urgent emergencies. Evacuation travel orders remain in effect until an officer or employee is given new assignment; ordered return his old post; or when family directed return old post.

Report name all persons covered by these travel orders, place or

⁹ Army Advisory Group in China.

¹⁰ Foreign Service Regulations.

places safety and dates travel. Copy individual TO should be attached each voucher. No per diem allowable at place safety under this authorization. However, consideration being given payment to Amer personnel per diem or allowance other funds.

Authority this telegram supersedes and should be used in lieu travel authority covering Mukden personnel granted Deptel 703 Jun 11 1947.¹¹ Telegraph names and approximate amount expenses incurred under authority Deptel 703.

Emb's inquiry re provisions covering injury death personnel being answered separate telegram.

LOVETT

¹¹ Not printed.

MISSION TO CHINA OF LIEUTENANT GENERAL ALBERT
C. WEDEMEYER TO APPRAISE THE POLITICAL, ECO-
NOMIC, PSYCHOLOGICAL, AND MILITARY SITUATION

121.893/7-247

*Memorandum by the Secretary of State to the Under Secretary of
State (Lovett)*

[WASHINGTON,] July 2, 1947.

For some time I have been considering what action we should take with relation to the rapidly deteriorating situation in China. The Joint Chiefs of Staff, and the War and Navy Departments I believe, are strongly in favor of supporting the Chinese Government both in a military way and in relation to the economy of the country. I felt as did Vincent¹ that the Chiefs of Staff paper² was not quite realistic and solutions were offered which were somewhat impracticable, particularly as to implementation in China. Nevertheless, the situation is critical and it is urgently necessary I feel that we reconsider our policy to see what changes may be necessary if any, regarding our continuing action in regard to China.

For about two weeks I have had in mind the probable desirability of sending Wedemeyer³ to China with a few assistants to make a survey of the situation and to report back at as early a date as possible. He is generally familiar with the China state of affairs and particularly with the important officials, and he is greatly esteemed by the Generalissimo. It so happened that during the past three days his name has been proposed to me by three different people outside of the Department representing the importance of doing something to clarify our situation with regard to China. I therefore brought Wedemeyer in quietly yesterday and discussed the situation with him, told him to think it over and come in today and give me his reactions. I had so little time to talk matters over with him today that, while I was up on the Hill I had him dictate a memorandum to me of his ideas of a draft of a directive, et cetera. This is attached.⁴ I might say now that a

¹ John Carter Vincent, Director of the Office of Far Eastern Affairs.

² See memorandum by the Joint Chiefs of Staff. June 9, p. 838.

³ Lieut. Gen. Albert C. Wedemeyer, Commanding General, U.S. Forces, China Theater, October 31, 1944–May 1, 1946, and Chief of Staff to Generalissimo Chiang Kai-shek, Supreme Commander, China Theater, and President of the National Government of the Republic of China.

⁴ *Infra*.

portion of his directive is not acceptable. It refers to the program of rehabilitation and stabilization; that is, I think its terms are too general and imply too much which may later prove embarrassing. However that is a mere detail.

Up to the present moment I have kept this matter of Wedemeyer entirely to myself and I think until I get your reaction it should be confined to the two of us. If you and I reach an agreement then I think it would be necessary to bring Vincent into the matter, but not until then.

Please look this over and let me have your reaction tomorrow. It need not be in writing.

G. C. MARSHALL

121.893/7-247

Memorandum by General Wedemeyer to the Secretary of State

[WASHINGTON,] July 2, 1947.

I have carefully considered the subject which you discussed privately with me on Tuesday, July 1. I have not had, of course, sufficient time to determine in detail the instructions that I believe would be appropriate or the personnel required. Off the cuff, I suggest your consideration of the following:

A. *Directive.*

You will proceed to China without delay with the mission of making an appraisal of the political, economic, psychological and military situation, current and projected. You will contact appropriate Chinese officials and leaders in the course of your survey and maintain close liaison with American diplomatic and military officials in the area. In your discussions with Chinese officials in positions of responsibility you are authorized to state categorically that the United States Government is prepared to assist realistically and immediately a program of rehabilitation and stabilization provided the Chinese Government stipulates, guarantees and accepts definitive supervisory measures to be maintained by representatives of the United States.

B. *Personnel.*

It is my feeling that the group of assistants should be held to the minimum and all military members of the group should be required to wear civilian clothes. The principal function of every member of the mission, as I understand it, would be to obtain factual information on which you and the President could base appropriate action. My purpose, of course, is to minimize press reaction, particularly in foreign quarters, to the possible military significance of my mission. I should like to take the following individuals:

1. Captain James Boyle, presently my aide-de-camp and secretary. He served as General Stilwell's⁵ secretary in China and continued as my secretary. He is an excellent stenographer and typist and knows many of the Chinese whom I would contact.

2. Captain Horace Eng, who is presently serving in the War Department as a translator and interpreter with the G-2 Intelligence Branch. Captain Eng served as my interpreter in China and has equal facility in several dialects. Further, he is well-known and respected by Chinese officialdom.

3. Mr. Mark Watson, well-known correspondent with the *Baltimore Sun*. He is presently on an assignment with the War Department Historical Section. Mr. Watson has excellent judgment and could insure that my contacts with the press in China as well as en route and return would be discreet and appropriate. Mr. Watson has traveled widely in the world and in the China theater as a war correspondent for several months.

4. A selected representative from the Division of Far Eastern Affairs, Department of State. I would not want a man who had strong convictions either pro or anti National Government or Communist.

5. An outstanding engineer who could determine the feasibility and practicability of current and projected instruction [*construction?*] projects, for example, reclamation of land, communications and mining.

6. An outstanding fiscal expert or social economist who could soundly evaluate the possibility of stabilizing the currency and improving the economic situation.

7. A sergeant orderly.

C. *Transportation.*

I would require that a plane be made available for the trip to and from China and intra China. I believe that the same plane could be used for such purposes. However, for shorter trips or in order to reach isolated areas, local means could be used.

D. *Publicity.*

In order to preclude possible malicious conjecture concerning my trip it is suggested that the President or you issue substantially the following:⁶

General Wedemeyer will depart for China [and Korea] immediately to make an appraisal of the overall situation in that area [*region*]. He will be accompanied by a small group of assistants [whose names will be released later]. It is expected that he will return within six weeks [*in about one month*] to submit a report of his observations to the Secretary of State. His mission is purely [*will be*] fact-finding and is in consonance with the current policy to ascer-

⁵ Lieut. Gen. Joseph W. Stilwell, Commanding General, U. S. Army Forces, China, Burma, India, March 4, 1942–October 21, 1944, and Chief of Staff to Generalissimo Chiang Kai-shek, Supreme Commander, China Theater.

⁶ Revisions in brackets made in the handwriting of the Secretary of State.

tain how the United States can assist other countries in their program of rehabilitation.

E. Communication.

I believe that I should be required to report weekly, presenting brief résumés of information. Upon my return I should be required to submit a succinct report embodying factual information with appropriate recommendations. I should like to have authority to communicate "eyes alone" to you and thus insure that messages would not be screened or given special interpretation by others. In this connection, it is requested that Lieutenant Colonel Claire E. Hutchin, War Department, be designated my special representative in Washington to handle all communications.

F. Departure, Itinerary and Return

I would be prepared to leave by July 10 or 11, contingent upon my ability to obtain the above personnel and the plane. I feel that one month to six weeks should suffice to complete the survey.

GENERAL VIEWS

I do not think that it would be sound policy to suggest piecemeal assistance to China. It would be like plugging up holes in the rotten hull of a sinking ship. Our assistance should then be based upon a program that would make possible a new hull for the ship and would be predicated upon an able, honest captain and an efficient crew. The \$500,000,000 loan that China sought or any other monetary and material assistance that we give China must be based upon the premise that appropriate safeguards are initiated and maintained to insure that such assistance contributes to political and economic stabilization in the area.

A[LBERT] C. W[EDEMEYER]

121.893/7-647

*Memorandum by the Director of the Office of Far Eastern Affairs
(Vincent)*⁷

[WASHINGTON,] July 6, 1947.

There is attached a memorandum to the President, together with its attachments,⁸ recommending that Wedemeyer be sent to China on a factfinding mission.

I have rewritten the directive prepared by Wedemeyer to conform to Mr. Lovett's suggestions and to include some ideas of my own.⁹

⁷ Addressed to the Secretary of State and Under Secretary of State Lovett.

⁸ None printed.

⁹ Mr. Vincent's draft directive was revised prior to President Truman's signature on July 9; revised directive printed on p. 640.

With regard to personnel I concur in the suggestions made by Wedemeyer. With regard to his statement that he would not want a man from the Far Eastern Office "who had strong convictions either pro- or anti-National Government or Communist" I should like to point out to him that there are no pro-Communist officers in FE. Most if not all of the officers have a realistic appreciation, which I share, of the shortcomings of the National Government under the leadership of Chiang Kai-shek. I suggest that Mr. Philip Sprouse be the officer designated to accompany Wedemeyer. With regard to an engineer I believe it would be advisable to ask the Navy to appoint an outstanding officer of this type. With regard to "an outstanding fiscal expert or social economist" I would suggest that we limit our search to a "fiscal expert". Mr. James McKay, Vice President of the National City Bank of New York, has had long experience in China and is known to me as a very capable banker. If it is decided to send a man from private life I would not hesitate to recommend him. On the other hand, there may be advantages from the standpoint of "follow-through" in sending a man from Government—Treasury or State. If it is decided to send an officer from the State Department, I would suggest Mr. Norman Ness, Director of the Office of Financial and Development Policy. The fact that he had participated in the mission would have distinctive advantages for us here in the Department, and I would suggest that he might be considered for the mission even though another fiscal expert may be chosen.

In addition to the experts and assistants listed by Wedemeyer I would suggest an expert thoroughly familiar with industrial production and distribution. One of China's most urgent needs today is the increase of its own industrial production. Mr. Jacobson,¹⁰ who accompanied Donald Nelson on his mission and remained in China for a year or more, might be a suitable candidate.

I am in accord with the rest of Wedemeyer's recommendations. I should withhold judgment on his general views until after he has made his survey.

121.893/7-847

Memorandum by the Secretary of State to President Truman

[WASHINGTON,] July 8, 1947.

Subject: Mission of General Wedemeyer to China

For some time we have been considering what action should be taken with regard to the rapidly deteriorating situation in China. We are desirous of finding ways in which we could deal with the situation in a practical and beneficial manner. The problem is both complex

¹⁰ James A. Jacobson.

and grave. Recommendations have been made as to the type and extent of aid, military and economic, we might give China but these recommendations have seemed to me to be based somewhat upon unrealistic or insufficient appraisal of the facts, of the chances of real accomplishment, and of the far-reaching consequences of direct large-scale assistance.

For some time I have had in mind the desirability of sending Lieutenant General Wedemeyer to China with a few assistants to make a fact-finding survey of the situation and report back within a month or six weeks. He is generally familiar with the state of affairs in China and intimately known to many important Chinese officials. It is estimated that the mission would be composed of some eight or ten experts, advisers and assistants.

It is suggested, and General MacArthur¹¹ concurs, that General Wedemeyer return via Korea for a brief survey of current conditions there.

There is attached a draft of a directive to General Wedemeyer¹² for your approval.

The Secretaries of War and Navy concur.

G. C. MARSHALL

121.893/7-1147

Directive to General Wedemeyer

You will proceed to China without delay for the purpose of making an appraisal of the political, economic, psychological and military situations—current and projected. In the course of your survey you will maintain liaison with American diplomatic and military officials in the area. In your discussions with Chinese officials and leaders in positions of responsibility you will make it clear that you are on a fact-finding mission and that the United States Government can consider assistance in a program of rehabilitation only if the Chinese Government presents satisfactory evidence of effective measures looking towards Chinese recovery and provided further that any aid which may be made available shall be subject to the supervision of representatives of the United States Government.

In making your appraisal it is desired that you proceed with detachment from any feeling of prior obligation to support or to further official Chinese programs which do not conform to sound American

¹¹ General of the Army Douglas A. MacArthur, Supreme Commander for the Allied Powers, Japan.

¹² *Infra.*

policy with regard to China. In presenting the findings of your mission you should endeavor to state as concisely as possible your estimate of the character, extent, and probable consequences of assistance which you may recommend, and the probable consequences in the event that assistance is not given.

When your mission in China is completed you will proceed on a brief trip to Korea to make an appraisal of the situation there with particular reference to an economic aid program in Korea and its relation to general political and economic conditions throughout the country. Before going to Korea you will communicate with General MacArthur to ascertain whether he desires you to proceed via Tokyo.

You will take with you such experts, advisers and assistants as you deem necessary to the effectiveness of your mission.

[WASHINGTON,] July 9, 1947.

Approved
HARRY S. TRUMAN

121.893/7-1147: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 11, 1947—5 p. m.

857. The President of the United States desires to send General Wedemeyer and a small group of assistants to make a fact-finding appraisal of the current and projected situation in China and Korea. General Wedemeyer will leave almost immediately and the duration of his mission is estimated at 1 month to 6 weeks.

Please see the Generalissimo^{12a} as soon as practical and deliver the above message.

MARSHALL

121.893/7-1247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 12, 1947—4 p. m.

[Received July 12—8:20 a. m.]

1520. Message contained in Deptel 857, July 11, was conveyed afternoon July 12 to Generalissimo who indicated his approval.

STUART

^{12a} Chiang Kai-shek, President of the Nationalist Government of the Republic of China.

121.893/7-1247

Memorandum by General Wedemeyer to Members of Mission

[WASHINGTON,] 12 July 1947.

1. Our objective is to examine and appraise the current and projected political, economic, psychological and military situations in China (to include Manchuria and Formosa) and Korea in order to submit to the President and the Secretary of State appropriate recommendations concerning American policies and programs.

2. Our mission is being dispatched by the President with the view of obtaining factual material and of making careful analyses of events transpiring in those areas. The duration of the mission will probably be from six weeks to two months. A final comprehensive report will be submitted upon return to the U. S. Interim suggestions may be dispatched if circumstances warrant.

3. The mission will not concern itself with problems involving the coalition of National Government and Communist elements. (The creation of conditions in China, Korea or in any other area of the world that would facilitate the establishment of totalitarian government or communistic ideologies is not consistent with United States policies and objectives.) Members of the mission must be alert to discover ways and means of progressively developing a political and economic structure in China, compatible with American principles and policies.

4. I desire all members of the mission to strive for objectivity. Although individual members have been given the specific assignments indicated below, each member must consider the broader aspects, not only of the internal situation in China and Korea, but also of the position that each nation assumes in the future of the world. For example, if you have been designated to investigate fiscal matters, you should not confine your observations, discussion and recommendations to such matters only, but you also should contribute as much as possible to the success of the mission as a whole by freely conveying observations and expressing your opinions concerning all matters of interest to the mission. Free expression of views on the part of all members is earnestly enjoined. (Considerations of rank et cetera are definitely not conducive to the most effective mental contribution.)

5. Assignment of Duties:

Captain James J. Boyle

—Assistant to the Executive, Aide-de-Camp and in Charge of Secretariat.

- Captain Horace Eng —Aide-de-Camp and Interpreter.
 M/Sergeant Alvin Garbs —Assistant to the Executive and Orderly.
- S/Sergeant Albert J. Gasdor —Assistant to the Executive and Stenographer.
- Lt. Colonel C. E. Hutchin, Jr.—Executive—Correlate and integrate all activities and projects of the Mission including itineraries, appointments, conferences, communications, administration, security measures and records. Consider military aspects of the situation in China and Korea. Strategic implications of the possible loss to China of Manchuria.
- Mr. David Ross Jenkins —Fiscal Advisor—Analyze the governmental fiscal situation of China and Korea. Investigate stabilization of Chinese currency—amortization of existing and projected financial commitments. The ability of the Chinese to expend monies loaned them by the U. S. in a constructive and timely manner including that already furnished through UNRRA, surplus property transfer and reparations from Japan.
- Mr. Philip Sprouse —Political Advisor—Determine the feasibility of continued U. S. cooperation with existing political structure and the possibility of the introduction of new measures which will strengthen or progressively create a Chinese political and economic structure compatible with our own. Study and appraise the attitude of the Chinese people at large toward the U. S. and U. S. policy, toward the National Government and the Chinese Communists.

- Rear Admiral Carl A. Trexel —Engineering Advisor—Determine the feasibility and practicability of engineering projects that are in process, either as new construction or rehabilitation. Engineering projects that will strengthen the economy will also be considered. Such engineering projects will include internal waterways, mining, electric power, reclamations of land, communications, (air, road, rail and water) and agriculture. Examine these projects, in collaboration with the Economic Advisor to determine their impact, inflationary and otherwise, on the Chinese economy.
- Mr. Melville H. Walker —Economic Advisor — Determine ways and means to facilitate the development and distribution of raw and processed materials. Special emphasis should be placed upon industries including the production of coal, cotton goods, silk, foodstuffs and metals. In collaboration with the Engineering Advisor, make an appraisal from the economic standpoint of engineering projects proposed for China's reconstruction, such as electric power, communications, waterways, etc., and analyze the contribution of each to Chinese reconstruction. Analyze effect of the possible loss to China of the resources of Manchuria and the contribution made if integrated with Soviet economy.
- Mr. Mark Watson —Press Relations Advisor—Supervise all matters pertaining to press and radio, and attempt to preclude embarrassing releases by anticipatory planning. Arrange press conferences only after consultation with head of mission. Anticipate

appropriate press releases at all points where mission stops en route and during presence in Far East. No member of the mission will make statements for press or radio release without prior clearance by the head of mission. It is important that we not antagonize the press or cause malicious conjectures or misinterpretations.

6. The Mission Executive will inform you of all details pertaining to your trip. The U. S. Ambassador¹³ and the members of his staff have been alerted by the Secretary of State to render every assistance to our group. General MacArthur has agreed to do likewise with reference to Korea.

A. C. WEDEMEYER

121.893/7-1447 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, July 14, 1947.

[Received July 13—11 p. m.]

1694. Official Chinese Central News Agency reporting from Washington White House announcement of special mission for General Wedemeyer to China and Korea¹⁴ also stated :

“The White House announcement was unexpected and came as a complete surprise. Some informed quarters believe that the decision to dispatch General Wedemeyer on a special mission to China was the main object, with Korea as secondary, and was made between Secretary of State George C. Marshall and President Truman. It is also believed that this may mark some definite change in American policy towards China. The findings and observations of the experts will have important bearing on the timing and extent of tangible American assistance to China.

The Wedemeyer mission to China is regarded here as the most significant move by the United States in relation with Nanking since Marshall returned last January. Wedemeyer's 6-week tour will be concerned with making an appraisal of the over-all situation in China and Korea.

It is generally regarded here that Wedemeyer is friendly to China and personally liked by President Chiang Kai-shek and his mission will be welcomed by the Chinese.

¹³ J. Leighton Stuart.

¹⁴ Released by the White House on July 11; Department of State *Bulletin*, July 20, 1947, p. 149.

Wedemeyer is now Commanding General of the Second Army outside Baltimore and is reported to have visited Marshall twice last week although this could not be confirmed by the State Department. It is also generally known too that Wedemeyer would accept an appointment as American Ambassador to China if Marshall should decide so."

DAVIS

121.893/7-1447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 14, 1947.

[Received July 14—6:05 a. m.]

1523. Following statement by Foreign Minister Wang was published in Shanghai *China Press*, July 13:

"The Chinese Government as well as President Chiang Kai-shek welcome the appointment of Gen. Albert Wedemeyer as special envoy representing the President of the U. S. on a fact-finding mission to China and Korea. He is a staunch old friend of China. When he served in the China Theatre during the latter part of the war, his contributions to Sino-American collaboration and his achievement in strengthening the China Theatre were widely appreciated.

"It is my belief that his coming visit will vastly facilitate a more complete understanding of the Chinese situation by the American people, further strengthen Sino-American friendship and cooperation and be conducive to general stabilization of the situation in the Far East."

STUART

121.893/7-1447

State Department Briefing for Wedemeyer Mission

[WASHINGTON, July 14, 1947.]

[Here follows section on Korea.]

CHINA

1. Mr. Arthur Ringwalt¹⁵ conducted the briefing on China. He said the Chinese expect us to wipe out the \$500,000,000 loan.¹⁶ He then explained in considerable detail matters pertaining to the Lend-Lease settlement. The gist of his explanation was that for \$900,000,000 worth of surplus property we are to get \$230,000,000.^{16a}

¹⁵ Chief of the Division of Chinese Affairs.

¹⁶ Granted in 1942; for correspondence, see *Foreign Relations*, 1942, China, pp. 419 ff.

^{16a} For correspondence concerning surplus property, see pp. 1242 ff.

2. The contract expires 22 months from the date of contract. The mechanics are set up, but the turnover of equipment is faster than the Chinese can take it. No inventory of the property has been completed.

3. The Chinese should collect surplus property in the Pacific Islands more rapidly. Property is deteriorating and ships are not conducting full loading or unloading operations. It is very inefficient. The Chinese are responsible for collecting and moving the property to ports.

4. It would be advantageous to expedite completion of the 8½ Air Group Program. The military part of this program was deferred during the Marshall Mission.¹⁷ General Marshall has now relaxed restrictions somewhat, and maintenance material can now be sent.¹⁸ (See Gen. Thomas reference his recently completed survey of surplus property.)

5. Two other programs include the Building Program in which the Chinese give Americans housing and other facilities, and the Fulbright Bill¹⁹ which deals with cultural relations. Approximately \$35,000,000 U. S. is involved in the Building Program, and \$20,000,000 is involved in the Fulbright Bill.

6. There is also a \$1,800,000 Motor Maintenance Program, in which the OFLC²⁰ signed a contract in December 1946 without consulting other Government agencies.²¹ The United States is in a rather difficult position, because it does not have the materials unless we go into procurement competition with Greece, Turkey, and other requirements.

7. There is a \$350,000,000 Post-UNRRA²² program. Providing that Congress authorizes the maximum appropriation of \$350,000,000 for the post-UNRRA program, it is presently contemplated that China will receive \$30,000,000.²³ The Embassy and the Department have not agreed as yet upon the method in which this money will be used, points of difference including (1) work relief programs, (2) the use of voluntary agencies, and (3) the degree to which U. S. assistance will be incorporated in the general Chinese rationing and distribution program. It is expected that decisions affecting these points will be reached in the very near future now that the Counselor, Mr. Butter-

¹⁷ For correspondence on the Marshall Mission to China, see *Foreign Relations*, 1946, vols. ix and x.

¹⁸ For correspondence concerning military aid to China, see pp. 785.

¹⁹ Approved August 1, 1946; 60 Stat. 754. For correspondence regarding the Sino-American agreement of November 10, 1947, see pp. 1263 ff.

²⁰ Office of the Foreign Liquidation Commissioner.

²¹ See telegram No. 1596, December 31, 8 p. m., to the Ambassador in China, p. 939.

²² United Nations Relief and Rehabilitation Administration.

²³ For correspondence on this subject, see pp. 1293 ff.

worth,²⁴ is in Washington. The \$30,000,000 program will not result in China obtaining an increase in the supplies of foodstuffs subject to international allocation but rather is a means of making the foreign exchange available to China with which to effect these imports.

8. With reference to the political situation in China, it was stated that country was 75% agrarian. The exchange had gone up to 44,000 to 1, when it used to be that one Chinese dollar was worth 33 $\frac{1}{3}$ ¢. Inflation has hit the professors and the middle class the hardest. Most students come from this middle class; hence the student riots. Today imports to China are restricted to private business of long-established reputation (U. S.-British), while Government and quasi-Government organizations of the Kungsoong²⁵ obtain special privileges for themselves.

9. It was felt that the Generalissimo has lost some of his status with the people partly because he has had no recent contacts with them. Actually it is difficult to criticize the Gimo but easy to criticize the inefficiency and corruptness of those under him. Note that all governors of provinces are generals.

10. A member of the Mission asked the State Department representatives to express succinctly the U. S. political and economic objectives in China. Mr. John Carter Vincent responded to the effect that our political objective envisaged a strong, unified, democratic China. When he was asked if China really could be a democracy in the near future, he indicated that it would require many years to so develop, but that the U. S. desired China to broaden the base of the government, including representatives from various political elements. When asked whether Communist elements should be included in the idea of broadening the base, he stated categorically that the Communists would not be included.

121.893/7-1547

Memorandum by the Assistant Chief of the Division of Chinese Affairs (Rice) to Mr. Philip D. Sprouse

[WASHINGTON,] July 15, 1947.

You will recall that at the end of our period of briefing yesterday afternoon, Gen. Wedemeyer asked whether anybody in the State Department really expected that China would become a democratic country in the foreseeable future—or, indeed, within a hundred years.

²⁴ W. Walton Butterworth.

²⁵ H. H. Kung and T. V. Soong were former Chinese Ministers of Finance and heads of banks.

The General's question is a good one. Personally, it does not seem to me to be within the bounds of probability that the Kuomintang and Communist Party should agree to decide who is to run China on the basis of national elections, or that national elections held under present conditions would reflect with accuracy the popular will. However, as I personally understand it, democracy is a relative thing, and it is a thing of the spirit. I think China has been making progress toward democracy which is slow—but perceptible in terms of much less than a hundred years. Let us consider the following:

(1) *A nation with an independent press is a more democratic nation, I think you would agree, than one without it.* The press serves to draw crimes, injustices and inefficient government at the local level to the attention of higher authorities, and serves as a means of putting popular pressure upon government. In the days of the Manchu Dynasty, China had no press at all and the Empress Dowager complained that she had no way of checking up on her ministers to see if they told her the truth (she came to depend on Reuters Service translated to her by Princess Der Ling). At present, despite the increasing repression of the independent press, the *Ta Kung Pao* in various cities and a few other papers are keeping alive the function of reporting crimes and abuses. A government without such help ends up by kidding itself into its grave. The press situation in China just now is bad, but it is far better than it was at the turn of this century under the Empress Dowager. Any trend toward resuscitation of dying press freedom in China would be a trend toward greater democracy.

(2) *A nation with a measure of freedom of the person is a more democratic nation than one with less or with no such freedom.* The Manchu regime and the warlord regimes which succeeded it were absolutist in theory and practice. Now at least the various freedoms are written into the law books. This is a first step. Unhappily, the police still arrest without bothering about warrants, and writs of habeas corpus are dull instruments against them. As Tai Li²⁶ agents of as high as Major General rank have told me, the Government frequently uses assassination as a means of disposing of troublesome persons. But any progress toward implementing the guarantees now on the books will be further democratic progress.

(3) *A nation with some forum in which representatives can express popular feeling and suggest improvement in government is more democratic than it would be without such a forum.* A decade ago China had no such forum. Since then the People's Political Council, despite the haphazard methods by which its members were chosen and its lack of much more than advisory powers, has provided a means of causing Government officials to give public account of their actions and to listen to criticism. The PPC has now gone out of existence; it is to be hoped that other organs of Government having greater

²⁶ Gen. Tai Li was Deputy Director of the Bureau of Investigation and Statistics of the Chinese National Commission of Military Affairs until his death in 1946.

powers may carry on its good work under the new Constitution and if they do it will represent progress toward democracy.

To come back to fundamentals, I assume that by democracy we mean "Government of the People, by the People and for the People." In China a relatively small percentage of the people are qualified actively to decide complex issues, but many can help in practical affairs at a village or town level. The Government which appeals to them as reasonably fair, and which can and does enlist them in common undertakings for the joint good, is the Government which has a chance to survive. And, other things being equal, it will be a more democratic government than one which doesn't seek popular approval and popular participation.

Perhaps you might care to reduce these thoughts to coherence, expand or modify them as seems appropriate, and pass them on to Gen. Wedemeyer.²⁷

121.893/7-1647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 16, 1947—noon.

[Received July 16—5:10 a. m.]

1533. News of the Wedemeyer Mission reached me first through the Central News Agency of the Chinese Govt. I was in Peiping at the time and found upon my return to Nanking on July 15 that the same state of affairs prevailed at the Embassy where news of the mission was received some hours after it was known to the Central News Agency and that agency had requested confirmation and additional information from the Embassy. Needless to say, the Embassy informed me of the press reports and later confirmed them officially when the Dept's telegram 857 of July 11, 5 p. m., was received.

I am confident that you have good reason for not informing me in advance of your intention to send this mission and of its purpose; however, I cannot but feel that press releases upon such an important mission could have been made in such a way to save embarrassment for myself and staff.

STUART

121.893/7-1647 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 16, 1947—8 p. m.

876. I understand fully reaction you gave me in your 1533 and can only say that we did not plan it that way. A leak occurred which

²⁷ Marginal notation: "ACW saw".

necessitated an immediate press release to avoid unusual embarrassment here. My 857 of July 11 was intended to reach you ahead of the press release.

I regret you were embarrassed but know that you will ride out the storm as you have so often done before. I count on you to render all possible assistance to Wedemeyer. Butterworth has already been of great value to us. I would like to assure you as I have before under similar circumstances, that Wedemeyer's mission is a temporary expedient.

MARSHALL

121.893/7-1747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 17, 1947—8 a. m.

[Received July 17—5:30 a. m.]

1538. The announcement by the White House of the appointment of General Albert C. Wedemeyer as a special representative of the President on a fact-finding mission to China and Korea was received with immediate approval by all sections of Government, party spokesmen and press. The announcement was a headline story in all papers and has since been followed by a stream of news stories speculating on scope, nature and meaning of the mission. Most of these news stories have drawn the conclusion that the mission means a change of American policy and a radical increase in American aid to the National Government.

Foreign Minister at once issued a statement welcoming General Wedemeyer to China as a recognized friend of China and an expert on the problems which it is currently facing. A similar statement was issued by Wu Te-chen, Secretary General of the Kuomintang, and favorable responses from such prominent individuals as Dr. Hu Shih²⁸ also received wide publicity.

Government and party press reaction was uniformly favorable. Editorial comment was found in leading papers such as Kuomintang *Chung Yang Jih Pao*, CC Clique²⁹ papers *Ta Kung Pao* and *Shun Pao* and the Army *Ho Ping Joh Pao*. These editorials welcomed the mission and acclaimed General Wedemeyer as a person calculated to take a correct attitude toward Chinese problems and foresaw in this development a drastic change in American policy, the early extension of comprehensive American aid to the Central Government and the inclusion of China in the Marshall plan.

²⁸ Formerly Chinese Ambassador in the United States.

²⁹ The Chen brothers, Li-fu and Kuo-fu.

There has as yet been no editorial reaction from the independent vernacular press or the Communists.

English language papers in Shanghai have reacted favorably though on a somewhat more restrained scale. The Chinese-owned *China Press* and the *China Daily Tribune* followed the general government line. The British-subsidized *North China Daily News* predicted a change in policy and the American-owned *Shanghai Evening Post and Mercury* expressed the opinion that General Wedemeyer is well-qualified for a mission of fact-finding and warned against pre-judgment on what his solution would be.

Sent Department, repeated Tokyo and Korea. Department please repeat Moscow.

STUART

121.893/7-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 17, 1947.

[Received July 17—8:20 a. m.]

1543. Following was published in North Shensi news broadcast, datelined July 16:

“By sending the infamous Wedemeyer back to China, American imperialists hope to carry out aggression in China with free hand and to prop up Chiang Kai-shek’s moribund rule,” says New China News Agency commentator in comment on Wedemeyer’s return. Text of comment follows:

“Chinese people are all too familiar with Wedemeyer, American imperialist educated in Prussian militarism. His record in China reads as follows: After Japanese surrender he hastily sent American troops to occupy Tsingtao, Peiping, Tientsin and Chinwangtao, all of which had been surrounded by People’s Liberation Armies, while directing Japanese and puppet troops to hold those cities and refuse surrenders to People’s Armies. At same time he organized his biggest air transport feat [*fleet?*], flying 6 of Chiang Kai-shek’s armies to Shanghai, Nanking, Peiping, Tientsin, Tsingtao and Tsinan. Later on he shipped 5 of Chiang’s armies through American-occupied Chinwangtao to fight civil war in Manchuria, where Manchurian People’s volunteer army had been active for 14 long years, and which territory had long ago been renounced by Chiang.

“After all these nefarious activities—helping dictator Chiang and opposing Chinese people—name of Alfred [*Albert*] Wedemeyer became as odious as that of Patrick Hurley.³⁰ When Marshall wanted to appear as ‘neutral mediator’ therefore, he had no choice but to send Wedemeyer back to United States. Now American imperialists Truman and Marshall see that Chiang is tottering on brink of collapse

³⁰ Ambassador in China, December 1944–November 1945.

and that American imperialism's position in China is imperiled. They have tossed their 'neutral' masks onto the rubbish heap long ago and now they send this infamous Wedemeyer back to China. In this way they hope to carry out aggression in China with free hand and to prop up Chiang's moribund rule.

"All of which goes to show," commentator concludes, "that American imperialism is now quite panicky and requires adoption of barbarous open direct methods of intervention in China, just as in Greece. But American imperialists will find out that they have misjudged Chinese people. People of China are just as courageous and resolute as people of Greece, but their strength is many times greater. Chinese people drove out Japanese imperialism, and they will certainly drive out American imperialism as well."

STUART

121.893/7-2247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 22, 1947.

[Received July 22—7: 45 a. m.]

1567. Following statement released 9:30 GMT, July 22:

"A statement to the press by Lieutenant General A. C. Wedemeyer on arrival at Nanking, 22 July 1947, at the opening of his 6 weeks' 'fact-finding appraisal of the situation' in China and Korea (in the words of President Truman's 11 July announcement of the mission):

"It is over a year since I left China after my long and pleasant assignment as Chief of Staff to the Generalissimo and as Commander of American Forces. It is most agreeable to be here among old friends, whose friendship for my country and whose cordiality to me are gratefully recalled. I have looked forward to a renewal of those friendships. I regret that my presence in China is to be brief. My time and effort must be so continuously applied to labors of prime importance to our countries that I foresee little time for exchanges of that warm hospitality which is traditional among the Chinese people.

"To the work to be done in the coming 6 weeks I can refer at present only in general terms. I am directed by the President of the United States to make an appraisal of the over-all situation in China and Korea, i. e., of present reality in those two countries and of their capabilities with regard to rehabilitation in the foreseeable future. My mission is essentially one of fact-finding, in which I am aided by a small group of men expert in the several fields of economics, finance, engineering, and political affairs. We are interested particularly in learning and seeing something of the efficacy of measures taken by the Chinese Government, looking toward Chinese recovery.

"It will be seen (1) that the time is short for the accomplishment of our task; (2) that the mission members must devote practically their entire time to the accumulation and evaluation of information, poten-

tially of immense importance not alone to China, Korea and the United States, but obviously to the world at large; and (3) that if our work is to be of real and timely value, as I am determined it shall be, we must undertake it without prejudgement or commitment of any sort.

'Good results are most likely to be attained through sound and careful planning based not upon what we hope to be true but upon what, through objective and thorough examination, we know to be true.

'This statement explains why I cannot now (or, I suspect, in the near future), offer a [statement?] of expectation or intention save one—that of carrying out to the best of my ability, President Truman's directive to me, to ascertain all facts pertinent to the political, economic and military situation, favorable and unfavorable; to relate them to each other; to appraise them in that relationship; and at the conclusion of my mission to present the sum of these labors to the President of the United States.' "

STUART

121.893/7-2247

Draft Directive No. 2 by General Wedemeyer

[NANKING,] 22 July 1947.

PROGRAM FOR 22 JULY TO 29 JULY

1. Our objective is to examine and appraise the current and projected political, economic, psychological and military situations in China (to include Manchuria and Formosa) and Korea in order to submit to the President and the Secretary of State appropriate recommendations concerning American policies and programs.

2. This directive covers a one week period immediately following our arrival. Another Directive will be prepared later covering the succeeding three weeks.

3. Generally, our activities during this first week will be limited to establishing and maintaining contacts with U. S. and Chinese sources located in Nanking and Shanghai, and of preparing appropriate memoranda from time to time which will insure that the Head of the Mission is kept informed of information, highlights obtained and of any thoughts and ideas which should be later included in the Final Report.

4. Specifically, each member should contact his opposite number in the Embassy as soon after arrival as practicable with a view to:

a. Ascertaining new developments in China pertaining to your special field.

b. Determining Embassy expectations with regard to the activities of the Mission and to the Final Report.

c. Obtaining that information from Washington which has been received by the Embassy since our departure from the U. S.

d. Reviewing status of current Chinese Aid Programs and any negotiations in progress which are of interest to the U. S. Government.

e. Considering and screening all proposed China Aid Programs and projects current and projected to include financial considerations involved.

5. It is tentatively planned that the Mission will proceed to Shanghai Saturday, 26 July for the purpose of conferring with Consular officials and American business men located there in order to discuss problems affecting U. S. commercial and investment relations with China. Arrangements will be handled through Mr. Monnet Davis.³² Party will return to Nanking same day. It is desired that the economic and fiscal advisors collaborate in the preparation of a program for that day.

6. In addition to the general tasks outlined above, the following additional tasks are assigned :

a. Admiral Trexel will familiarize himself with the organization and *modus operandi* of the Naval Advisory Group.

b. Colonel Hutchin will familiarize himself with the organization and *modus operandi* of the Army Advisory Group.

c. Mr. Watson will familiarize himself with the organization and *modus operandi* of USIS^{32a} and the Chinese Governmental Departments of Information, Education, Cultural Relations and those related thereto.

d. Mr. Walker will report on the steps taken by the Chinese to implement the findings of previous missions such as the Sino-American Joint Agricultural Mission. You will also report on the methods and effectiveness of UNRRA.

e. Mr. Jenkins will report on financial and monetary situation, the Central Bank Asset position, the silver loan request, the activities of the Ex-Im Bank.

7. Through all of this it is emphasized that brief and succinct reports will be of special help to the Head of the Mission and to other Advisors in that it will not only keep us all informed of what each individual has learned, but it will in many cases obviate the necessity for the Head of the Mission to talk to some individuals. In this connection it is suggested that where possible briefs and reports be confined to two pages, double spaced.

8. Briefings will be started at the Embassy at 0930 Wednesday, 23 July. Additional briefings will be scheduled during the week, coordination being attained through the Executive. It is desired that each Advisor submit his recommendations concerning the program for the following three weeks not later than 1700 Sunday, 27 July.

³² Consul General at Shanghai.

^{32a} United States Information Service.

893.00/8-147

*Memorandum by the First Secretary of Embassy in China (Ludden)
to General Wedemeyer*³³

NANKING, July 23, 1947.

Before Mr. Butterworth, the Minister-Counselor, left for Washington, the Embassy prepared for him a memorandum³⁴ which was an examination of possible courses of American action vis-à-vis China. Copies of this memorandum are available in the Embassy. Inasmuch as it was prepared during the first week in July, there is little to add to it except to make a few general remarks which will represent the current thinking of the Embassy with regard to the overall political situation in China.

In the first place, the dominant political party in China, the Kuomintang, once an organization representative of the will of forward-looking Chinese to develop a stable and united nation capable of meeting its responsibilities in the modern world, has lost much of its original vitality. In the words of one well-known Chinese professor, the Kuomintang has become "a political mechanism for the preservation of vested interests". It has now neither a dynamic program nor a wide popular base with which to meet the threat of militant communism.

Within the past twenty years the leadership of the Kuomintang has shown little, if any, fundamental change in personnel. In retrospect it seems clear that the dominant leaders of the Kuomintang have never been dissuaded from the conviction that internal political problems could be settled by military means alone without consideration of concomitant social and economic problems. Currently there is much to indicate that their actions are still governed by the same conviction and that this conviction is reinforced by their interpretation of the current international situation in spite of the increasing dissatisfaction with Kuomintang leadership among groups traditionally supporting the Party. Perhaps one of the few encouraging features of the Chinese situation is that these groups, realizing that Kuomintang leadership is approaching bankruptcy, are hesitantly seeking an alternative to extremes of both right and left and are hoping for American encouragement.

It is obvious that there exists in China an important and growing Communist problem. It is not necessary to establish proof that there is direct connection and liaison between the Chinese Communist Party

³³ Copy transmitted to the Department by the Ambassador in China in his despatch No. 908, August 1; received August 11.

³⁴ Dated July 5, p. 222.

and the Soviet Union. The ideological affinity between the Chinese Communists and their brethren of the Soviet Union is in itself sufficient to assure that in the event the Communists were to achieve majority control of a government in China, its basic orientation would be toward the Soviet Union rather than the United States. Judged by historical background and social structure, however, Chinese society is less likely than any society to accept Marxist tenets and Communist forms of society provided that the economic and social burden of the majority of the population is alleviated even in minor degree. It is unfortunate that during the past two decades the National Government of China has shown little aptitude for meeting political opposition other than by force of arms and at the present time the Government, in addition to suffering serious military reverses and the sustained attrition of hyperinflation, is losing the confidence of all classes who are reluctantly being pushed to the left. If present trends continue unchecked, it seems inevitable that a dynamic Communist program will eventually submerge the static defeatism of the present Government.

Judged in the light of the Government's experience during the last two decades and the continued existence of a social and economic system which offers fertile ground for the growth of communism, it is highly improbable that the Communists can be eliminated as a major factor in China even with substantial outside assistance to the Government in the form of military matériel, economic aid or a combination of both.

Unfortunately the United States possesses no effective means of bringing pressure to bear upon the Chinese Communists except indirectly by fostering the emergence of a regime in China that can rally enough popular support in non-Communist areas to afford a check to the further expansion of Communist control. Judging from our past experience in China, however, we can not hope for the emergence of such a regime while the Government adheres to its present policies and continues to stymie the development of any loyal opposition to these policies.

When General Marshall left China he issued a statement³⁵ which by inference laid down the general requirement that drastic reorganization and reform of the Central Government was a prerequisite to substantial American assistance. It was stated specifically that while the form for a democratic China has been laid down in a new constitution, practical measures would be the test to see to what extent the Chinese Government would give substance to the form.

³⁵ Released January 7; for text, see Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 686; or *Bulletin*, January 19, 1947, p. 83.

In mid-April the Government announced the reorganization of the State Council and shortly thereafter the reorganization of the Executive Yuan. At that time the Embassy reported to the Secretary of State that any assessment of the eventual effect of the reorganization must be approached with caution in the light of a series of past Chinese Government reorganizations which had been largely for external effect and had not brought effective change to the Chinese domestic scene. The Embassy's initial impression, however, was that the caliber and standing of Kuomintang appointees to the State Council indicated at that time some effort to place in positions of power and responsibility some of the most capable, moderate and modern figures of the party. The only other parties willing to join the Government were the Youth Party and the Social Democratic Party. The Youth Party appointees represent a group of Szechuan scholar-landlords who have tended in the past to be affiliated with the right wing of the Kuomintang; the appointees of the Social Democratic Party are a group of elderly scholars without important political following in the country. It was considered at the time that the independent appointees to the State Council offered considerable promise. It was the Embassy's opinion in April that the composition of the State Council as regards the Kuomintang and independent appointees was as good as could have been expected in the circumstances.

At the time of the reorganization eleven seats on the State Council were left vacant for the Democratic League and the Communist Party in the event that they wished to join the interim government at a later date. This was a useful political gesture, but the Embassy expected no tangible result therefrom.

At the time of the reorganization of government the Embassy pointed out to the Secretary of State that at the same time as the Kuomintang appointed State Councillors a separate Political Committee of the Kuomintang was established. The Secretary General of this Committee was Chen Li-fu, and the Embassy considered it to be a safe assumption that this Committee would have an important role in controlling the Kuomintang political machine and establishing Party policies. The Secretary of State expressed strong criticism of this particular appointment in a conversation with the Chinese Ambassador in Washington early in May.³⁶ This criticism has been vindicated by the subsequent consolidation of the CC Clique's position and strength.

The reorganized Executive Yuan under Chang Ch'un was considered by the Embassy to be more strongly based than the previous T. V.

³⁶ See memorandum by the Secretary of State, May 8, p. 1113.

Soong regime, but it soon became apparent that the political maneuvers of the CC Clique, the pace of military and economic developments and domination from above tied its hands and neutralized its attempts to take remedial action.

In effect, therefore, there has been a limited reorganization of government but one which has failed to bring about any significant changes which were considered last January to be prerequisite to the granting of substantial American assistance. Control of government remains in the same hands, and the policies of the Government are progressively alienating all elements of the community. Latterly, this alienation has been proceeding at an accelerated pace. At the time of the reorganization of government the Embassy indicated that in final analysis the major imponderable in China is whether or not the Generalissimo would be sufficiently flexible to seek and be guided by the advice of progressive and competent public servants or whether he would continue to accept the counsel of reactionaries personally loyal to him, as he has done with respect to Formosa and Manchuria with such tragic consequences to American as well as Chinese interests. It has been the experience of the Embassy over a period of years that there has been little, if any, important delegation of authority, a point on which recently members of the Government associated with the Political Science Group have privately expressed complaints to individuals on the Embassy staff; and regardless of the immediate hopeful signs which were evident at the time of the reorganization of the State Council and the Executive Yuan, subsequent developments have shown that the situation remains substantially unaltered. The Generalissimo continues to be the main determinative force in Government policy.

In this connection, however, it must be remembered that the Generalissimo and his Government regard themselves as fighting not only for their own existence but for national independence against an unscrupulous armed rebellion. In this process, however, reactionary elements are consolidating their power and thereby still further alienating and embittering all who do not go the whole way with them, while progressive elements are intimidated from making themselves articulate and organizing effectively. For example, one of the immediate effects of the recent national mobilization order has been further repressive measures against those who voice criticism of the policies of the Government.

It seems clear that the Generalissimo has never been dissuaded from the conviction that the Communist problem in China can be resolved by force of arms alone without concomitant social and economic reforms, and there is every reason to believe that he is still

wedded to the same concept. The course which he is now following unfortunately functions as a stimulus to the progressive development of Communism, a situation which the United States can not long regard with equanimity. The effort to suppress the Communists by force alone has failed and the Generalissimo must be prepared to meet the challenge by other means. The Generalissimo has had the dangers of his present course and the possibilities of other approaches pointed out to him by more than one person whose opinions he respects, but thus far he has remained obdurate. In fact, there is good reason to believe that the Generalissimo and key officials of the Chinese Government, recognizing that the United States has adopted in Europe and the Middle East a firm stand against Soviet political expansionism, are constrained to take steps amounting to a diplomatic offensive in an effort to encourage the adoption of a similar American attitude in China vis-à-vis the Chinese Communists and Soviet Russia. It is regrettable but it is nevertheless a fact that this constitutes the only discernible program of action being undertaken in the face of a prevalent and increasing atmosphere of defeatism.

Actually much of the apparent strength of the Chinese Communists is due chiefly to the inefficiency and corruption of the Kuomintang both on a military and a civil level and—with an alarming acceleration—to popular loss of faith in the Government.

It requires a certain amount of temerity to attempt any forecast but it would seem that one of three possible consequences will follow without much delay from present critical conditions:

1—That the Generalissimo will assert himself as the leader in an attempt to rally all non-Communist opinion in the country by demonstrating that he has the ability to place into effect a program aimed at improving the national welfare more effectively than can the Communists;

2—That with threatening catastrophe drawing closer, it is possible that a nucleus of enlightened leaders may emerge who will attract the more liberal elements from within the Kuomintang, be supported by the politically conscious public, and come to terms with the Communists. In such an eventuality, the Generalissimo would assumably disappear from the scene;

3—There will be disintegration of the authority of the Central Government with the Communists in control of their own territory from which they would use every effort to extend their areas of control. While the Central Government would probably retain control in the lower Yangtze Valley, sectional governments would be established elsewhere under the strongest man or group in the area with all the evils of such chaotic and unstable conditions.

893.50/8-1247

*Memorandum by the Assistant Commercial Attaché in China
(Bohringer)*³⁷

NANKING, July 23, 1947.

MEMORANDUM ON ECONOMIC SITUATION IN CHINA

In his March 1 speech before the Legislative Yuan Dr. T. V. Soong, who then announced his resignation as President of the Legislative [Executive] Yuan, said in part:

"The present economic crisis is the cumulative result of heavily unbalanced budgets carried through eight years of war and one year of illusory peace, accentuated to some degree by speculative activities."

President Chiang two weeks earlier, when he announced the promulgation of a series of emergency economic measures, used almost the same terms to describe China's economic situation. He said:

"The economic crisis we are facing today is the cumulative effect of devastation and dislocation of eight years of war and one year of destructive peace."

The sweeping emergency measures made effective February 16 were designed primarily to reduce the budget deficit, to control speculation in order to stabilize the currency, to expand trade, to adjust commodity prices and wages, and to provide daily necessities to selected categories of the population in certain key cities. Included were measures to check speculation and buying and selling of gold; measures prohibiting the circulation of foreign currency notes; measures governing Chinese foreign exchange assets abroad; and regulations for the tightening of control over financial institutions.

Many similar measures had been enacted before, even during the early war years, but had never been enforced. The new measures were supposed to be different, for heavy fines and terms of imprisonment were to be meted out to those found guilty of violation and enforcement was to be ensured to a large degree by "strong-arm" methods of secret service and police surveillance.

As freely predicted, these measures were effective for a period of from six to eight weeks, after which the forces of inflation again made themselves felt. The public realized that the much-acclaimed new measures were being enforced only sporadically and that loopholes could be found to evade them, either because of faulty drafting of the

³⁷ Copy transmitted to the Department by the Ambassador in China in his despatch No. 924, August 12; received August 18. The memorandum was presented to General Wedemeyer on July 24.

legislation or by means of connivance with corrupt officials, including the secret service and police.

Since mid-April, when the effects of this legislative "shot in the arm" began to wear off, China's economy suffered from increasing paralysis; public confidence in the Government rapidly declined; speculators openly renewed their activities although warily at first; rising commodity prices were largely responsible for rice riots, student demonstrations, and labor disputes. The export trade continued in the doldrums and the budget imbalance was not narrowed. Meanwhile, the Government and the press saw salvation almost entirely in the form of loans from the United States, the arguments put forth to justify the need for these loans carrying the threat that, if the loans were not granted, China's economy would disintegrate completely.

One cynical American correspondent wrote a short time ago that it was no longer possible to speak of a Chinese economic collapse. He said that the economy had already collapsed and about all that could happen in the future would be decay here and there. This appears to be a somewhat glib attempt at oversimplification. That China's economy has not fallen apart thus far is due, of course, to the agrarian type of economy with the masses of the population rooted, somewhat unhappily, to the soil. As stated yesterday, crop prospects this year are moderately encouraging and, although some bad spots are to be found in certain key provinces, the general picture today would be much worse if overall crop prospects were gloomy.

Outside of the relatively favorable position with regard to crops, few other favorable factors may be cited. On the other hand, the list of unfavorable factors which may be drawn up is impressive, including the following:

1. Official indecision and ineptness in the face of the continued economic deterioration;
2. Continued heavy unfavorable trade balance, which during the first four months of 1947 amounted to about US \$105,800,000 or almost 6 times the adverse balance during the same period of 1937;
3. Shortage of coal from North China which seriously affects power production in Shanghai and other industrial areas and which has tended to increase the already fantastically high industrial production and transportation costs;
4. Steady increases in wages which cripple the export trade and industrial production;
5. Multiplicity of taxes, with discrimination in collection of taxes from foreign concerns, which discourages trade and industrial development;
6. Chinese insistence on sovereign rights, which is used by them as the main argument to explain their refusal to permit foreign vessels to engage in coastal and inland water transportation;

7. Jockeying for power in Kuomintang with CC-Clique emerging as potentially dominant group in economic field and with Political Science Group, with China's ablest administrators, in eclipse;

8. Hope for panacea to cure economic ills, especially loans from the United States, with no real positive action taken by the Government to revive industry and transportation with notable exceptions of cotton mills and Canton-Hankow Railway; and

9. Badly administered import trade controls which have given cause for complaint by Chinese as well as by foreigners as to favoritism and discrimination.

With from 70 to 80 percent of the national budget being devoted to war purposes, it is obvious that many capable ministers and other Chinese officials are unable to carry out policies for economic reform and development. A case in point involves the recommendations for agricultural development and rural reform made by the China-United States Agricultural Mission³⁸ last November; although these recommendations are fully appreciated and genuine desire to implement them exists, it is doubtful whether the ministries concerned will be in position to carry out even a minor part of them under present circumstances of slashed ministerial budgets.

Mention was made of the unfavorable position of foreign, including American, business enterprises in China. I am sure that American businessmen in Shanghai and Tientsin, for example, are anxious to discuss their problems with the Economic Advisor on the Mission. I feel quite certain that they will make the strongest possible recommendations that their plight be taken into consideration in the event that any proposals to assist China economically are considered. Briefly, they feel they are being discriminated against in such matters as taxation; import allocations, with the so-called "favored families" and Government trading companies being permitted to import goods which they cannot import; and in numerous other ways.

Because the Chinese are jealous of their newly-regained sovereign rights they prevent foreign companies to assist in economic revival. At Hankow, for instance, where foreign ocean steamers once lined the Bund to carry away the products from the flourishing industries, many of which had been built up by foreign enterprise, there may now be seen a few small river boats of the China Merchants Steam Navigation Company, a monopolistic, official concern which charges freight rates on cargo from Hankow to Shanghai which are in excess of those charged by foreign ships for the same cargo moved from Shanghai to New York. Industry is largely at a standstill; foreign firms hesitate to rebuild their bombed out plants or otherwise to reinvest in

³⁸ For correspondence concerning this mission, see *Foreign Relations*, 1946, vol. x, pp. 1268 ff.

their businesses. The same situation largely obtains at Tientsin, where Consul General Smyth reports that conditions are so bad that even influential Chinese businessmen have expressed to him the viewpoint that, while business is practically impossible under the present Government, it might be possible to do business under the Chinese Communists. Hope in the Nanking Government is at an especially low ebb at Tientsin, where business men feel that their wishes and views receive scant attention and that Shanghai has been favored in such matters as the granting of import allocations by ports.

Mention has been made of the struggle for power in the economic field which is being waged in the Kuomintang between the CC-Clique and the Political Science Group. There seems to be good reason to believe that Dr. Chen Li-fu was among those responsible for Dr. Soong's resignation from the Government on March 1 on the charge that his economic policies had failed. Shortly thereafter Dr. Chen presented to the Central Executive Committee of the Kuomintang his proposals for economic reform; these proposals, somewhat modified, were adopted by the Central Executive Committee on March 23 as an economic reform plan which, since May 25, has been under study by the National Economic Council. According to information from Dr. Chen, the "Economic Plan, after a series of discussions and conferences, has been revised and passed by the plenary meeting of the National Economic Council on July 21 . . .³⁹ There are no major changes either in contents or in spirit of the original proposals." He added that the Plan will now be referred to the State Council for ratification.

Full details of Dr. Chen's original proposals and of the Plan as presented to the National Economic Council have been reported to the Department of State.⁴⁰ As you will no doubt be hearing of the Plan during your visit in Nanking and elsewhere in China, I would like to make a few brief remarks regarding it. The Plan is actually an "omnibus" of plans, and many of the recommendations therein are covered by laws already enacted but not enforced. Divided into two parts, Part I of the Plan refers to the deteriorating economic situation and the failure of the economic measures thus far enacted to improve conditions; Part II is much more lengthy and contains an outline of the suggested policies and plans for economic reconstruction. The Plan contains recommendations under 15 headings covering the following:

³⁹ Omission indicated in the original memorandum.

⁴⁰ See despatch No. 652, April 21, and telegram No. 1518, July 12, 2 p. m., from the Ambassador in China, pp. 1099 and 1157, respectively; also the Ambassador's telegram No. 744, April 5, *United States Relations With China*, p. 735.

1. Full utilization of manpower to boost production ;
2. Increased production of goods to stabilize commodity prices ;
3. Stabilization of the value of the currency ;
4. Reform of the banking system ;
5. Rural reforms ;
6. Development of industries with recommendation that the Government should map out an over-all economic plan and specify the scope of state, provincial, municipal and private enterprises and fix annual production quotas ;
7. Development of commerce with a view to encouraging exports and restricting imports so as to attain a favorable trade balance ;
8. Development of communications by joint efforts of the Government and private enterprise ;
9. Financial measures aimed to increase production, to increase the Government's revenue and to prevent corruption, and to reduce expenditure ;
10. Reforms in food administration calling for abolition of compulsory borrowing of foodstuffs in 1947, more reasonable collection of land tax in kind, and adoption of a granary system to stabilize grain prices ;
11. Diversion of idle capital from speculation to productive channels ;
12. Encouragement of foreign capital, including measures to expedite remittances from overseas Chinese ;
13. Rational adjustment of treatment accorded public employees, school teachers and Army personnel ;
14. Severe punishment for persons who utilize political influence to benefit private enterprises ; and
15. Strengthening of the economic organization with over-all planning of the nation's finance and economy.

Study of the Plan reveals that many of the proposals therein are reasonable and, if carried out, would prove beneficial. However, question arises as to the motives which prompted the reactionary CC-Clique to sponsor seemingly liberal and much-needed reforms. The suggestion has been made that Dr. Chen cynically sponsored the drafting of the Plan as a move to enlist the support of unwary liberal elements in the Party and outside, and with no real desire to be called upon to implement the Plan. I do not think that that suggestion is now valid, as Dr. Chen has given every evidence that he fully intends to see that the Plan is implemented ; he is Vice Chairman of the National Economic Council and has asserted that the Council will be charged with the duty to see that the ministries and other agencies concerned carry out the recommendations in the Plan.

Regardless of what opinions one may have of Dr. Chen, it seems obvious that he has consolidated his position as a powerful leader in the economic field and that, in that field, he is a force to be reckoned with in future. Meanwhile, however, we cannot wait for Dr. Chen to solve all of China's economic problems with his schemes. Positive

measures are needed now to arrest the disintegration and threatened collapse, with the ever-increasing trend toward the extreme left.

Regarding the forms of economic assistance which the United States might give to China, I should like to mention at first the post-UNRRA program which provides that the sum of \$350 million be spent for emergency relief purposes in certain countries of Europe and in China. The Embassy, which has been carrying on negotiations with the Chinese authorities regarding their relief requirements for the post-UNRRA year ending June 30, 1948, believed that the amount that would be allocated to China was to be \$60 million. Subsequently, however, the Department of State indicated that the figure probably would be \$30 million, a total which the Department stated would be sufficient to conduct only a moderate food relief program and a small medical program. The Embassy therefore recommended that a figure closer to \$60 million be fixed, pointing out that the post-UNRRA program was one of the few means whereby the United States could give aid to China. Mr. Butterworth is now discussing that and other points regarding the program in Washington and the Embassy expects to receive soon the necessary information with which to reach an agreement with the Chinese Government.

In the discussions with the Chinese, the Embassy has repeatedly pointed out that the post-UNRRA program is in no manner to be considered a continuation of the UNRRA program; that it will be an American program throughout and will be administered on our terms; and that it will be administered honestly, efficiently and effectively. American and other voluntary agencies will be called upon to participate in the program, principally in regard to use of medical supplies but, in famine areas, possibly also in the distribution of foodstuffs.

Regarding other forms of possible relief to China, there appears to be a choice of two alternatives, the first including credits extended by the ExImBank for purchase of cotton and other raw materials to be used for current production, and the second credits for long-range development plans. While some immediate relief might be given under the first alternative, whereby the National Government would be bolstered financially and some export trade in finished products developed, there arises the question of repayment within a few years. China's precarious foreign exchange position seemingly would make her a poor risk for ExImBank credits for purchase of cotton and allied products on a short-term basis unless a program could be worked out whereby a portion of the cotton yarn and cloth, for instance, were exported and the proceeds therefrom used to repay the loans.

With regard to long-range credits for economic development, the Chinese have expressed a desire to have access to ExImBank credits for such projects as the rehabilitation of the Canton-Hankow Railway

and reconstruction of other railways south of the Yangtze River; the Tangku harbor development; the Yellow River bridge project; erection of fertilizer plants and rehabilitation of existing fertilizer plants; and the like. The Embassy believes that other applications for ExImBank credits may possibly have been made direct to the Bank by the Chinese Embassy in Washington, concerning which it has no details. It seems fairly certain that still other applications and suggested forms of aid will be brought to the attention of the Mission.

As you may know, General Marshall favored the proposal to give ExImBank aid for the rehabilitation of the Canton-Hankow Railway, primarily on the ground that it was distant from the civil war operations and that it would contribute materially to the economic revival of an important section of China. I am sure that Mr. Walker could tell us why this application was rejected; it seems safe to say, however, that the all-important question of repayment could not be answered satisfactorily.

This question is obviously the crux of the problem of how to aid China. I will not attempt to answer it beyond saying that, if the ExImBank should decide to grant sizable loans, provision should be made for the presence in China of representatives of the Bank authorized to check on the Chinese performance and use of the money given them and to see that provision is made for regular and prompt payment of interest and capital. The Embassy's current files contain copies of correspondence with the Department of State and with the Ministry of Foreign Affairs regarding debts owed American firms incurred for equipment and services supplied China during the past 30 years or more. While the problem of repayment of this money cannot be tied up directly with discussions with the Chinese regarding new ExImBank credits, the Embassy feels that the American citizens concerned would have justifiable cause for complaint were it known that their interests were disregarded.⁴¹

121.893/9-1947

*Memorandum of Conversation, by Mr. Philip D. Sprouse*⁴²

[NANKING,] July 23, 1947.

General Tsai⁴³ called at his request to inform me that he had been recalled from Hsuechow by the Generalissimo to act as a liaison to

⁴¹ For correspondence on the financial relations between the United States and China, see pp. 1030 ff.

⁴² This memorandum and the two following memoranda were submitted by Mr. Sprouse on September 19 to the Director of the Office of Far Eastern Affairs (Butterworth).

⁴³ Gen. Tsai Wen-chih, Deputy Director of the Chief of Staff's Office and Aide to Generalissimo Chiang Kai-shek.

our Mission and that, as an old friend, he wished to give me frankly his personal views on the situation. The substance of his comments is as follows:

The military situation in Shantung and Manchuria is very grave for the Government. The loss of Manchuria may occur within a few months. The Communists have greater sources of manpower than the Government through their organization of the rural areas and are superior to the Government on all major fronts. Their equipment comes chiefly through capture from the Government forces of Japanese, Chinese and US matériel. The Government believes that the USSR is aiding the Chinese Communists in Manchuria but has no direct evidence thereof, except the use of 100,000 Korean Communist troops trained in north Korea. The Communists give money to lower ranking officers and enlisted men captured from the Government and allow them the choice of returning to their homes or of joining the Communist forces. Government policy does not permit the Government to carry out a program of organization of the people similar to that of the Communists, which has won for the latter the support of the poor peasants through division of land seized from the landlords.

The only solution for the Communist problem is a political one. When questioned closely on this point, General Tsai said that such a solution would be sought when the Communists had been driven from the major lines of communications. The chief weakness of the Government forces is their low morale, which causes many desertions. Communist morale is superior. However, Government morale would be equally good if its troops were well fed, well paid and well equipped. The only hope for the Government is US economic and military aid. Without such aid the Government will soon collapse and the Communists will soon control all China. Economic aid would remove the causes of unrest and dissatisfaction with the Government and military aid would enable the Government to defeat the Communists. Military aid would not entail US training of Government troops, but merely the furnishing of equipment. The Government is now beginning a training program under General Sun Li-jen with a view to sending reinforcements to Manchuria, action which might prevent loss of that area. The chief cause of the economic chaos is the corruption of high officials, who have an interest in businesses in Shanghai. A solution of the situation in China must include their elimination through governmental reorganization. When questioned regarding the position of Government military commanders in the provinces, he said that they had no real power but merely carried out the Gimo's orders. He parried my question re-

garding their corruption and refused to take the bait regarding the ineptitude of the high military command.

It is interesting to note that, according to Mr. Durdin of the *N[ew] Y[ork] Times*, General Tsai told him about 6 weeks ago that the Government could not defeat the Communist forces and would be compelled to seek peace through a compromise political settlement.

PHILIP D. SPROUSE

121.893/9-1947

Memorandum of Conversation, by Mr. Philip D. Sprouse

[NANKING,] 25 July 1947.

MEMORANDUM FOR GENERAL WEDEMEYER:

1. The following is the substance of remarks made to me by Dr. Chiang⁴⁴ during the course of a long conversation at his home on 23 July. (It might be pointed out that I have known him for more than 10 years and that he has always been frank and outspoken.)

2. The key to the situation in China is the U. S. S. R. No fundamental and lasting solution of the Communist problem in China can be achieved save possibly through another world war. The Chinese Communists do not receive direct orders from Moscow but there is always compliance with the U. S. S. R. in major questions of policy. The U. S. S. R. is somewhat contemptuous of the Chinese Communists but recognize their usefulness to Soviet aims. There is no hope of saving the Chinese Government without U. S. assistance. This must consist of financial and economic aid and military aid in training and equipping completely new armies south of the Yangtze. This must be accompanied by the complete reorganization of the Kuomintang through the introduction of new and younger leaders. There will continue to be Kuomintang domination of the Government as the minority party leaders are not experienced in governmental administration. The process of education in democracy through local elections, regardless of their imperfections, must continue. The Generalissimo is handicapped by the limitations of his background and training in Japanese military school and he must be viewed in that light. If he understood the west, a solution of China's problems would be less difficult.

3. It is realized that U.S. aid to China must be accompanied by close supervision. The Gimo is a realist and would be willing to accept such supervision. This is particularly important in respect

⁴⁴ Chiang Mon-lin, member of the Chinese State Council and former Secretary General of the Executive Yuan.

to military aid. The greatest corruption in China is that among the military commanders, all of whom in Manchuria are expecting a crash and are making the most of their opportunities. Without U. S. aid the Government will slowly dry up—it will be a slow process and the Government might still last for another year or more. With U. S. aid, the Government can rebuild in the Yangtze and South China areas and the civil war may continue for years. The U. S. S. R. is not likely to allow the Chinese Communists to be defeated and will probably give military equipment to them while denying such action. If the Government should slowly dry up, there may be local commanders who will assert their authority in the provinces but there will probably be no leader and no organized movement capable of successfully opposing the Communists. It must be remembered, however, that the Generalissimo was practically unheard of until he assumed the leadership of the Kuomintang in 1927 and there may be “a man on horseback” who will emerge in such an eventuality.

4. When I reminded Dr. Chiang that he had told me in 1944 that while there was little hope for China during this period, China would emerge in about 50 years as a strong stable nation, he said that he now felt that such an emergence might be either good or bad, and that no one could be certain of predictions under present circumstances. He concluded that he did not feel that he was being pessimistic—rather, he was being realistic; that China was still going through the process of digesting western civilization; and that even if the Chinese Communists gained control at this time, the individualism of the Chinese would reassert itself in the long run, and bring about their overthrow.

PHILIP D. SPROUSE

121.893/9-1947

Memorandum of Conversation, by Mr. Philip D. Sprouse

[SHANGHAI,] 27 July 1947.

Present: Mr. Wang Yung-sheng, Editor-in-Chief of *Ta Kung Pao*,
Shanghai
Mr. Hsiao Chien }
Mr. Kao Chi } members of the *Ta Kung Pao* staff
Mr. Li }
Mr. Connors⁴⁵
Mr. Sprouse

I have known Mr. Wang and two of his staff members present during the conversation for 4 or 5 years and believe that his frank expres-

⁴⁵ W. Bradley Connors, Public Affairs officer at Shanghai.

sion of views results from this long acquaintanceship and feeling that his confidence would not be violated. Following is a summary of his views of the situation in China :

A continuation of the present rate of deterioration in the military, economic and political situation will lead to the narrowing of the extent of National Government authority and the spread of Chinese Communist control. It will probably result in Communist control of Manchuria and of North China north of the Yellow River in from 6 to 8 months. The National Government will be left in control in the Lower Yangtze Valley and separate regimes will rise in other areas, such as Kwangtung-Kwangsi. The eventual result may be Communist control of all China, but this will require a long period, the length of which it is impossible to estimate, because of lack of communications, extent of the area and other factors.

The only solution to the present situation is peace, to allow restoration of communications and rehabilitation and reconstruction. This would have to be accompanied by a compromise political settlement with the Chinese Communists and the establishment of a coalition government. When asked whether this was now considered possible in the light of past events, he said that it would be difficult but that the alternative was the utter exhaustion of the country and that it could be done. The US must not treat China as a strategic area vis-à-vis the USSR. The recent sale by the US of ammunition to the Chinese Government caused feeling on the part of many Chinese. Action of this kind serves to turn people toward the Communists. The US must encourage peace in China, not war.

US Aid to the Chinese Government would be welcome in economic and financial fields to build up China's economy. It should be given under close US supervision and under specified conditions. It should be given piece-meal, each portion to be preceded by performance and progress by the Government toward reform—not promises of such action. The Gimo and the Government would accept such conditions and such aid; its effectiveness in reconstruction and reform might restore the prestige of the Government, which has now lost the support of all classes. Even many Government officials are dissatisfied. Asked what reforms should be expected and who could judge the carrying out of these reforms, Mr. Wang said that Americans could easily do so. It would mean the abolition of the secret police—ending arrests and murders, lawless acts of destruction of property and the general policy of suppression and oppression which turns people against the Government. When asked if military officials in civil posts should be replaced by civil officials, he said this was unimportant as the leader of the nation was a military official. He stated very pointedly that

progress toward reform and democracy could be easily made if the Generalissimo would "rest for two months". Civil officials in provinces and districts should be elected and not appointed by the Central Government. The history of China shows the need for decentralization of power and the establishment of a federated type of government. One man and his ideas cannot successfully control the whole country. The same would apply to Communist rule. It is possible that federation might eventually grow out of the present trend toward disintegration and unity might be achieved through some such system. Mr. Wang concluded by returning to his first thesis that the only solution was peace and cessation of civil war and that the US should not act to encourage civil war since, until the Gimo knew that he would not be given military aid to fight a civil war, he would continue to carry on his unsuccessful and inconclusive campaign against the Communists.

Mr. Wang's views are those of a middle of the road conservative. His newspaper represents in general an independent view and it is still able to express, within limits, its views chiefly because of its close connection with high ranking Government officials, particularly those of the Political Science Group.

PHILIP D. SPROUSE

121.893/7-2747 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, July 27, 1947.

[Received July 27—6:02 a. m.]

1825. Following statement distributed to press through USIS upon General Wedemeyer's arrival at Shanghai July 6 [26]:

"As indicated in my initial press release upon arrival in Nanking last Tuesday, the members of my mission will visit various points and gain contact with as many diversified sources of authoritative information throughout China as our brief visit will permit. The past 4 days have been productive of results in our quest for factual information. We are obtaining data from all strata within the government, as well as from Chinese in educational fields and professional and commercial activities. We hope thereby to acquire a cross section of political, economic and psychological conditions. Obviously this, our initial visit to Shanghai, will afford excellent opportunities to supplement information already available pertaining to financial and economic matters.

"We have received many and varied suggestions from numerous authoritative sources. These suggestions are being submitted by Chinese truly interested in the establishment of a stable political and economic structure within their country. Apparently the statement in my initial press release, to the effect that the members of the mis-

sion are interested in determining what China has done and can do through her own effort to bring about recovery, has struck a sympathetic chord in the hearts and minds of many selfless, patriotic Chinese. I have received definite indications from such sources that there are many constructive steps that the Chinese can take to insure honest and efficient governmental processes and to restore economic stability. The members of the mission are interested in seeing what constructive steps have already been taken.”

DAVIS

Nanking Embassy Files, Lot F79, 710 Sino-Soviet

*Memorandum by the Naval Attaché in China (Kenny) to
General Wedemeyer*

Serial: 00144

NANKING, 28 July 1947.

Brief: The Soviet Union is moving, slowly and circumspectly, towards eventual domination of China. Circumstances favoring such a Soviet effort are: geographical propinquity, ethnic similarities, anti-Chinese minority groups, the corruption and ineptitude of the Central Government, the poverty and ignorance of the masses, a strong Chinese Communist Party, and 55,000 Soviet citizens in Greater China. Sinkiang is rapidly falling into the Soviet orbit, almost by default; Inner Mongolia is slowly drifting into the Soviet orbit, largely due to Chinese ignorance and indifference; Manchuria is under the control of the Soviet-oriented CCP, and Soviet collusion and intransigence is speeding the decline and fall of the Central Government in Manchuria. Although the Chinese authorities recently forced the Soviets to announce the repatriation of the bulk of their 15,000 new citizens in China Proper, the nucleus of the intelligence organization and community organization will remain. The four overt Soviet missions in China (diplomatic, commercial, military, and propaganda) and the two covert representations (MGB⁴⁷ and Comintern) which operate through the overt missions are well-staffed, well-trained, well-financed, active, and probably successful. Sino-Soviet relations at present are tense and may become severely strained. Soviet-American relations in China are not frankly hostile, but they are not often amiable. The Soviets appear to believe that, in China, time and the processes of history are on their side.

1. Submitted as of possible interest is the following summary, as this office sees it, of the present status of the Soviet effort in China. The following subjects are briefly considered: Soviet aims in China; the necessity for circumspect behavior in effecting those aims; Soviet

⁴⁷ Soviet Ministry of State Security; operating abroad under cover of diplomatic missions.

allies in effecting these aims; the degree to which these aims have already been effected in Sinkiang, Inner Mongolia, and Manchuria, and the Soviet apparatus to effect them in China Proper; the work of the four overt Soviet missions (military, diplomatic, commercial, and propaganda), and of the two covert missions (the representatives of the Ministry of State Security and of the Comintern); and current Soviet relations with the Central Government and with representatives of the United States.

[Here follows summary, in numbered sections 2-14.]

15. Soviet-American relations, i. e., between personnel of the two missions, have been alternately warm and cold. At present relations are fairly good, but not genuinely friendly, and the Soviet suspicion of Americans and of their own personnel is more obvious than it used to be. The Soviets are jealous of American privileges in China but they are not especially alarmed over U. S. intelligence activities, believing their own to be superior. Neither are they especially alarmed about American activities in general in China; the Soviets appear to believe, for the reasons listed above, that time and the processes of history are on the Soviet side.

W. T. KENNY
Captain, U. S. Navy

121.893/7-2947: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 29, 1947—8 a. m.

[Received July 29—4:30 a. m.]

1607. Story is current in Chinese newspaper circles of fairly reliable authenticity that the Generalissimo is most annoyed with General Wedemeyer's mission on two counts. First, that it is a serious reflection on Chinese dignity and sovereignty that the mission which comes to China should also include Korea in the field of its activities, and second, the Generalissimo considers it an insult that he should not have first been consulted on the mission before it was announced. The second factor, it would appear, may be an afterthought since the Generalissimo certainly expressed great pleasure over the coming of General Wedemeyer to the Embassy officer who conveyed to Generalissimo the notification from the Department.

On the other hand, this afterthought may well have been part of the current Chinese reaction which is quite apparent in Chinese press and officials, namely, anticlimax and disappointment. Preliminary reaction seemed to be that General Wedemeyer would bring with him

an avalanche of military and economic aid and a radical alteration in American policy. It has already seeped into Chinese consciousness that this is by no means necessarily the case and that in any event any aid which might be forthcoming will have to wait until General Wedemeyer has returned to the United States and consulted with the appropriate American officials.

STUART

121.893/9-1947

*Memorandum of Conversation, by Mr. Philip D. Sprouse*⁴⁸

[SHANGHAI,] 29 July 1947.

Summarized below are remarks made to me by Dr. Lew⁴⁹ during the course of my call on him today.

The only bright spot in the present situation in China is the free and intelligent discussion which takes place during Executive Yuan meetings. The present administration, as represented by the Executive Yuan, is the most able that China has had in many years. They are faced, however, with a seriously deteriorating economic and financial situation and an equally serious military situation. There is no real solution as long as there is civil war, which results in the expenditure of approximately 80% of the budget for military purposes. The U. S. should give the present administration economic and financial aid in order to provide support for an effective executive organ. The present Government has made many mistakes and has been subjected to much criticism, much of it justified, although there have been many exaggerations. General Chang Chun is aware of this and deplors many of the excesses of the military and the secret police, but he has no control over them. The military are responsible solely to the Generalissimo. For this reason General Chang Chun can take no steps to reduce military expenditures. Although all important matters are referred to the Executive Yuan, no one opposes any measure introduced or supported by the Generalissimo, who may be said to exercise a veto power over the Executive Yuan. If the U. S. were to give China financial and economic assistance, this would strengthen the position of the moderate progressive group in the present administration. Militarily, the Government should try only to contain the Communists in their present positions and build up a strong and healthy economy in the areas south of the Yellow River

⁴⁸ This memorandum and the one printed *infra* were submitted by Mr. Sprouse on September 19 to the Director of the Office of Far Eastern Affairs (Butterworth).

⁴⁹ Daniel Lew, member of the Secretariat of the Chinese Executive Yuan and son-in-law of Gen. Chang Chun, President of the Executive Yuan.

with U. S. financial and economic aid. The Government says that it can destroy the Communists by force, but this provides no solution for the problem. (Dr. Lew, by indirection, expressed disagreement with the Government's view of its ability to destroy the Communists.) Asked what action the Government might take to strengthen its position and prestige among the Chinese people, Dr. Lew said that this was a question which could be answered only by the Generalissimo. Dr. Lew referred pointedly to U. S. responsibility for China's present predicament in Manchuria as a result of the Yalta agreement.⁵⁰

While Dr. Lew was somewhat guarded in his statements and explained to me that his position as the son-in-law of General Chang Chun made it difficult for him to talk as freely as he might otherwise, he expressed his views sufficiently—which may in a sense reflect something of General Chang Chun's attitude—to indicate a pessimistic picture of the situation. I have known Dr. Lew for about two years and have always found him a fairly frank person with a definite pro-US orientation.

PHILIP D. SPROUSE

121.893/9-1947

Memorandum by Mr. Philip D. Sprouse to General Wedemeyer

[SHANGHAI?] 29 July 1947.

The following is a summary of the views expressed to me by the Democratic League representatives (Lo Lung-chi, Chang Tung-sun, Huang Yen-pei and Chang Po-chun) following the conclusion of their interview with you this morning:

The only solution in China is through peace and the formation of a coalition government. The easiest way in which this could be achieved would be through the resignation of the Generalissimo, as there are many people in the Government and many military commanders who are convinced that without peace China will face untold destruction and suffering. The Chinese Communists would agree to enter a coalition government under such conditions, probably on a 3-3-3-basis with the Kuomintang and other minority and non-party groups. This would also probably include the establishment of a federation with the Communists in control of Manchuria and certain parts of north China. The solution could also be reached without the removal of the Generalissimo if he were deprived of his present powers and retained only as the titular head of the government.

There are four possible courses which may result from the present situation:

⁵⁰ Signed February 11, 1945; *Foreign Relations, The Conferences at Malta and Yalta, 1945*, p. 984.

(1) The Government may continue on its present course with the eventual result of the collapse of the Central Government and the emergence of the Communists as the dominant force in a coalition government formed of the Communists, the Kuomintang and various local groups and minority party personnel.

(2) The instant cessation of hostilities and the formation of a coalition government in the near future is the only way to save the country from Communist domination in the long run.

(3) The U.S. Government may endeavor to bolster the Kuomintang in order to prevent Communist domination of China. This would serve to turn many people toward the Communists and give added strength to the Communist cause as one against foreign intervention.

(4) The U.S. Government could make clear to the Generalissimo that it will not give any aid to China until hostilities have ceased and a coalition government has been formed—this would make it possible to bring peace and stability to China and prevent Communist domination which would follow prolonged hostilities.

The liberal groups, such as the Democratic League, fear Communist totalitarian control and many Chinese critical of the Government would turn over to the Communists except for :

- (1) fear of the establishment of a totalitarian form of government,
- (2) the abolition of private property, and
- (3) the danger of China's becoming a puppet of Soviet Russia.

The key to the situation lies within the policy of the U.S.: It must convince the Chinese Government that it will not support, directly or indirectly, a civil war and it must aid the liberal groups in China. Only through such a policy can Communist domination of China be prevented.

The Democratic League representatives are preparing a detailed memorandum setting forth their ideas; which, in accordance with General Wedemeyer's request, they will present for his consideration.

PHILIP D. SPROUSE

761.93/8-147

*Memorandum by the First Secretary of Embassy in China (Ludden)
to General Wedemeyer*⁵¹

NANKING, July 29, 1947.

The Soviet position at Dairen and Port Arthur⁵² rests upon agreements concerning the two cities which form annexes to the Treaty of

⁵¹ Delivered to General Wedemeyer on July 31. Copy transmitted to the Department by the Ambassador in China in his despatch No. 909, August 1; received August 11.

⁵² For correspondence on this subject, see pp. 481 ff.

Amity and Alliance between China and the Soviet Union of August 14, 1945.⁵³

[Here follows summary of situation.]

The Russians, realizing the weak political and economic position of the Chinese as well as the probable fact that neither the United States nor any other nation is prepared to and can legally intervene actively in the situation, are prepared to treat with the Chinese regarding the Naval Base area on a "take it or leave it" basis.

At the present time the Chinese Government seems not prepared to accept any settlement which would further impair Chinese sovereignty in the area. The Chinese Government is furthermore unwilling to acquiesce in the continuation of a Soviet-sponsored local administration with a strong Communist flavor in which the Chinese would have little, if any, influence outside the city of Dairen.

The Chinese Government may feel that a small foothold in Dairen would be worth considerable concessions to Soviet demands; it may even be able to overcome Soviet objections to the extent of appointing its own officials in the so-called Kwantung Government as well as in the city of Dairen. As long as the present Soviet attitude continues, however, and as long as the Russians keep a large garrison in the area, control the local administration, and successfully prevent the entry of Chinese troops or a sufficiently large body of police, Chinese sovereignty in the area as a whole will probably be little more than nominal, and even within the city of Dairen will be restricted.

[Here follow further details.]

21.893/7-147

Memorandum by the Second Secretary of Embassy in China (Melby)

SINO-SOVIET RELATIONS

In a sense the whole problem of Sino-Soviet relations must be considered as an extension of Soviet-American relations. As such, the problem is a relatively simple one, free of the complications and nuances which beset the relationships of the major powers in the other principal areas of conflict, of the world. In the Far East alone does the United States come in direct contact with the Soviet Union without the injection of a third major factor which would increase the flexibility of relationships and operations. This conflict in the Far East can be stated very briefly. The basic Soviet objective is the extension of its influence and primacy of interest throughout China

⁵³ For text, see *United States Relations With China*, p. 585.

through the instrument of the Chinese Communist Party and eventually the extension of this influence throughout Asia, to the exclusion of other interests. The basic objective of the United States is to prevent this Soviet expansion (as well as preventing the emergence of any one power as the dominating force), to preserve primary Chinese orientation toward western democracy and specifically toward the United States, and to achieve these objectives by the creation of a stable regime in China whose ultimate goal will be the growth and development of an ideology and practice comparable to our own. Caught between these two major forces stands China, straddling an uneasy fence, desirous of destroying the Chinese Communists and eliminating the Soviet influence, while at the same time, and in relationship to the United States, being desirous of securing a maximum of assistance at a minimum of cost to China. This is in marked distinction to Europe and the Middle East, where several major powers are involved whose interests are more direct than those of the United States, thus not only complicating the situation, but also increasing the range of maneuverability for the United States. Even though the fundamental orientation of the National Government is quite specifically much more in the direction of the United States than of the Soviet Union, it is also equally apparent that there is in Chinese foreign policy the strong and ancient tradition of survival by playing off barbarian against barbarian. At present, the stronger and more imminent threat of the Chinese Communists must necessarily counsel an orientation toward the United States.

The most important and pressing factor in Sino-Soviet relations is, of course, the relationship between the Soviet Union and the Chinese Communist Party, which has already been discussed by Mr. Ludden.⁵⁴ Suffice it for our present purposes to repeat what he has already said, namely, the question as to whether there are direct ties between Moscow and the Chinese Communists is basically an academic one. The ideological affinity is strong and real. To the extent that if the situation at any given moment might demand it and it would serve the eventual Russian interest, material aid will be forthcoming. The Chinese Communists are a strong and effective extension of Soviet foreign policy and as such, a threat to the existence of any democratically inclined National Government of China, and therefore, a threat to the interests of the United States. Since the largest non-Russian Communist army in the world can be counted on to serve Russian purposes, the Kremlin can afford the luxury of taking, for the time being at least, a negative official attitude toward China. The Russians are fortunate that circumstances in the Far East can

⁵⁴ See memorandum of July 23, p. 656.

permit them for the time being to concentrate their energies and efforts in Europe and the Middle East.

Meanwhile Sino-Soviet relations are complicated by Russian activities in other directions. Dairen, despite any strictly legal rights, is an obvious case of obstructionism in which Soviet action appears to be based on a conviction that it is only a matter of time before all Manchuria is under the control of the Communists, whereupon it will be feasible for the Russians to turn over Dairen to a locally installed administration which, of course, will be entirely Communist.

Outer Mongolia has been effectively detached from China with international sanction. It has at the same time been effectively lined up with the Soviet Union without international sanction, this constituting a matter of fact about which very little can be done.⁵⁵ The consensus of available evidence strongly suggests the Outer Mongolians are being used as the extension of Soviet policy of penetration into Inner Mongolia, relying on ties of blood, religion and community of interests among all Mongols coupled with a gross ineptitude of the Chinese in dealing with minority peoples which has turned most Mongolian eyes away from the Chinese. Inevitably, the concept of a greater Mongolia must be an important factor on the Sino-Soviet frontier and most probably in the end at the expense of China.

To the west, five of the twelve regions of Sinkiang are to all intents and purposes, a Soviet puppet area. Expansionism of the Mongols endangers the northeastern part of the province. Chinese bungling throughout the whole of the province, Chinese inability to conciliate minority peoples, as well as Chinese preoccupation with more urgent problems in China proper, will almost inevitably drop the entire province into the Soviet lap unless an overall solution to the Chinese problem is found in the fairly near future. The Chinese Foreign Office may protest developments in Sinkiang; it may drum up strong public feeling on the subject; but under present circumstances it can do little more than put its views on record.

Another irritant in Sino-Soviet relations has long been the presence in China of several tens of thousands of White Russian refugees. These individuals for the most part have been, of course, bitterly anti-Soviet. The older ones who have been able to exercise influence, kept alive and increased the feeling against the Soviets. This has been particularly true since the Gimo's *coup d'état* against the Communists

⁵⁵ In a separate memorandum Mr. Melby made the following statement: "It is now, of course, axiomatic that Outer Mongolia is a Soviet puppet state, in actual practice not dissimilar from any of the sixteen republics which compose USSR, despite the plebiscite held in October of 1945 which voted for independence. . . . No action of any importance can be taken without concurrence of the Russian advisors and their only foreign relations are with Moscow."

in 1927 and the departure of the Russian advisors. The German invasion of the Soviet Union was a turning point for the Russian communities in China. Russian nationalism proved stronger than ideology and Russians, particularly the younger generation which was born and raised in China, forgot the past and gave its support to Moscow. This change has been most effectively exploited and thousands of these individuals now possess Soviet citizenship and work for Soviet interests. Several weeks ago it was announced that some 15,000 individuals in China would be repatriated. This comprises most of those holding Soviet passports. There is some reason to believe that the Chinese Government welcomes this development since the Russian elements in the country, be they pro or anti-Soviet, have proven themselves singularly unassimilable and also, since they have been stateless for so many years, are almost entirely without standards of any kind. Though there has been a general Russian policy of repatriating citizens throughout the world, it seems likely that another motivation at the present time in the case of China has been to extricate those of its citizens whom it may conceivably find useful at a later date. The Soviet Union has no great surplus of individuals who know the language and ways of the country and if events develop as they confidently expect, they will need these individuals in their overall plan. Repatriation has the further advantage of putting the families into Soviet hands to be held as hostages for the good behavior of those who may return later to China.

Direct Soviet propaganda activities in National Government China have been relatively negligible both as to quantity and content. Such activities as they do carry on are in the face of continual Chinese obstruction. This does not seem to disturb the Soviets unduly, since the Chinese Communists can, of course, be counted on to do their work for them without direct Russian implication.

Mention should also be made of Manchuria. Behind the backs of the Chinese Communist Army, the Russians are proceeding to integrate Manchurian economy into that of eastern Siberia. The Red Army stripped most heavy industry from the area. The objective was to make Manchuria again a producer of raw materials feeding into Soviet factories and a consumer of Russian manufactured goods, gradually building up the indebtedness of Manchuria and Siberia and making it progressively more impossible for the area to break away except through a major upheaval of violence. As long as Dairen is closed, such trade as exists must flow eastward out of Vladivostok and northward into Siberia. Unless and until National Government armies occupy all Manchuria and forcibly reorient the economy of the area, nothing seems likely to change the trend which was initiated when the Soviet armies entered in August of 1945.

This process of Soviet expansion into the peripheral areas of China, together with the growing strength of the Chinese Communists, all in the face of more or less ineffectual National Government opposition, has found its formal expression in an endless series of little-publicized protests and diplomatic exchanges between the two governments. Lacking any other weapon the Chinese are continually protesting Soviet activities and the Soviets show their customary skill in haggling over technical details and interpretations, all designed to postpone solution. The Soviets in their turn, also protest to the Chinese Government on things that displease them. It is hardly likely that Moscow looks on this endless exchange as being anything more than an exercise in the gentle art of note writing. Another mark of the Soviet attitude towards its diplomatic relations with China is that since the end of the war, Soviet representation in Nanking has been mediocre and lacking in forcefulness. The Soviet Ambassador⁵⁶ has been absent since late spring and it is not known when or if he will return or who a possible successor might be. The Embassy staff has been greatly reduced in size and those remaining are men of little consequence.

121.893/7-2947 : Telegram

General Wedemeyer to the Secretary of State

[NANKING,] July 29, 1947.

34. DEAR MR. SECRETARY: The Mission arrived in China one week ago. Current conditions in the area are strikingly similar to the confused situation you depicted in your report upon departure from China last January,⁵⁷ although unquestionably there has been serious deterioration, since, both economically and militarily. Confidence in the Government has been severely shaken due to its inability to cope with the Communist situation and to economic problems. Uniformly, we are impressed by all contacts, that drastic reforms and changes in key positions of the Government must be made, or the Generalissimo's position as President will become untenable, resulting unquestionably in his downfall.

My Mission unfortunately is considered by the Chinese at large as a panacea of all Chinese ills. We are expected to solve practically overnight, all the major critical and long existing problems of this complex area. This attitude was placed in bold relief by the categorical statement of T. V. Soong to the effect that if our Mission failed

⁵⁶ Apollon Alexandrovich Petrov.

⁵⁷ See *United States Relations With China*, p. 686 or *Foreign Relations, 1946*, vol. x, p. 672.

to provide timely and realistic assistance, the fall of the Chinese Government would be inevitable. There would be retrogression, war-lord domination of regions or provinces and, concomitantly, communism would spread rapidly and unabated throughout Asia.

Contacts have been made and will continue with representatives of the Government, liberal elements, labor, business and professional fields. Contacts of course are being made with Americans in the Embassy and those in military, naval and business activities.

Members of the Mission have been subjected to every artifice in Chinese attempts to elicit reaction on my part to their particular proposals or to conditions prevailing in the area. We have scrupulously avoided oral or written statements that might indicate our thinking. Throughout we have emphasized the fact-finding nature of our Mission. Mark Watson and Brad Connors are rendering excellent service in this regard.

My current impression is one of apathy and bewilderment on the part of the Chinese. Every one tells me about the terrible conditions that prevail. We are encouraging suggestions as to how to alleviate them. Inflation, corruption, disregard and disrespect for constituted or delegated authority is witnessed on all sides. Invariably, they place the blame for their precarious position upon the Yalta Agreement and the current United States-Soviet inability to resolve differences. Many Chinese have emphasized the point that the Yalta Agreement which was consummated without Chinese representation, knowledge or approval, permitted Soviet Russian influence and ultimate domination in Manchuria and parts of North China.

Having noted the apathy among many Chinese with whom we have come in contact, there are, on the other hand, reports which would indicate excellent spirit, almost a fanatical fervor, within Chinese Communist ranks. This of course can be partly attributed to their recent military successes and the booty and prizes attained thereby. However, their leaders and perhaps many in the ranks seem to believe in their cause.

I feel that the Nationalist Chinese are spiritually insolvent. They do not understand why they should die or make any sacrifices. They have lost confidence in their leaders, political and military, and they foresee complete collapse. Those in positions of responsibility are therefore corruptly striving to obtain as much as they can before the collapse. Nationalist soldiers reflecting this general attitude, simply do not want to fight and their response is increasingly apathetic and ineffective.

The Mission visited Shanghai for 2 days and accomplished a great deal. While there, Mr. Monnett Davis and his assistants conducted an

excellent briefing covering political, economic and psychological factors. Davis appears to have an efficient organization.

At present, our plans envisage a week's trip to the north beginning August 1. There we will visit Peiping, Tientsin, Mukden, Fushun and Tsinan. Though the situation appears depressing at the moment, I am determined that this Mission will produce some positive and affirmative recommendations for your consideration.

A. C. WEDEMEYER

121.893/7-3047 : Telegram

The Secretary of State to General Wedemeyer

WASHINGTON, 30 July 1947.

83136. DEAR WEDEMEYER: Thanks for 34. It is such a clear picture of the situation that I have passed copies to the President, Leahy,⁵⁸ Forrestal⁵⁹ and Petersen.⁶⁰ In the Department I have shown it to Lovett⁶¹ and Armour.⁶² I want you to know that your approach to the problem has my complete approval. The situation appears most discouraging. If you need anything from this end, please let me know.

Faithfully yours,

MARSHALL

121.893/9-1947

*Memorandum of Conversation, by Mr. Philip D. Sprouse*⁶³

[NANKING,] 30 July 1947.

The following are the highpoints of the remarks by Dr. Yeh⁶⁴ during a long conversation at the Foreign Office on the evening of July 29:

China must have peace, and the cessation of civil war is the most urgent problem. Economic recovery and reconstruction can be accomplished only if there is peace. When reminded that peace would require agreement by both Chinese sides, he admitted the difficulty but reiterated that there must be peace. He did not explain how it

⁵⁸ Fleet Adm. William D. Leahy, Chief of Staff to the Commander in Chief, President Truman.

⁵⁹ James Forrestal, Secretary of the Navy.

⁶⁰ Howard C. Petersen, Assistant Secretary of War.

⁶¹ Robert A. Lovett, Under Secretary of State.

⁶² Norman Armour, Assistant Secretary of State for Political Affairs.

⁶³ This memorandum and the six memoranda following were submitted by Mr. Sprouse on September 19 to the Director of the Office of Far Eastern Affairs (Butterworth).

⁶⁴ George Yeh, Chinese Vice Minister for Foreign Affairs.

could be brought about. The Generalissimo is motivated chiefly by concern for his security and this has resulted in repressive measures against students, contrary to the advice of many Government officials. He has promulgated a National General Mobilization Order, which will give the Government complete power to put the nation on a war footing and enable it to obtain conscripts and grain for the armies. This will cause further opposition to the Government. The Government can continue for some time under present conditions but its authority will slowly grow weaker. With all the faults of the Generalissimo, there is no one to take his place. In spite of his announcement to the visiting U. S. publishers that he can soon wipe out the Communists, there are not many people who believe that this can be done. There may eventually be a divided China with the Communists in control in Manchuria and parts of north China, but the Communists will not be able to gain control over the rest of China and dominate the country.

. . . He should then be persuaded that he must do something for the welfare of the people and must carry out reforms which will bring to the Government the support of the people. Secret police practices must be abolished and the people must not be allowed to live in fear. The second important step is for the U. S. to do something about the Chinese armies. Ninety percent of the officers from the rank of colonel and up should be eliminated and the armies reorganized and trained properly. Corruption and lawless acts among the army commanders have made the army an inefficient machine and has lowered morale and Government armies are now inferior to the Communists. The U. S. should assist China with loans for reconstruction projects and credits for commodity purchases. The Gimo would not accept complete U. S. supervision over such loans or credits. He is not anti-foreign; he is a Chinese with pride who looks on himself as the savior and leader of his country. He feels that if the U. S. is a friend, it should extend financial aid in a friendly manner and without strings attached thereto. His qualities which enabled him to lead the country through the war against Japan are perhaps an impediment under present circumstances.

The U. S. should not try to persuade him to compromise with the Chinese Communists—this he will not do. The Chinese Communists do receive some assistance from the USSR in Manchuria but direct evidence is difficult to obtain. Soviet-trained Japanese and Korean troops have fought with the Communists and the USSR maintains military advisors with the Chinese Communists in Manchuria. There is the possibility that many Chinese who have worked with the Chinese Communists would leave them if there were a good govern-

ment for them to support. The Generalissimo is still convinced that he can deal with the Communists by force and does not realize that the only real means of meeting the Communists is through honest efficient government. Asked whether the Generalissimo would delegate responsibility to the many able and honest officials now in the Government, such as Dr. Wang Shih-chieh,⁶⁵ Dr. Wong Wen-hao⁶⁶ and others, Dr. Yeh said that this was slowly happening of late because many Government ministries were no longer accepting without question the orders emanating from the Generalissimo and that if the right people could get to the Gimo and discuss things with him he could be persuaded. It was difficult, of course as many officials were afraid to talk openly and frankly with the Gimo. The U. S. has a responsibility for the situation in Manchuria as a result of its share in the Yalta Agreement and its encouragement of the Chinese Communists through its mediation effort.

The foregoing comments are the most frank that Dr. Yeh has ever made to me during the three years I have known him as he is usually guarded in his observations. The general tone of his conversation was admittedly pessimistic.

PHILIP D. SPROUSE

121.893/9-1947

Memorandum by Mr. Philip D. Sprouse to General Wedemeyer

[NANKING,] 30 July 1947.

Attached is a copy of a memorandum⁶⁷ recently prepared by General Tsai Wen-chih, Deputy Director of the Office of the Chief of Staff and Aide to the Gimo. The gist of this memorandum is as follows:

If the National Government does not improve its political organization thoroughly, reorganize its military strength and stabilize the economy in a decisive manner, the political, military and economic situation will end in total bankruptcy in a year. Communist forces are superior to those of the National Government in morale, material strength and manpower reserves. Mobilization of resources, as well as the financial situation and commodity price levels, is superior in the Communist areas. The Communists through their organizing power can mobilize the entire manpower and resources in north China and Manchuria for war while the Government carries on war only with its regular troops. Communist troops now "carry out regular and active offensive and defensive works while all guerrilla warfare is now con-

⁶⁵ Chinese Minister for Foreign Affairs.

⁶⁶ Chairman of the Chinese National Resources Commission.

⁶⁷ Not found attached to file copy.

ducted by their militia forces". The Government now has a total strength of about 800,000 men, part of which must defend garrison points and lines of communications. When Government troops enter Communist-held areas, the "local people are all the forces of the rebellious force". The campaign against the Communists is a political struggle and military strength is only a "means by which political achievement is covered". When Government troops occupy an area, it will increase the burden of the troops in defending such an area. In order to save the country, we must :

- (1) improve the political organization, reorganize the Government and wipe out corruption ;
- (2) carry out reconstruction south of the Yangtze, stabilize the economy, readjust official salaries and wages, especially of the military, limit private property to specific amounts with the residue to be given to the Government, and carry out conscription on an equal basis ; and
- (3) train a new military force in preparation for an offensive next spring.

PHILIP D. SPROUSE

121.893/9-1947

Memorandum by Mr. Philip D. Sprouse to General Wedemeyer

[NANKING,] 30 July 1947.

Subject: Chinese Dissident Elements

1. The following extract from Hong Kong's political summary for June ⁶⁸ is of interest :

"Local opinion with regard to utterances of General Li (Li Chishen, the leader of the so-called separatist movement in South China, who is residing in Hong Kong) and other leftist leaders in Hong Kong is still somewhat divided, but the majority appear to believe that no well organized movement for independence in South China has yet been formed. At the same time, many persons are impressed with the boldness of the leftists in openly attacking the Central Government, as compared with their silence of a few months ago when none dared to permit his name to be published. Local authorities state that all leftist groups in Hong Kong are remarkably well-behaved, and that there is no evidence of meddling in local affairs; that they seem interested only in Chinese politics and so far are not deeply concerned with a 'world revolution' as dictated from Moscow."

2. The foregoing ties in with similar reports from other areas. There seems to be ample indication that the National Government military and other Chinese are quietly making plans against any eventuality. There have been reports from US consular offices that

⁶⁸ Dated July 2, not printed.

discussions and negotiations have been going on among many Chinese, but there seems to be general agreement, among Chinese and foreigners, that no one would yet dare enter the lists against the Generalissimo. The Government military commanders are, however, apparently making preparations for that day which may come when it would be both necessary and safe for them to take action to band together against the Communists. Obviously their position vis-à-vis the Communists, for fighting or bargaining, would be immeasurably stronger if they were banded together in some form of unity of purpose and action.

PHILIP D. SPROUSE

121.893/9-1947

Memorandum by Mr. Philip D. Sprouse to General Wedemeyer

[NANKING,] 30 July 1947.

Subject: Views of General Ma Chan-shan

1. Mukden's despatch No. 28 of July 10, 1947⁶⁹ transmits a letter from General Ma Chan-shan to the Secretary of State, which Gen. Ma handed to the Consul General at Mukden in the strictest confidence. Gen. Ma places the blame for the present state of affairs in Manchuria on Soviet support on [*of?*] the Chinese Communists and the failure of National Government officials to carry out the orders and uphold the ideals of the Generalissimo. He condemns the inefficiency of the National Government military commanders in Manchuria and the exploitation of that area by non-Manchurian civil and military officials. He feels that Manchuria can be saved from the Communists only by replacing the present regime with one made up of native Manchurians, such as Gen. Ma and by supporting such a new regime with sufficient funds and munitions to enable it to cast out the Communists. He asks that any aid given to China by the US be apportioned between the National Government and the "people", i. e. Gen. Ma himself.

2. Gen. Ma is reported in previous dispatches to have been authorized by the Gimo to organize native guerrilla bands but Gen. Tu Li-ming is said to have refused to permit such action. Gen. Ma was the last of the Manchurian military commanders to have offered resistance to the Japanese in 1931, and following his final elimination from Manchuria has been in northwest China with little power and in only a nominal military command. He was recently named Deputy Commander in Manchuria, but that is believed to be only a "kick upstairs" and he has apparently been given no power.

PHILIP D. SPROUSE

⁶⁹ *Ante*, p. 232.

121.893/9-1947

Memorandum by Mr. Philip D. Sprouse to General Wedemeyer

[NANKING,] 30 July 1947.

Subject: Mongols in Western Manchuria; Mongols in Nanking.

1. Changchun's dispatch No. 75 of July 11, 1947¹⁰ describes the political organization among Mongols of western Manchuria. The Mongols are said to have issued a proclamation in January 1946 announcing the formation of the East Mongolian People's Autonomous Government. While its laws were based on the concept of autonomous rule under Chinese sovereignty, there is no known sanction from the Chinese Government for such action. The character of the Autonomous Laws savors more of independence than of local autonomy. These Mongols had earlier moved for complete independence from China and union with Outer Mongolia, and it may have been under Soviet influence that the change in political strategy has been brought about. There seems to be no evidence to support the Chinese press claims that hordes of Mongol horsemen are fighting with the Chinese Communists. The Mongols seem to be going ahead with their program, probably on the basis of an agreement with the Chinese Communists recognizing certain "racial rights" in return for Mongol neutrality and passive support which protects the Communist west flank from Nationalist attack. The ultimate aim of the Mongols must be assumed to be a large degree of autonomy from all Chinese control and this would eventually serve Soviet purposes if they were to become closely affiliated with Outer Mongolia and thus with the USSR. The little evidence available seems to support the conclusion that the relationships of the eastern Mongols and the Kuomintang are becoming weaker and more tenuous under recent conditions in Manchuria.

2. Members of the Embassy staff have recently been approached by Mongol officials of the National Government. They claim to represent the majority of Mongols of Inner Mongolia and to be able to influence Mongols in Manchuria as well as those in Outer Mongolia if they received support. They are in contact with the Mongols from Manchuria, they say, and the latter have endeavored to obtain their support for the Chinese Communist-supported Mongols. The Nanking Mongols say they could even win this group over if they could be assured of "racial" autonomy by the Chinese Government, or preferably by the U. S. They also say that they are losing influence among the Mongols of Inner Mongolia due to Gen. Fu Tso-yi's military operations in that area, where they say Mongolians

¹⁰ Not printed.

are fighting against him on four fronts. These Mongols resent current Chinese accusations that "all Mongols are Communists" and also the Chinese racial policy which implies that all Mongols are "Han" people racially.

3. The foregoing is of interest in that this information comes from Mongols who are theoretically "Government Mongols". Six prominent Nanking Mongols are said to be involved, all of whom hold posts in the Chinese Government. They are desirous of talking with General Wedemeyer or a member of his mission and ask for secrecy in the matter in that they may endanger their lives by talking freely to US officials.

4. The matter of the Mongols is a very delicate one and involves the traditional Chinese Government policy toward them. They do not wish to be Sinicized and resent the steady encroachment of Chinese farmers on their pasture lands. There is a similarity between their position and that of the natives of Sinkiang, who desire local autonomy and oppose the Chinese attempt to impose a colonial rule on them and carry out a program of Sinification.

P[HILIP] D. S[PROUSE]

121.893/9-1947

Memorandum by Mr. Philip D. Sprouse to General Wedemeyer

[NANKING,] 31 July 1947.

Attached is a letter ⁷¹ addressed to you by Marshal Li,⁷² which I have received from a member of the British Embassy staff. The latter informs me that "the letter was forwarded to me by a mutual friend in Hong Kong who asked me to see that it got to General Wedemeyer safely".

Marshal Li is the leader of the dissident elements in south China. He is one of the Kwangsi triumvirate, which includes also Marshal Li Tsung-jen ⁷³ and General Pai Chung-hsi.⁷⁴ Li Chi-shen has a long record of opposition to the Generalissimo, having been under house arrest in Nanking in the late 1920's and having been one of the leaders of the short-lived Fukien rebellion in 1934. During late 1943 and in 1944 he was the leader of a movement in south China aimed against the National Government, which never made much headway. He has a reputation for honesty and sincerity of purpose but has never managed to collect any military following. There are rumors that the British are quietly watching the developments toward separatism

⁷¹ Not attached to file copy of memorandum.

⁷² Marshal Li Chi-shen (Li Chai-sun).

⁷³ Director of Generalissimo Chiang Kai-shek's Headquarters at Peiping.

⁷⁴ Chinese Minister of National Defense.

and other rumors that some British firms in Hong Kong may have provided some funds to assist such a movement.

PHILIP D. SPROUSE

121.893/9-1947

Memorandum of Conversation, by Mr. Philip D. Sprouse

[NANKING,] 31 July 1947.

I called on Dr. Sun ⁷⁵ by appointment on the afternoon of July 30 in order to ascertain his views regarding the situation in China. It is of some interest to note that he is carefully protected by bodyguards and that I had to wait in my car outside the iron gate leading to his residence while my card was sent in. It was not until some minutes later that my car was admitted to the grounds. The conversation began with the usual pleasantries. He was at first noncommittal, slowly warming up to the subject, and at no time during the conversation did he ever speak with the frankness in which he indulged during the war at Chungking. Summarized hereunder are the chief points of the conversation:

The chief problem confronting the Chinese Government is that of inflation. Dr. Sun recommended control measures to combat inflation at the beginning of the war but they were not accepted and Dr. Kung ⁷⁶ even refused to admit that there was inflation in China. A settlement of the Communist problem might have been achieved in 1946 had the Government been willing to take a risk on allowing the Communists to have a veto power in connection with the PCC ⁷⁷ Resolutions. Dr. Sun favored taking this risk, as the veto power would have applied only to changing the PCC Resolutions, but the Generalissimo was unwilling to do so. As a result there was little hope for any settlement with the Communists after April 1946 when the Government returned to Nanking. At present there remains only a slight chance of any settlement with the Chinese Communists and the civil war is likely to continue for two or three years until one side or the other is defeated or until a stalemate is reached. At that point some settlement might be achieved which would result in the Communists' having control of Manchuria and large parts of north China with the National Government in control of the other areas and remaining at least nominally, the National Government of all of China.

⁷⁵ Sun Fo, Vice President of the Government of the Republic of China and President of the Legislative Yuan.

⁷⁶ H. H. Kung was then Chinese Minister of Finance and Vice President of the Executive Yuan.

⁷⁷ Political Consultative Conference.

The U. S. should aid the National Government financially and economically to combat inflation and build up a healthy economy in the areas south of the Yangtze. There is ample room for development of this kind. This would tend to strengthen the National Government. Accompanying aid of this kind, the U. S. should encourage the Generalissimo to carry out political reforms through elimination of corruption, strengthening of local self-government on a popular basis in the provinces and general reorganization of the government on a wide basis which would represent the will of the people. This action would eventually serve to attract to the Government the support of all classes and in the final analysis would bring to the support of the Government many Chinese now supporting the Chinese Communists, both civilians and military commanders. There are Chinese among the Chinese Communists who would turn to the National Government, if it were able to offer honest and efficient administration, rather than remain with the Communists and run the risk of becoming Soviet puppets.

In reply to my question regarding his ideas of how the U. S. could assist China, he said that the U. S. could assist in the rehabilitation and reconstruction of the areas south of the Yangtze and in meeting the problem of inflation. He admitted the difficulties of making such aid effective since approximately 90 per cent of the Government's expenditures were now devoted to military purposes. He said that the Generalissimo would probably not be willing to accept complete U. S. supervision of the implementation of any program for U. S. aid which entailed U. S. participation in Chinese internal administration—that is, in supervising Chinese Government projects or undertakings. He added that this could probably be solved by having U. S. supervision of projects organized as private or semi-official Chinese agencies.

Dr. Sun does not think that the Communists could ever gain control of all of China. He feels that when the Generalissimo dies there will be a struggle for power among the Government military commanders and for that reason there must now be established a strong basis of representative and "democratic government" which will prevent such a struggle. Although at the beginning of the conversation Dr. Sun said that it was impossible for the Government to carry out any political reforms while it was devoting all its energies to civil war, he later stated that the U. S. should "encourage" the Gimo to carry out such reforms.

Dr. Sun concluded that he hoped to have an opportunity to talk with General Wedemeyer during his visit to China.

PHILIP D. SPROUSE

761.93/8-447

*Memorandum by the First Secretary of Embassy in China (Ludden)*⁷⁸

NANKING, July 31, 1947.

The Embassy has been requested by the Mission to present a summary of the relationship between the Chinese Communists and the Soviet Communists. The question of this relationship has been the subject of a considerable volume of reporting from this Embassy over a period of years and has latterly become a major factor in any estimate of the situation in China.

There has never been substantive proof put forth, even by the Central Government which stands to gain the most thereby, that the Chinese Communist Party enjoys the active support of the Soviet Union. Such proof, however, is unimportant. What is important is that the affinity between the Chinese Communists and the Soviet Union should not be misunderstood and underestimated.

Revulsion at the manifest corruption and ineptitude of the Kuomintang leads many foreign observers and many Chinese liberals and intellectuals to view sympathetically anything which is non-Kuomintang. The result is they tend to regard the Chinese Communists as agrarian reformers and to lose sight of the fact that the Communists are not agrarian reformers per se, but play that role because it is required by the environment in which they find themselves and is merely a tactical phase in the overall strategy of the eventual realization of a Communistic state.

Liberal apologists of the "agrarian reform" school of thought too often fail to point out that top Communist leaders themselves are the first frankly to admit that in ideology and aim they are Marxist Communists, but that existing social and economic conditions in China make the early achievement of their end impossible and therefore it is necessary to adopt such interim measures, even of democratic and capitalistic coloration, which may be necessary for the achievement of the end, however long the period.

Time after time Communist leaders have been advised by well-meaning foreign visitors to change the name of their party to something better calculated to win foreign sympathy. The Communists have rejected this advice for the simple reason that they are, after all, Communists and see no cause to be ashamed of it. The fact remains, whether palatable or not, that the Chinese Communist Party is a highly organized group of purposeful, disciplined, revolutionary

⁷⁸ Copy transmitted to the Department by the Ambassador in China in his despatch No. 915, August 4; received August 15. The despatch stated that this "oral presentation" was made to Lt. Gen. A. C. Wedemeyer on July 31.

zealots unswervingly dedicated to the eventual realization of communism in China by whatever means may at the moment offer the best prospect for furthering that end.

From time to time reports are received, usually Central Government inspired, to the effect this or that important Chinese Communist leader has been called to Moscow for consultation. In principle, the Embassy tends to be skeptical of such reports. The Kremlin is far more skittish regarding open relations with the Chinese and other Far Eastern Communist parties than with regard to those in Europe. Apparently there is still a desire on the part of the Soviet Union to preserve the fiction of a "correct" attitude toward Chinese internal affairs. If necessary, contact between the Kremlin and Chinese Communist leaders could be maintained through intermediaries unknown to the outside world but it seems to the Embassy that such direct contact or liaison between Moscow and the Chinese Communists is unnecessary.

The leaders of the Chinese Communist Party are thoroughly imbued with the doctrines of Marx, Engels, Lenin, and Stalin⁷⁹ and firmly convinced that these doctrines are correct and will ultimately prevail not only in China but throughout the world. These doctrines have been predigested and adapted for the special problems of the Communist revolution in China. There is no need to seek instructions from the Kremlin.

There has always been a predilection in Chinese Communist Party public statements and the Party press toward following closely the Soviet party line. Formerly the similarity was confined to broad ideological generalizations. Since early 1946, however, following a Yen-an statement of policy with regard to Manchuria, the Chinese Communist general tendency to follow a Soviet line has become more clearly a matter of firm policy. Foreign correspondents and other observers are still searching—but thus far without success—for a Chinese Communist who is in any state other than one of complete agreement with all Soviet actions.

The most important recent manifestation of the existing affinity between the Chinese Communists and the Soviet Union was a lengthy statement issued by Lu Ting-yi, head of the Chinese Communist Party Department of Information in January of this year.⁸⁰ The statement was entitled "Explanation of Several Basic Questions Concerning the Post-War International Situation" and is the most outspoken statement of loyalty and adherence to Soviet doctrine yet made by the

⁷⁹ Iosif Vissarionovich Stalin, Chairman of the Council of Ministers of the Soviet Union.

⁸⁰ See *United States Relations With China*, p. 699.

Chinese Communists. At great length the statement proclaims the rightness and infallibility of Soviet words and actions.

As long therefore as Chinese Communist leaders are wedded to classical Communist concepts emanating from and interpreted by the Kremlin they must be considered to be an arm of Soviet foreign policy. In 1944 in the face of external Japanese pressure and the non-participation of the Soviet Union in the Far Eastern War an effort was made to test the theory that the Chinese Communists could be weaned from any potential tie-up with the Soviet Union. The test was inconclusive because of the objections of the Central Government. It was always apparent, however, at Yen-an and in Communist forward areas that top Communist leaders were firmly Marxist Communist and however unpalatable the term "communist" might be to Americans, no ideological deviations could be expected other than those which were tactically necessary to meet the immediate requirements of a given situation. There has been no change in this attitude except that it has been strengthened.

There has been much speculation with regard to the possibility of a split within the Chinese Communist Party. Much of this speculation can be classified as wishful thinking, but the possibility cannot be ignored completely. Reports with regard to the development of a line of cleavage between a Nationalist Group and a pro-Russian Group within the Chinese Communist Party crop up from time to time, but available information tends to show that such a split is most improbable.

There has undoubtedly been considerable divergence of opinion within the inner circles of the Chinese Communist Party with regard to policy. Such differences, largely on tactical procedures, may be expected to continue, but it is characteristic of Communist Party discipline, not alone in China, that once policy decisions are reached there is presented to non-believers a solid party front.

There is some reason to believe that in Manchuria actual Chinese experience with the Russians and the heterogeneous elements drawn into the Communist ranks there since V-J Day may bring about dissidence within the Party. On the theory, however, that nothing succeeds like success, even in Manchuria a split in the Party at this time seems a remote possibility.

It may be expected therefore that both the Soviet Union and the Chinese Communists will continue to disclaim all connection of one with the other. In the long run it is ideological affinity between the Chinese Communists and the Soviet Union which offers the greatest danger by making one the agent of the other.

121.893/9-1947

*Memorandum of Conversation, by Mr. Philip D. Sprouse*⁸¹

[NANKING,] 1 August 1947.

During my call on Mr. Lamb⁸² on July 31, he made the following comments on the situation in China:

The present situation in China seemed hopeless and he did not believe that any real solution was possible for a long time to come. The prevailing sentiment among Chinese Government officials was one of complete defeatism and reliance on U. S. aid to pull them out of their difficulties. It was to be doubted that any amount of aid could be really effective under present circumstances. When several weeks ago the Chinese finally decided that U. S. aid would not be forthcoming, there were indications of a psychological improvement in that the Government appeared to realize that it would have to take measures of its own to meet the situation. This reaction changed with the announcement of General Wedemeyer's Mission and the Government had returned to its feeling of dependence upon the U. S. A study of Chinese history during the past century would indicate that we are perhaps merely returning to a normal situation in China and that the comparative peace in the 1930's was abnormal. Events moved slowly in China and after the present long period of turmoil ended there would again some day be stability and peace in China. The best means of approaching the present situation might be to do nothing to prevent Chinese Communist control. The foreign powers had often bogged down in the Chinese morass and it might be well to allow the Soviets, through the Chinese Communists, to have their turn in becoming embroiled in the Chinese problem. They would be able to do nothing for China and sooner or later the Chinese would learn this and turn on the Russians and kick them out. They would have a clear picture of the difference between the Anglo-Saxon powers and the USSR.

A striking feature of the present situation is the decline in the Generalissimo's prestige, which has been accelerated in recent months. People now openly criticize him, although no one suggests a possible successor. The Chinese want foreign aid but they want to give nothing in return except opposition against Communism. The people are disillusioned and disgusted. Even the lower classes in Peiping are anti-Government, saying that the present regime is exactly like the Japanese administration in its exploitation of the people. Levies on

⁸¹ This memorandum was submitted by Mr. Sprouse on September 19 to the Director of the Office of Far Eastern Affairs (Butterworth).

⁸² Leo Lamb, British Minister in China.

merchants in Peiping and the renewal of conscription are arousing further opposition and criticism.

The only hopeful sign in the situation in the north is the recent organization, under the auspices of Dr. Hu Shih and other university leaders at Peiping and Tientsin, of an association of like-minded people to arouse interest among the people and educate them to their duties as citizens in establishing democratic forms of government in that area. While this newly formed association is not a political party, its influence may be felt and it might grow into something of importance.

Commenting on the presence of Marshal Li Chi-shen in Hong Kong as the leader of dissident elements in south China, Mr. Lamb said that it was interesting to note that in all the attacks by the Chinese Kuomintang press at Canton on British retention of Hong Kong that press carefully avoided any reference to the "British sin" of giving refuge to Marshal Li.

Mr. Lamb has been in China for approximately 20 years, serving with the British Embassy and various Consulates General. He is considered to be one of the outstanding British diplomatic officers in their China service.

His opinions were echoed partially by another member of the British Embassy staff, except in stronger terms. This source, who has been in China for about 12 years, said that it was his feeling that there was no hope for China as long as the Generalissimo continued in office since the latter was incapable, through his training and mentality, of ever carrying out the reforms necessary to enable the Government to meet the Communist challenge and to regain the support of the people.

PHILIP D. SPROUSE

121.893/8-447

*The Consul at Peiping (Freeman) to the Ambassador in China
(Stuart)*⁸³

No. 28

PEIPING, August 4, 1947.

SIR: I have the honor to enclose a copy of General Wedemeyer's schedule of engagements and appointments⁸⁴ during his stay in Peiping from August 1 to August 4, 1947, which was prepared for

⁸³ Copy transmitted to the Department by the Consul at Peiping without covering despatch; received September 23.

⁸⁴ Not printed.

him in advance of his arrival in accordance with instructions contained in the Embassy's unnumbered telegram of July 31.

There are also enclosed as of possible interest (1) a copy of an outline used in briefing the mission on major items of political interest in Peiping; (2) four memoranda prepared for the mission by Consul General Clubb on the political situation in Manchuria;⁸⁵ and (3) a memorandum giving the substance of Colonel Barrett's⁸⁶ briefing on the military situation in north China and Manchuria.

Respectfully yours,

FULTON FREEMAN

[Enclosure 1]

Memorandum by the Consul at Peiping (Freeman)

OUTLINE OF MAIN POINTS IN POLITICAL SITUATION, PEIPING

I. *Movement Toward Establishment of Third Party.*

A. Résumé of movement outlined in Peiping's despatch no. 25, July 1, 1947 to Embassy.⁸⁷

[Here follows résumé.]

II. *Increased Popular Disillusionment Over Generalissimo Personally and Growing Belief He Is Incapable of Bringing About Peace in China.*

A. This feeling being openly expressed in many quarters and not nearly as covertly as might be expected.

B. However, no person unanimously suggested as successor (with exception of General Feng reportedly being pushed by third party group).

C. Certain professors and liberals, who have long had faith that realization of future importance in history might at last minute convert Chiang into real statesman who would bring opposing sides together, now believe this chance irrevocably lost and no hope for peace under Chiang.

III. *Fear of Communists and Democratic League Evidenced in Mass Arrests of February 17, 1947.*

A. Majority of over 2,000 persons arrested now released, some having been held incommunicado for four months.

⁸⁵ Mr. Clubb's two memoranda, dated August 3, on "Relationship of Japanese, and particularly Japanese holdout troops, to Chinese Communist actions in Manchuria" and "Relationship of Koreans and Mongols to Communist movement in Manchuria" not printed.

⁸⁶ Col. David D. Barrett, Assistant Military Attaché in China.

⁸⁷ *Ante*, p. 218.

B. Questioning during imprisonment concentrated around connections with Communists and Democratic League.

C. All persons arrested were cautioned on release never to mention details of imprisonment, but some have talked.

D. Absence of any formal charges or trials, imprisonment without notification to relatives under extremely bad conditions, and not infrequent cases of torture provide adequate evidence of absence in Peiping of rights of personal freedom.

IV. *Information From Communist-Held Areas.*

A. Majority of reports from correspondents, UNRRA personnel, and missionaries returning from Communist areas highly favorable toward Communists, both as a well-equipped, well-disciplined, seasoned military machine and as an efficient, incorrupt government administration. Same reports agree, however, on many shortcomings of Chinese Communists, with particular reference to individual freedom, but claim good points more than compensate.

B. Recent trip to Kalgan of Vice Consul Jenkins, Language Student, brought out quite a different picture of area formerly under Communist domination.

1. Several Soviet officers reportedly entered Kalgan on heels of Chinese Communists. Ten lived in Kalgan. Others came and went during Communist occupation.

2. Soviets reported completely to control Communists through curt instructions which were immediately obeyed. Not simply advisors to Communists.

3. Distribution of UNRRA supplies by Communists as "gifts from Soviet comrades". In some sectors only distributed to party members and in others only to families who had member in Communist armed forces.

4. Chief criticisms of Communist regime: lack of personal freedom (speech, press, religion, etc.); ceiling prices for merchants; Communists' insistence on everyone attending daily meetings of various kinds; practice of *tou cheng* [liquidation?]; secret police; frequent imprisonments; wholesale destruction on departure of everything Communists could not carry away; etc. However, Communist troops almost universally praised for excellent conduct.

5. Many reports in Kalgan and plateau area that Soviets supplied Communists with arms, tanks and planes—General Fu also so stated—but no evidence found.

6. Actions of Soviet troops in Chahar Province. Removed sheep, goats, cattle, horses in American trucks; violated women; looted villages of everything valuable. Effects of Soviet action visible in all towns and villages of plateau.

C. As pointed out, Jenkins' report at variance with reports received from Communist-held areas in Hopeh, Shansi, Jehol and other places. This may be due to fact that Soviet troops apparently invaded most

of Chahar Province and proximity of Kalgan to Soviet territory may have made possible Soviet direction of Communist occupation without probability of publicity in other areas.

[Enclosure 2]

Memorandum by the Consul General at Peiping (Clubb)

PEIPING, August 3, 1947.

Subject: Public Opinion and American Interest in China.

The Kuomintang-controlled press at present appears to be following the propaganda line of purporting that Communism in China is not a domestic problem but an "international problem", the result of "international conspiracy" (*Peiping Chronicle*, August 1, 1947), and it calls for a "firm policy" (*ibid.*) on the part of the United States in respect to events in China's Northeast. The suggestion is that the "firm policy" should be similar to that adopted by the United States in respect to the Balkans. Those same publicity organs at present assert directly that the Soviet Union is interfering in Chinese affairs, talk not too obliquely of the prospects of a third World War, and take overt offense at the circumstance that Japan is being rehabilitated more rapidly in the post-war period than is China. This published material is paralleled by stronger remarks to the same general end from Nationalist administrators and militarists, and there is evidently a deeply-rooted belief in some Kuomintang circles that war between the United States and the Soviet Union is inevitable and not far distant. Comments have been heard indicating a Nationalist belief that such a war would from the point of view of the National Government be desirable, as incidentally offering to China a ready-made solution of the "Communist problem".

The problem of social change in China is one of long standing and has troubled the country for upwards of a century; at times there have been attempts to deal with those problems pacifically, as when Premier Li Hung-chang endeavored to modernize the country's military machine in the later part of the 19th Century and when Emperor Kuang Hsu tried to reform the country by law in the hectic "Hundred Days" of 1898; but more commonly the existence of those problems has been shown by violent social eruptions such as the T'ai'ing Rebellion of 1850-65, the Chinese Revolution of 1911, the drive of the Kuomintang-Communist coalition against the warlords in the 1924-27 period, and in the struggle which has occurred between those two groups after their split in 1927. The present situation, with basic economic debilities aggravated by the dislocations and stresses of the

war years 1937-45, is essentially revolutionary by the standards established by Chinese history. This time the main leadership of the mass of people desiring either reforms or revolution has been assumed by the Chinese Communist Party.

History has taught the difficulties attendant upon the selection of particular groups to support in China. Under present conditions, with potential clash of American and Soviet interests in Asia, and with the existence of the United Nations organization which 1) offers a sounding board for possible criticism of American actions and 2) is in any event an instrument which under certain circumstances would be of great value to the United States in respect to hypothetical international conflicts if by American and other United Nations' action it can only be developed into a coalition of some force, it is more than ever incumbent upon the United States to be circumspect and judicious in its approach to the problem of how to help China in its present difficulties. The present revolutionaries, if Communist, are still Chinese, and the United States supports the principle that every people has the right to determine its own form of government. During the period of the functioning of the General Marshall mission, there was strong criticism of American action from not only the Communist camp but from various Chinese groups in Nationalist-held areas for alleged interference in China's domestic affairs by extension of support to the Nationalist Government. That criticism has died down, but for the reason that the mission has been withdrawn, American troops have been recalled from China, and the quantities of materials supplied to the National Government have been limited. Assuming the adoption of a new American approach to the problem, along a line of action where it would appear that American aid was going to the National Government to buttress up that political entity against the attacks of the Chinese Communists, a recurrence of anti-American feeling in some Chinese camps can be expected logically to recur, probably in aggravated form. Further, unilateral action along those lines without reference to the United Nations would probably result in a renewal of domestic American and international adverse criticism of the sort voiced at the time of American action in respect to Greece and Turkey. One possible result of that criticism would be the weakening of that very United Nations organization which we desire to strengthen so that the "Nations of good will" shall be found solidly knit together in the event of aggression from the last of the imperialists.

Chinese Kuomintang publicity does not suggest that the Chinese State proposes to take the matter before the United Nations' Council as one which threatens to disturb international peace, even when it

charges "international conspiracy". It is obvious that the Kuomintang publicists would prefer to have the United States come forward directly in support of the National Government's case 1) without judicial analysis of China's case by an international body and 2) without that Government's being caused to grant as a *quid pro quo* to the United States those political, economic, and social reforms which it refused consistently to grant to the country during the tenure of the mission of General Marshall. It is submitted, however, 1) that the by-passing of the United Nations would be a fresh blow at that organization given at a time when it cannot well stand even unintended blows from one of its main sponsors; 2) that the extension of aid to the National Government recognizable as designed primarily for military purposes instead of for the obvious general good of the Chinese nation, would probably call forth strong criticism from important sections of the Chinese population on the grounds that the United States was acting in China to further its own interests without reference to the will of the Chinese people; and 3) that both embarrassments could possibly be avoided by a more indirect approach to the problem at hand. Noting that the Netherlands Government has accepted the American offer of mediation in Indonesia after the initial reference of the matter to the United Nations, it is suggested that reference of the Chinese imbroglio to the United Nations might well be expected to elicit revealing reactions in certain quarters, that consultation with interested friendly nations might result in our getting helpful advice or helpful action instead of our being made a new target for criticism, that the establishment for instance of a UN commission of inquiry to investigate charges of "international interference" might prove to have certain objective value to the United States, that such prior reference to the United Nations would not only probably not hinder but might actually facilitate American action in Asia directed toward the over-all objective—the checking of the spread of totalitarianism in Asia. Reference of China's economic and social problems to more than Nationalist Government self-interest would assuredly make more cogent such recommendations as might be presented to that Government regarding reforms—for the recommendations would represent the joint objective opinion of the United Nations, and would not leave latitude for the charge that the United States was concerned primarily with its own needs rather than the common good. Any extension of the "Marshall plan" to Asia would be most effective if it followed the general pattern laid down for Europe, that is, if it were related to concrete basic reforms in China in respect to which the Nationalist Government engaged itself to perform the major effort, rather than

where it might be proposed essentially to meet the Nationalist Government's demands for assistance along purely military lines in combatting the revolutionaries. It is submitted that the main support for this argument is found in the near certitude that revolutionary processes in China cannot be stopped by military action alone, that American assistance along such lines would probably ultimately fail of its objectives, and that such failure would leave the United States in a worse moral and political position than if it had given of its aid only to the extent that the aid was either approved by international authority or acceptable to the main groups in the Chinese population itself.

It is not believed that the calling for international guaranties for the *status quo*, or the *status quo ante* August 1945, in Manchuria, would be attended by success; both the Chinese Communists and the Soviets probably feel that the revolution is too close to victory in that area to make bargaining along those lines worth their while. The Soviets would not and could not admit that they had any connection with the Chinese Communist movement which would enable them to guide Chinese Communist policy, and the Chinese Communists themselves would feel that the United States was simply endeavoring to save something from the burning for the Nationalist Government. It would seem possible, however, that the enlistment of the authority of the United Nations, even if it were simply put behind the United States, if related to an offer to assist China in those economic fields where reforms had been achieved, work was being done, and prospects of effective use of American funds and materials seemed good, might lead to the development of new possibilities for American mediation in China. Such mediation would, it is thought, necessarily have to start from the premise that the Communists are faced with important political and economic problems and desire at least a long period of truce, that they no more than the Nationalist Government or semi-independent old-time warlords will ever give up their armies unless defeated in the field, that the best that the mediation could achieve would be something in the nature of freezing the politico-military situation in something approximate to the *status quo*, that such freezing would 1) relieve the present strains on the Chinese people with a commensurate reduction of their now mounting miseries, 2) offer opportunities for some measures of economic rehabilitation which would in turn contribute stabilizing elements to the political situation, and 3) give time for the evolution of further measures of political action (a) by the National Government, for the purpose of counter-acting the Chinese Communist program through its own measures of economic and social reform, and (b) by the United States, especially in

the international field. It is submitted that time thus gained in China particularly and in the world generally might turn out to be one of the most valuable elements in the postulated American or UN accomplishment of stopping the current civil war in China. It is of course to be noted that, if the National Government particularly failed to make good use of the time thus gained, it would in the end be as badly off, if not worse off, than before; but that the United States would stand to gain if only there could be achieved that temporary stabilization of the situation which would give more time and latitude for implementation of American policies.

O. EDMUND CLUBB

[Enclosure 3]

Memorandum by the Consul General at Peiping (Clubb)

PEIPING, August 3, 1947.

SOVIET POLICIES, ATTITUDES AND ACTIONS IN RESPECT TO MANCHURIA

The current trend of Nationalist publicity purports that Communism in China is an international problem, not a Chinese domestic problem. The full purport of this contention is that the Soviets are supporting the Chinese Communist drive against the Nationalist position in China.

[Here follows discussion of subject.]

It must nevertheless be assumed that in its broader aspects Chinese Communist policy will be in general accord with the "Communist line" as evolved in Moscow. This does not mean that Soviet material assistance can be established by "concrete evidence" at this stage. As is well known, the Kwantung Army on V-J Day had in its possession large stocks of military supplies in Manchuria. That many of those arms have found their way into the hands of the Communists is established. That there may have been Soviet connivance is entirely possible, even probable. That there is an important trade now carried on between north Manchuria and the Soviet Union, with exchange on barter basis of Manchurian goods such as grains and furs for Soviet goods, is a matter of agreement in reports coming from north Manchuria. That the Soviets under certain circumstances would extend direct, as well as indirect, assistance to the Chinese Communists, in the form of Soviet arms or Russian advisors, is to be anticipated on the basis of past performance. That direct material assistance has already been given is to be considered a possibility, but it must be admitted still unproven—and Soviet wariness would naturally make proof difficult. With the situation in Manchuria to be termed essen-

tially revolutionary, and with the Communists in possession of both the aforesaid Japanese stocks of arms and a large Chinese population to draw upon for manpower, it would hardly be necessary for the Soviets to come forward and follow such a line of action in support of the Chinese Communists as might bring them important embarrassments in the international field. In short, the Communists at present lack neither munitions nor manpower in Manchuria, and as far as technical skills are concerned have been enabled to make use of certain Japanese technical workers. Should they wish also for either Party or political reasons to attach certain Soviet advisors to their organization, they would be enabled to find Soviet citizens of Chinese or Mongol race with extensive Party and Soviet Red Army training for such employment. In such case there would be relatively little chance offered to the world for detection of the true citizenship of those experts and advisors.

In sum, the aims of the Soviet Government in respect to Manchuria are readily deducible on the basis of history and present performance in eastern Europe. The manner of implementation of the Soviet program would probably be one in which Soviet complicity would be very difficult to establish in a court of law, for the Communists who are themselves Chinese will evidently be expected to do the bulk of the work. The significance of attainment of Chinese Communist aims in Manchuria, that is, of the complete conquest of Manchuria by Communism, is clear: the last missing segment in the Soviet "cordon sanitaire" of sympathetic political groupings about its Asiatic frontiers will have been fitted into place; the existing Soviet positions in Korea and the Mongolian People's Republic would have been substantially strengthened; the bringing of the remaining Korean and Mongol ethnic groups into the Soviet fold by the indirect method of bringing about the adherence of their homelands to Soviet-controlled politics would have been facilitated; and, finally, the Nationalist position in North China would be confronted with an enhanced threat from the Chinese Communists in their powerful new position. Assuming that the Nationalist Government took no political measures adequate to strengthen its authority in China Proper, it must be considered that the Nationalist position would still be ultimately untenable after that hypothetical withdrawal to shortened lines in North China: the Communist organization is politically even stronger, being of longer standing, in North China than in Manchuria. The achievement of withdrawal intact of Nationalist forces from Manchuria prior to military collapse in that area, would temporarily strengthen the Nationalist position in North China—but it would seem likewise to lead ultimately to the long-anticipated breakup of China. That breakup would be

the initial result of the first major Communist victory, instead of the prompt establishment of Communist rule over all of China, would seem probable in view of the loyalties and military forces commanded by various leaders now in the Kuomintang camp. This circumstance makes it practically impossible for the Communists, ill-equipped as they are in terms of administrators and technicians, to extend in short order their political authority over the whole of China in a manner to bring about social stabilization. That there would be a tendency for Communist control to grow in a China broken up into a number of parts controlled severally by semi-independent warlords is hardly to be gainsaid. That Communist practice would in the meantime undergo certain changes seems likewise hardly open to doubt, but it must be noted that Communist practices, under desperate economic conditions, might in strict logic as readily take on a more radical, rather than less radical form, as compared with the days when they practiced most of their doctrine in the largely self-sufficient agricultural countryside.

In sum, the Communist conquest of Manchuria would seem to herald the beginning of the end of Kuomintang rule, and the introduction of a new stage in Chinese revolutionary history. Unless the National Government embarks upon such measures of radical political reform as would counteract the Communist program and effect a commensurate strengthening of the Nationalist hold on the loyalties of the Chinese people (and particularly on the people of Manchuria), and unless in the immediate future the military position of the Nationalists in Manchuria is strengthened by the dispatch of a large number of reinforcements, it is to be anticipated that, as shown by the developments of the past year when the Nationalists became weaker in Manchuria and the Communists continued to grow in strength, the Communists will achieve their ultimate aim of establishing their power over all of that strategic area. Whether or not the National Government will embark upon major political reforms depends upon the influences which can be brought to bear by other non-Kuomintang and non-Communist political groups in China. Whether the National Government can afford to reinforce Manchuria with troops which may now be in the line or on guard inside the Wall is problematical. That there exists in China a revolutionary situation which can be met effectively only by political and military means of fundamental nature, designed to go to the roots of maladjustments which have troubled China since the Revolution of 1911, is however apparently beyond controversy.

O. EDMUND CLUBB

[Enclosure 4]

Memorandum by the Assistant Military Attaché in China (Barrett)

PEIPING, 6 [??] August 1947.

1. On 3 August, 1947 undersigned commented on the military situation in Manchuria and North China to General Wedemeyer and the members of his mission. General Wedemeyer requested me to present in writing what I considered the essential points in my comments.

[Here follows survey of military developments in Shantung, Hopei, and Manchuria.]

To sum up the general situation in North China and Manchuria, it appears that the situation of the Government in the Northeast is desperate, in Hopei about a stalemate with the initiative in the hands of the Communists, and in Shantung in a fluid state which may or may not turn out fairly well for the Government.

4. *What to do, what to do?*

From a purely tactical viewpoint, the position of the Government in Manchuria is probably, and in North China possibly, untenable, and it seems that a withdrawal to south of the Yellow River would be the wisest move. But tactically unsound as an attempt to hold in Manchuria may appear, I believe it should be made at all costs.

The reasons why Manchuria and North China should not be given up to the Communists and the Soviet Union are numerous, and mostly so obvious that they need not be recapitulated here. Outside of the fact, however, that this is the move which the Soviet Union surely hopes most ardently will be made, there are two other very strong reasons for not throwing in the towel in Manchuria. First of all, such a move would deliver a body blow to Chinese morale. Second, it would open a vast new frontier which would attract a great part of the best elements in China, namely those who would have the courage and initiative to seek an opportunity to grow up in a new country, certainly not a paradise, but at least a country where there would be jobs for the skilled, the energetic, and the resourceful.

In a desperate situation, it is always better to do anything sensible than do nothing. In my opinion, there are still shots left in the Government lockers, some of which are listed below. All of these, as far as I can see, China cannot or will not undertake on her own initiative, but aid or pressure from the United States might make a great difference. In other words, you can not make an omelette without breaking some eggs.

To my mind, if the National Government can only maintain her toe-hold in Manchuria and thus deny freedom of action in this area

to the Communists and the Soviet Union, the situation in North China can never deteriorate to the point where it can seriously threaten the stability of the country as a whole. It appears to me that the following measures should be taken before abandoning the Northeast to the Communists:

a. Appoint a competent Commander-in-Chief of Government forces in Manchuria. I would suggest Lieutenant General Fan Han-chieh, former Chief of Staff to General Hu Tsung-nan; General Fu Tso-yi, or even Lieut. General Sun Li-jen. I certainly do not think Pai Chung-hsi is the man for the job. In 1944 he was given command in Kwangsi to stop the Japanese advance south from Hankow and he failed miserably. His failure was due almost altogether to causes beyond his control, but he demonstrated no qualities of leadership.

b. Rush ammunition, arms, and equipment to Government forces in Manchuria.

c. Reinforce Government forces in Manchuria. China's manpower has not been touched, but a rotten system of conscription is permitting a great proportion of eligible youths to escape military service. A tightening of conscription methods would not immediately provide trained personnel, but even untrained replacements would help. It is probable that a large proportion of Communist conscripts receive little training before seeing action. Furthermore, it is believed that a careful and accurate survey of forces presently available to the Government would produce reinforcements which could be sent to Manchuria without weakening any active front. As a suggestion, it might be possible to send reinforcements from Szechuan, China south of the Yangtze and the Northwest.

d. Get the Chinese air force on the job. This would involve getting rid of Chou Chi-jou and obtaining planes and parts from the United States, neither of which are impossibilities.

e. Take steps to enlist the support of the people of the Northeast behind the National Government by:

- (1) Removing Hsiung Shih-hui.⁸⁸
- (2) Relaxing the present economic stranglehold of the Government, or of companies and individuals with Government backing, on the Northeast.
- (3) Giving the people of the Northeast a chance to govern themselves by replacing carpetbag officials with native sons. Specifically, I would make Mr. Wang Hwa-yi Governor of Liaoning Province.
- (4) Organizing a people's militia in the Northeast. A start in this direction has already been made by the Northeast People's Mobilization Committee.
- (5) And, most bitter for the Generalissimo to take, by appointing Chang Hsueh-liang⁸⁹ as head, even though only a nominal one, of

⁸⁸ Director of Generalissimo Chiang Kai-shek's Headquarters in Manchuria.

⁸⁹ Head of the Manchurian administration and armed forces until the Japanese occupation of 1931-32; detained since the Sian incident of December 1936, for kidnapping Generalissimo Chiang Kai-shek.

civil administration in Manchuria, with other old Northeast leaders, such as Ma Chan-shan, Tsou Tso-hua, and Chang Tso-hsiang, in showy but not necessarily responsible positions. I hold Chang Hsueh-liang in low esteem, but I would like to see him used as suggested because I believe the people of the Northeast ardently desire him back in high place.

One reason for the Communist success in the Northeast is that they are able to make use of the people, whether with or without their consent makes little difference. On the other hand, if the National Government has left any stone unturned to drive the people of the Northeast into the arms of the Communists, I do not know what it is.

5. *Time is against us.*

Even if all the things suggested above were done, it may be too late. Even so, I think these measures, backed in a realistic and hardboiled manner by the United States, might yet save the day. I believe the Chinese, if they thought there was some hope, would be capable of a back-to-the-wall stand which might stem the red tide in the Northeast till help from inside or outside China could arrive.

6. *If we can't save Manchuria and North China let's get out of the rest of it.*

In my opinion, a feeble, emasculated, mendicant China, shorn of the area from the Amur to the Yellow River, would be worth nothing to the United States, either as a sphere of economic activity or as a buffer against Soviet domination of all Asia. From such a China I would pull out most U. S. Government agencies except normal consular and diplomatic representatives and as many intelligence agents as I could muster, using the latter for the purpose of observing as closely as possible the Roman holiday which the Soviet Union would enjoy in an area for the preservation of which to China many thousands of Americans have given their lives.

DAVID D. BARRETT
Colonel, GSC

893.00/8-747

*Memorandum by the Consul General at Tientsin (Smyth) to
General Wedemeyer*⁹⁰

[Extract]

TIENTSIN, August 4, 1947.

POLITICAL RÉSUMÉ OF SITUATION IN NORTH CHINA

Reports on conditions in Communist held areas vary considerably. Some Americans and other foreigners, chiefly UNRRA personnel,

⁹⁰ Copy sent to the Embassy in the Consul General's despatch No. 106, August 7; copy received by the Department, August 26.

report that, while life is not easy, distribution of food and clothing is equitable. Others report that local officials make life difficult. A British missionary recently returned from Jehol commented that Communist soldiers are well disciplined and treat people of captured cities quite well, but that when the soldiers leave and civilian Communist officials take over, conditions soon change for the worse; he said that many civilian Communist officials are bad and have alienated the people. It may well be that in Jehol, where the Communists have recently taken over considerable areas, there are not enough trained civilian officials to go around. In southern Hopei, long held by the Communists, civilian officials are said to be honest, but several Friends with UNRRA have recently returned from southern Hopei due to constant difficulties with local bureaucrats. The Communists' chief hold on people in the interior, the vast majority of whom are farmers, derives from their agricultural policy and distribution of large land holdings among poorer farmers. Foreigners who have recently been in Communist areas in southern Hopei have remarked that Communist areas in southern Hopei have remarked that Communist policy toward large landlords, which was comparatively mild during the Sino-Japanese war and for some time thereafter, has now hardened and large holdings are being broken up. It has frequently been said that in the long run China, which is primarily agricultural, will be taken over by that party which can provide the best conditions of life for the farmer. One of the chief weaknesses of the National Government has been its land policy; many people feel that the Government could have cut the ground from under the Communists at any time during the past fifteen years by putting into effect a more equitable land policy; it may now be late, but even now, if the influential group of landowners in the Government could be forced into acquiescence, much could be done. Practically all foreigners coming from Communist areas in this province report a bitter anti-American feeling, with anti-American posters, lectures, and touring troupes harping on the theme that America is one of the causes of their trouble.

121.893/8-647

*Memorandum by the Consul General at Tsingtao (Spiker) to
General Wedemeyer*

[Extract]

SHANTUNG POLITICAL SITUATION

Kmt-Communist Problem. This is the foremost political difficulty in the province. While the Government occupies Tsingtao and Wei-

hsien, and the principal cities along the Tsinp'u Railway from the Kiangsu border to Tsinan, as well as a number of other cities east and west of the Tsinp'u line, it is experiencing difficulty in maintaining highway communications and does not control more than an estimated 20% of the hinterland of the province. By "control" is meant actual administration by Government agencies of their duties such as preservation of the peace and the collection of taxes. Shantung has been and will continue to be one of the principal battlegrounds of the civil war. The communists have controlled large areas in the interior of the province for 8 years or more, and have long ago, with many flagrant abuses, engaged in such programs as re-distribution of land, punishment of usurers, liquidation of the wealthy merchants and their properties, et cetera. They have denuded much of the occupied areas of their able-bodied men who have been drafted into the communist forces. Well-informed missionary sources express their belief that not more than 10% of the people favor communism over the Central Government, but apparently by a technique of terror the communists are succeeding in preventing the common people from assisting the Government in its military or administrative operations. The communists are becoming increasingly ruthless in punishing those who cooperate with the Government, and assassinations and executions, practiced on a large scale, apparently are depriving the Government of a significant portion of the support which it might otherwise expect from the people. The fighting "front" is too fluid to permit the common people to cooperate with the Government forces without fear of reprisals when the communists re-take a town or area. The ruthlessness is reminiscent of the bloody communist technique in Kiangsi, and during the Long March.⁹¹

Communist Anti-American Propaganda. This is entirely outspoken and widespread in communist-occupied areas. It accuses the United States of encouraging civil war for imperialistic purposes. The propaganda is sincerely and violently anti-American. It probably influences youngsters much more than adults, who in the past have had profitable connections with the Americans through the manufacture of hairnets, strawbraid, linens, and other products of cottage industry, and the production of tobacco (encouraged by Americans for many years with distribution of free seed, instructions in improved growing methods, et cetera). In contrast to anti-Americanism, it is reported that the communists speak well of the Russians and occasionally have attempted to identify the USSR as the source of UNRRA supplies distributed in communist areas.

⁹¹ From Kiangsi to Shensi in 1934-35.

121.893/8-647: Telegram

*General Wedemeyer to the Secretary of State*⁹²

47. There has been indication that the British are lending moral and possibly monetary support to Separatist movement represented by General Li Chi-sen presently located in Hongkong. It is suggested that appropriate agencies be set in motion with a view to clarification.

121.893/8-847: Telegram

*General Wedemeyer to the Secretary of State*⁹³

[NANKING,] August 8, 1947.

57. DEAR MR. SECRETARY: The Mission has just returned from an extended tour of North and Northeast China. While some new information has been obtained, most of it reaffirms and strengthens material already available. Character of information follows same pattern. For psychological reasons, we are visiting as many areas as possible. Although the National Government stages and arranges contacts, we tactfully insist upon hearing or obtaining views of individuals and groups of all categories.

Militarily I view the situation in Manchuria as practically untenable for the Nationalists. Nationalist withdrawals are conducted prematurely and usually are brought about through clever maneuvering on the part of the Communist forces without any engagement in battle. The Communists have the initiative and are able to conduct operations when and where they will, restricted only by their own limitations, communications, terrain and weather. If sufficient troops were moved from Central and Northern China to reinforce adequately the Manchurian area, the situation south of the Great Wall particularly in Shantung would probably deteriorate rapidly. Even now the area between the Great Wall and the Yellow River is strongly disputed with lines of communications and strategic points changing hands continually. It would appear that the National Government from the military viewpoint must soon make the clear-cut decision with regard to holding Manchuria and jeopardizing retention of North China, or withdrawing from Manchuria in the hope of gaining a modicum of control and stabilization in North China.

National Government has proven inept in handling the situation

⁹² Telegram transmitted via Nanking, August 6.

⁹³ Copies sent by the Secretary of State to the Secretaries of War and Navy on August 11.

from the political and economic angle in Manchuria, thus contributing to the debacle. Nationalist troops have been guilty of looting; they are often arrogant, discourteous and assume the attitude of conquerors, instead of Chinese forces with the mission of protecting the local people. They were prepared for harsh treatment from the Communists but they expected friendly cooperation from the National Government officials and troops.

Immediately prior to departure from Mukden, General Chen Cheng, the Chief of Staff, arrived. He requested a conference. I made a few suggestions to him with reference to the situation in Manchuria, emphasizing that I did so as a friend and not in an official capacity. I suggested that the Generalissimo's personal representative in Manchuria, General Hsiung Shih-Hui with his entire headquarters be removed at once; that a military commander definitely possessing qualities of leadership and integrity be placed in command of all military forces; that a Manchurian civilian be designated as the Generalissimo's representative in connection with all political and economic matters. I pointed out the fallacy of having two military commanders in the same area with overlapping and conflicting responsibilities. Further, I indicated that psychologically the appointment of a civilian of Manchurian origin whom the people could respect would be worth ten divisions toward regaining the sympathy and support of all Manchurians. It was uniformly impressed upon us; the Manchurians do not want to become Communists but they resent the carpetbagging tactics of the Generalissimo's representatives, military and civilian, sent from China proper. Tu Li-Ming's removal is encouraging and I anticipate further changes.

Efforts were made through planted evidence to the effect that the Soviet Communists are assisting the Chinese Communists in Manchuria. These efforts are childlike in conception and naive in presentation. There can be no doubt about the connivance of Soviet Russia with the Chinese Communists in Manchuria and North China, but the evidence offered by the Chinese Government is not the basis at all for this conviction on my part.

The Soviet Communists have been masterful in attaining their objectives in the Far East, with the one exception, Japan. Without participating directly and without providing damaging evidence, the Soviet Communists have created or are in process of creating conditions that strongly contribute to the establishment ultimately of a satellite or puppet state in Inner Mongolia, Sinkiang, Manchuria and throughout Korea. There is an increasing trend on the part of the Nationalist Government publicity agencies to depict the situation in China as an international problem. I feel that this is true, but the

discouraging aspect is emphasized in the apathy and ineptitude of the Chinese Government toward making any contribution whatsoever in the solution of the problem.

One might properly compare the existing philosophy of the Chinese to that which maintained to a certain degree during the recent war. After Pearl Harbor, Chinese leaders recognized that the United States and other Allies were committed to the defeat of Japan. The Chinese therefore could make the minimum contribution while building their own fences. Recognizing this attitude when I reported here as theater commander in the fall of 1944, I took steps designed to compel the Chinese to fight the Japanese. As you know we enjoyed a modicum of success. Every artifice will be resorted to on their part to compel United States aid and to minimize concurrently Chinese contribution. Today we must again be alert to Chinese machinations and compel them to make realistic contribution in the global effort first to retard, then stop Soviet aggressions, and later to penetrate peacefully through political, economic and psychological means those areas within the Soviet orbit. The Chinese will avoid these responsibilities again in order to strengthen reactionaries within their own country, while we and other Allies bear the brunt of the task. They are familiar with our program in Western Europe and through the Balkans. They sense the fact that we would assist in establishing sound economies and political entities outside the Soviet orbit.

Concerning corruption, many Chinese civil and military in positions of responsibility feel that the situation is hopeless and although their previous code of ethics may have been quite high, today they are determined to amass fortunes before a debacle occurs. Many Chinese in lesser positions of responsibility, in fact throughout all strata, who really desire to be honest, are compelled by economic pressure due to spiralling inflation, to resort to dishonest methods. They are not necessarily trying to acquire great wealth but merely to eke out a bare existence for themselves and their families.

The Chinese Communists follow clearly the Soviet Russian pattern and also the methods employed by the Nazis in their heyday. They establish schools in villages and about forty percent of the curriculum includes propaganda for Marxism-Stalinism—against American-British so-called imperialism. They apportion out land and produce to the very poor people, particularly to those who cooperate. Frequently they provide those people with arms, admonishing that they must now defend the property given to them against the corrupt forces of the National Government. Even United Nations Relief and Rehabilitation Administration supplies being distributed in Communist-controlled areas are often apportioned out on the basis of

loyalty to the party or to further the cause of the party. Throughout Communist-controlled areas there are placards and slogans conveying the message—"Down with American imperialism". Their current propaganda bitterly denounces my Mission. They attribute all of the difficulties in China to policies that I as an individual, am supposed to have initiated when theater commander. Their tirade includes statements to the effect that I am a Nazi sympathizer trained in Germany. Their radio and placard attacks follow assiduously the line of other Communist organs outside of China.

All of us continue to exercise the greatest vigilance to preclude embarrassment to you and the President with regard to contacts with press and statements to Chinese.

Monday, August 11, the Mission will leave on its next trip which will take us to Formosa, Shanghai and Canton in that order. By the time we return, you will have departed for the Rio Conference. Our best wishes go with you.

Sincerely yours,

A. C. WEDEMEYER

893.00/8-1347

*Memorandum by the First Secretary of Embassy in China (Ludden)
to General Wedemeyer*⁹⁴

NANKING, August 9, 1947.

Politically south China is in much the same position as other major regions of Central Government controlled China. For all practical purposes the government and the Kuomintang party machinery remain in substantial control of the situation but there is widespread and growing discontent with government activities and policies which has brought about repressive measures by the government, particularly against student movements and the press. In Canton repressive measures have been as stringent, if not more so, than in other areas of China. This is explained in some degree by the fact that south China has been largely denuded of troops to satisfy the needs of the northern fronts.

In south China there is the added factor of the position of Hong Kong. Hong Kong, as a British Crown Colony, has become the last refuge for politically dissident elements, taking the place of the foreign concessions and international settlements of the extraterritorial era in China. Hong Kong, in addition to being a political refuge, is also a refuge for Chinese capital which has an important effect upon

⁹⁴ Copy transmitted to the Department by the Ambassador in China in his despatch No. 930, August 13; received August 18.

the economy of south China, particularly with regard to the remittances of overseas Chineses, but these points will be covered by Mr. Adler⁹⁵ and Mr. Anderberg.⁹⁶

At the present time Hong Kong offers the only point in south China where there is any freedom of publication. It is, therefore, only natural that there are a variety of publications extending politically from pro-Government to Communist but it is the non-government papers which are the most important to consider. The Democratic League and the Communists, being unable to publish in China proper have established printing establishments in Hong Kong from whence their publications find their way into China. These papers are distributed not only in south China, but also find their way northward along the coast through a variety of means, but a good deal of the distribution is carried out through normal postal channels. The Embassy has good reason to believe, however, that in the cast [*case*] of Communist publications, the Chinese Seamen's Union offers an excellent channel for coastwise distribution of Communist literature from Hong Kong. Of course this distribution is not confined to the Chinese Seamen's Union, but is carried on by sailors on foreign vessels as well. For example, a few months ago an American representative of the CIO who was in China investigating the use of CIO funds allocated to the Chinese Federation of Labor, made the point that seamen and miners always tend to be the most radical of all workers and he found that there was considerable traffic in anti-government literature along the coast between Hong Kong and Shanghai in the hands of American seamen.

Along the coast of south China there is a widespread smuggling trade being carried on and this offers an additional channel for the movement of non-government newspapers and tracts into China proper. In addition to the open publishing effort at Hong Kong by elements in opposition to the government, there are also numerous political "outs" who have sought refuge in Hong Kong and can be assumed to be ready actively to intrigue against the government whenever opportunity offers. Perhaps the most outstanding of these is Li Chi-shen, who but a few days ago was expelled from the Kuomintang for the third time in his career for his outspoken anti-government position. The presence of these political dissidents in Hong Kong gives rise from time to time to a variety of reports with regard to separatist movements in southeast China. Because of the presence in Hong Kong of anti-government elements it has been reported on a number of occasions that the British are actively supporting sep-

⁹⁵ Solomon Adler, U.S. Treasury representative in China.

⁹⁶ Edward Anderberg, Jr., economic analyst with the Embassy in China.

aratist movements in southeast China on the theory that an autonomous regime in the southeast would be less likely to press for the rendition of Hong Kong than the National Government. There has been no substantive proof put forth that the British are engaged in any such activity and it is unlikely that any such proof ever will be obtained. However, one must not lose sight of the fact that a strong and united China is not in immediate British interests vis-à-vis Hong Kong. It may be assumed that a strong and unified China would immediately demand and obtain the rendition of the Crown Colony. It may be expected that with regard to the rendition of Hong Kong the British will employ delaying tactics for as long a period as possible and it would therefore be in their immediate interests to have a local regime in effective control of south China friendly to them. It is inconceivable that the British are unaware of the trend of events in north China and Manchuria and therefore they may well be mending their fences in south China with a view to the protection of substantial British investments in the area and the development of overseas trade which they so badly need at the present time.

The British at Hong Kong, in accordance with their laws, maintain that they are allowing freedom of publication and freedom of residence so long as activities are not carried out which are inimical to the relations between Great Britain and China. The position of the British in Hong Kong in attempting to carry out well-known British democratic principles is a very difficult one in the face of constant Chinese protests with regard to the activities of anti-government Chinese in the area.

The question of separatist movements in southeast China is a very nebulous one. Several weeks ago the Embassy was informed categorically by no less a person than Cheng Kai-min, Chief of the Military Intelligence Department of the Ministry of National Defense, that Li Chi-shen had declared the independence of Kwangtung and Kwangsi, had established a headquarters in Kwangsi and that a special committee had been set up in Hong Kong on which there were Communist members. Upon investigation this story proved to be completely false.

There can be little question, however, that as the power and prestige of the Central Government declines there will occur separatist movements in the peripheral areas of China and it is very likely that one of these areas will be south China and probably embrace the provinces of Kwangtung and Kwangsi. When or how such a development will occur is difficult to estimate. In this connection there has been much speculation with regard to the position of General Chang Fa-kwei, the Generalissimo's personal representative at Canton. It is the

general consensus that Chang Fa-kwei is faithful to the Generalissimo and will remain so. However, it is possible, even probable, that if the power of the Central Government declines to such a point where control of south China is impossible or if the Generalissimo falls, Chang Fa-kwei could be expected to attempt to take over the area and to establish an independent regime in the interests of the area. In Kwangtung province at the present time there is a certain amount of alleged Communist activity but most observers tend to believe that it is largely local banditry stemming from economic dislocations. During the period of the Marshall mediatory mission the greater part of the Communist East River Column was evacuated from south China to Shantung. There are still remnants of this column in the East River area offering a rallying point for other dissident elements but it is still on a very small scale and confined largely to local and largely unimportant raiding. There is also a small amount of Communist and/or bandit activity in the Liuchow peninsula area and on Hainan Island. General Chang Fa-kwei maintains that banditry could be eliminated easily had he sufficient troops to police the area.

Reports from Kwangsi are conflicting but recent travelers from that area report the countryside generally quiet with little or no bandit activity. It must be borne in mind, however, that economic dislocations and recent floods will create conditions making for the development of local banditry which may be made use of by Communist organizers to spread their influence. This situation is probably more true in south Hunan than it is in Kwangtung and Kwangsi because of the near famine conditions which have prevailed there for some time.

121.893/9-1947

*Memorandum by Mr. Philip D. Sprouse to General Wedemeyer*⁹⁷

[NANKING,] 10 August 1947.

1. Set forth hereunder are Chinese reactions and observations obtained at first hand during the Mission's recent visit to North China and Manchuria.

2. It should be noted that there was common agreement among all Chinese in regard to one aspect of the Chinese scene—that is, the necessity of peace if China is to be saved from utter destruction, chaos and suffering. Divergence comes in the views regarding the manner in which peace may be obtained.

3. National Government officials previously unknown to me uniformly stated that peace could be achieved only by the destruction

⁹⁷ Submitted by Mr. Sprouse on September 19 to the Director of the Office of Far Eastern Affairs (Butterworth).

of the Chinese Communist forces and that U. S. financial and military aid was necessary to this end. These officials made no mention of any conditions to be attached to such aid and, in general, believed that the Communists could be destroyed within a year or two. Other National Government officials previously known to me set forth the same general thesis, but qualified their statements by saying that the U. S. should aid China but should not give such aid until the Government—that is, the Generalissimo—was prepared to carry out necessary reforms to restore to it the confidence and support of the people.

4. There was general agreement among all Chinese, except the Kuomintang strict "party liners", that the key to the situation was the Generalissimo and it was generally felt that the Gimo would not carry out the necessary reforms except under US pressure. Independent Kuomintang members and non-party Chinese were partially divided in their views on this subject. Some of them felt that the present Government could not survive unless the Gimo carried out reforms. Others felt that the Government must not only carry out reforms but must also reach a compromise settlement with the Chinese Communists if the Government were to hope to avoid eventual defeat and Communist domination of China. Still others felt that the Gimo would never carry out the fundamental changes necessary to meet the Communist challenge and that the U. S. could not prevent eventual control of China by the Chinese Communists. These Chinese opposed U. S. aid to the National Government on the grounds that it would make additional converts to the Chinese Communist cause, that the Gimo was incapable of reform and that the U. S. might, in the long run, temper the Chinese Communist movement and not force it into the hands of Comintern Communist extremists. Prevailing throughout was a feeling of deep pessimism and, on the part of the majority, a fear of the U. S. S. R.

[Here follows report on conversations in Peiping, Tientsin, Mukden, Tsingtao, and Tsinan.]

PHILIP D. SPROUSE

121.893/8-1347

*Memorandum by the Consul General at Hong Kong (Hopper) to
General Wedemeyer*

[HONG KONG,] August 13, 1947.

SECTION I. RECOVERY OF HONG KONG

[Here follows survey of Hong Kong's recovery, political status, and Sino-British relations.]

The influx of Chinese political groups, particularly the Kmt and

Communist elements, have given the British some cause for concern. The Kmt groups operate here mainly for the purpose of keeping track of the activities of the Communists, while the latter after their flight from China are using Hong Kong for a base of operations.

SECTION IV. ACTIVITIES OF COMMUNIST ELEMENTS IN HONG KONG

Beginning early in 1946 quite a few Communist leaders took up residence in Hong Kong for the purpose of publishing small newspapers known as the "mosquito press" for dissemination throughout South China. Most of these publications had been suppressed in China and then took advantage of British hospitality to come to Hong Kong. Under British law publishers of newspapers or periodicals, regardless of political affiliations, are permitted to operate as long as they conform to British law. In these cases these publishers were warned that they should print nothing derogatory to the Hong Kong Government or mix up in local politics. Local officials have stated that the Communist group has been remarkably well behaved and has played the game as far as local law is concerned. At the same time Hong Kong authorities are aware that the Chinese Government looks with great disfavor upon the use of Hong Kong by groups who oppose their Government. These small newspapers last for a few months and then discontinue operations, while others take their place. The lack of continuity is mainly due to lack of funds more than anything else. Communist leaders come and go and their stay in Hong Kong is by no means permanent, as frequently they move on to other countries such as Indo-China, Philippines, India and the East Indies.

Editorials in these Chinese newspapers of the leftist groups follow the usual lines adopted by the Communist press elsewhere. The favorite object of criticism is of course "American imperialism in the Far East". They can find no good in anything attempted or advocated by our Government. A running line of bitter criticisms characterized their editorials ever since I arrived in Hong Kong in October 1945. Although they share the eagerness of the Kmt and all other Chinese groups to receive the bounties of Uncle Sugar, this does not prevent the local Communist press from attacking our motives. The Wedemeyer mission has not been spared in any respect. This mission, according to the Communist press in Hong Kong, was sent to China for the purpose of submitting recommendation that we continue to aid the Nationalist Government by extending loans and prolonging the civil war. Even a visit on the part of a few Army officers in Formosa, who came from Tokyo on a few days leave, was sufficient to provoke an accusation that we are taking over Formosa.

For awhile early in this year one General Li Chai Sun,⁹⁸ was considered to be the leader of the leftists group, although he insisted he was still a member of the Kmt. He acquired prominence about two months ago when he gave a public statement to local newspapers. Among other things he stated that he was a member of the Kmt and an old friend of the Generalissimo. He also stated, in reply to a question, that he was not promoting the secession of South China but that he thought it might be a good thing for the country if the movement was of a democratic nature and in support of the masses. On account of this statement which was very critical of the Central Government also by reason of other public statements, General Li Chai Sun was recently dropped from the Kmt Party.

With respect to rumors concerning the secession of South China the Consulate General has been unable to connect these rumors with any responsible sources. Some people have stated that the separation of South China from the rest of the country might be looked upon with favor by the British in Hong Kong as it would place Hong Kong in a very strategic position with regard to the export and import trade. However these assertions are mere guesswork and I have found no Britisher who has even expressed an opinion on the point regardless of what he may actually feel. I do not think that any serious minded Britisher, whether a businessman or a Government man, would actually promote such a movement. On the other hand, if China should fall apart and South China succeed in setting up a government of its own, I do not think that the average British businessman would delay joining the bandwagon and that he would do this mainly for business reasons, without regard to the ultimate effect on political relations with other countries.

121.893/8-1347

*Memorandum by the Commercial Attaché in China (Calder) to
General Wedemeyer*

SHANGHAI, August 13, 1947.

Subject: Analytical Comment on the Problem and Suggestions for Possible Solution. (Further to previous exposition of the problem.)

Summary: Mindful of the fact that the over-all problem is one of conflict between the USSR and USA, with the Soviets and Chinese Communists holding food surplus areas and leaving deficit areas as

⁹⁸ Li Chi-shen.

the problem of the USA, fertilizer supplies for Japan, South Korea, Taiwan, and selected areas of non-Communist mainland China may be the reasonably quick answer to the *food* phases of the problem.

Since it seems that a military success over the Chinese Communists is doubtful and would probably not be permanent, the victory probably will have to be economic—a better life in non-Communist China than in Communist-held areas. The fertilizer-food blitz would be part of our strategy.

A reasonably quick partial cure for China's other economic ills would lie in the adoption of a positive American policy backing the Chinese Government with its moral support, technical advice and guidance, and a minimum amount of monetary aid, to be advanced only upon assurances that various measures recommended would be carried out. It would have to be made clear that we should be granted certain controls over the employment of our funds and of means for repayment, and that continuing aid would be contingent upon Chinese good faith and satisfactory performance in the joint program.

When it was known that the U. S. were backing China and that cooperation was genuine, probably US\$500,000,000 of Chinese escape capital would return, workable conditions would encourage an inflow of American private capital, remittances from Chinese overseas would increase, exports would gradually turn toward normal. China's purchasing power would recover, but China's basic deficit status could probably not be overcome for a time, so imports might still have to be restricted. American moral support would be worth far more than monetary aid, would make only a minimum of U. S. monetary aid necessary, the program to be based mainly upon Chinese self aid. Certain near-term objectives could be blitzed—stabilization of currency (largely with Chinese held gold, U. S. Notes, and U. S. deposits) to form the basis for speedy return of confidence.

We would have to turn a deaf ear to numerous appeals for immediate Export-Import Bank financing for projects promoted by Chinese multi-millionaires who will not risk their own money in their own country, but rather we should help to lay the security basis whereby they will repatriate their capital—then try to guide it into channels which will mean most for the country's economic recovery.

1. *A Food Strategy.*

Soviets and Communist Chinese penetrate or take surplus areas, and cut off fuel supplies. They don't want deficit areas. But they do grab and hold strategic areas or spots. Obviously they regard North Korea, and Port Arthur and Dairen as strategic—barriers against outside penetration or control of Manchuria—insulation against egress of

goods to would-be recipients or takers. The Soviets can depend upon Chinese Communists to keep the line between Tientsin and Mukden intermittently cut so China can get very little beans or other products out. By thus blocking off Manchuria and North China they can ruin the economy of 80 million Japanese, 7 million Koreans, 350 million Chinese in non-Communist areas, and leave the United States the responsibility for making up the deficit. Just as in Europe they hold all food surplus areas, particularly rich grain areas of Rumania and Hungary—Europe's bread basket—while they watch the United States struggle to make up the food and other deficits of the British Isles, France, Western Germany and Italy—maybe 150 million people—so do they operate in the Far East.

Thus it is a food war to a considerable extent, with the USSR holding or reaching for the food surplus regions of the Euro-Asia Continent, leaving for the United States the deficit areas with which to struggle.

2. *The Solution to the Food War in the Far East May Be Fertilizer.*

We should explore the feasibility of quickly bringing adequate supplies of fertilizers to Japan, South Korea, Formosa, and the non-Communist areas of China.

China's food deficit is only 2,000,000 tons per annum (total consumption 160 million tons)—offset mainly by imports of grain. Yet the little island of Formosa (13,800 square miles, one quarter arable) produced more than 2,000,000 tons of surplus foods (sugar 1.4 million tons, rice 780,000 tons) under Japanese management annually, using only 250,000 tons of fertilizer. This was in 1937, 1938, 1939, and 1940, with concentration on the arable land in Formosa between 1500 and 1800 per square mile. Japanese, South Koreans, and Formosans know how to use fertilizers. Technical advice should be supplied with the fertilizer to Yangtze Valley, South China, Central China (Hankow region), along with cheap financing for farmers for fertilizer purchases, in order to blitz results in all food deficit areas.

Maybe Chile's aid in this would be necessary—loans by Chile to the areas mentioned, under U. S. or UNO⁹⁹ guarantees. Part of our own production of surplus fertilizers could be shipped to China. Less shipping space would be required to bring fertilizers than to bring foodstuffs.

3. *Victory by Better Economy.*

The Chinese Communists can probably only be beat definitively by *economic means*, by making a superior economy in non-Communist areas, which would thus gradually break down any division line be-

⁹⁹ United Nations Organization.

tween the two areas. The Communist idea can obviously thrive only in conditions of adversity and want. Confidence would be re-established if it were known that the U. S. has a positive policy and is backing China. The establishment of a stable currency would enable the Chinese to go a long way toward helping themselves and would require a minimum of monetary aid from the U. S. (see Nyi plan, Despatch No. 1556 from the American Consulate General, Shanghai¹), once their outlook is made secure. We should combine our aid and Chinese self aid to set up the stability and to blitz the moves which will make for recovery in order to win the economic war, not only with food, but in all other avenues of the economy. We would have to insist in a friendly but firm manner that our ideas (including land reforms) should be followed if we are to supply the needed aid and back China with our moral support, our technical guidance, and a minimum of monetary aid. We would have to maintain controls and make continuing aid contingent upon compliance on the Chinese Government's part. Our moral positive backing would be worth more than our cash and should result in early repatriation of US\$500 million of Chinese flight capital, now deposited abroad, in the influx of US\$100 million of cash remittances from Chinese abroad annually in the form of foreign exchange, and in an influx of new American, Chinese-American, and other private capital. If the conditions for private investment are not good, how can loan money from the Export-Import Bank or the World Bank do anything except further pauperize China? Exports would pick up and would to a greater degree finance imports. Even returning Chinese capital should not be encouraged to go into pure money-making schemes at the ports but be directed into improvement in transportation and into essentially productive channels. A few years of this effort would set China so far ahead on the road to recovery that the line of demarcation between non-Communist and Communist areas in China would gradually fade out.

4. *China's Multimillionaires Seek Loans.*

There are scores of Chinese projects now seeking Export-Import Bank Loans. The prospective borrowers in many cases have tens of millions of US Dollars stowed away in New York. If they are not willing to risk their own money in their own country, isn't it a bit "thick" for them to be asking the U. S. taxpayer to take that risk? They have one argument on their side. There is no stability or security in the outlook in China. They will keep their capital abroad and smuggle out their current profits in continuous capital flight until that basis of security is re-established. If we, in collaboration with

¹ Not printed.

Nanking, can set up that security, then China's rehabilitation can proceed with Chinese capital to a large extent. Let us stop pampering and pauperizing the Chinese but help them to earn their own way and pay their own way to success. They are beginning to swing to this view themselves. The British crisis shows them that there is large demand elsewhere upon the U. S. for aid, and that there is at least a psychological bottom to the American barrel if not a real bottom.

A. BLAND CALDER

026 China/8-1747: Telegram

General Wedemeyer to the Secretary of State

[NANKING,] August 17, 1947.

85. DEAR MR. SECRETARY: The Mission has just concluded fact-finding efforts in Shanghai, Formosa and Canton. The information received in Shanghai serves to reaffirm earlier certainty of corrupt and inept practices, both political and economic.

Our experience in Formosa is most enlightening. The administration of the former Governor Chen Yi has alienated the people from the Central Government. Many forced to feel that conditions under autocratic rule were preferable. The Central Government lost a fine opportunity to indicate to the Chinese people and to the world at large, its capability to provide honest and efficient administration. They cannot attribute their failure to the activities of the Communists or of dissident elements. The people anticipated sincerely and enthusiastically deliverance from the Japanese yoke. However, Chen Yi and his henchmen ruthlessly, corruptly and avariciously imposed their regime upon a happy and amenable population. The Army conducted themselves as conquerors. Secret police operated freely to intimidate and to facilitate exploitation by Central Government officials. . . .

The island is extremely productive in coal, rice, sugar, cement, fruits and tea. Both hydro and thermal power are abundant. The Japanese had efficiently electrified even remote areas and also established excellent railroad lines and highways. Eighty percent of the people can read and write, the exact antithesis of conditions prevailing in the mainland of China. There were indications that Formosans would be receptive toward United States guardianship and United Nations trusteeship. They fear that the Central Government contemplates bleeding their island to support the tottering and corrupt Nanking machine and I think their fears well founded.

The Canton-Hong Kong areas, in fact the southern provinces, are

practically devoid of Communist influence and the deleterious effects of dissident and radical groups. Even the mildest forms of political disagreement are being suppressed by police action. The Central Government has neglected opportunities to assist the people in the area to recover economically. That is partially understandable for the Government is now concentrating its attention upon wiping out Communistic elements in the north and upon the feeble political and economic efforts by which it hopes to recover the confidence and support of the people in the north and northeast. Corruption is rife and smuggling is extensive normal practice through Hong Kong and Macao. Important strategic materials such as wolfram, tungsten and tin in quite sizeable quantities are being smuggled through this area, some to Northern Korea. I could find no official support of the rumor to the effect that the British are surreptitiously encouraging or supporting separatist movements. British official views indicate that a dividing up of China into regions would develop into warlordism and would facilitate the penetration and infiltration of Communism both by peaceful means and by the employment of force. The British I encountered feel that a unified China is the paramount need to cope with internal political problems and to effect an improved economy.

You may recall how you read chapter and verse from the Book of Revelations in Bermuda. My report will be full of revelations but not in Biblical terms.

Our departure from China is still set for August 24, a week from today.

A. C. WEDEMEYER

121.893/9-1947

*Memorandum by Mr. Philip D. Sprouse to General Wedemeyer*²

[NANKING,] 17 August 1947.

Set forth hereunder are suggestions for action which might be taken by the Generalissimo, partly as a means of increasing the efficiency of the administration but chiefly for the purpose of restoring to the National Government some measure of confidence on the part of the Chinese people.

1. The National Government and the Kuomintang should be completely separated and the Generalissimo should take his place as the leader of the nation, not as the leader of the party. There should be no pretense of a government divorced from Kuomintang control,

² This memorandum and the one printed *infra* were submitted by Mr. Sprouse on September 19 to the Director of the Office of Far Eastern Affairs (Butterworth).

but there should be established a government free from Kuomintang domination. To this end there should be a wholesale reorganization of the Government to include able and honest men from all walks of life. To achieve this there must be clearly defined areas of responsibility and there must be full delegation of authority to officials in responsible positions. There should be free and public discussions of governmental measures in legislative and executive bodies and the budget should be submitted to legislative approval and made public. Governmental administration should encourage the development of responsibility and initiative and this cannot be achieved unless full responsibility is delegated to the responsible officials and organs of the government. The Kuomintang should take its place as a political party—not as a business enterprise or an organization with its own secret police and organs for the control of all governmental administration throughout the nation, as a result of which public opinion is ignored or stifled. Only through this action will it ever be possible to expect participation in government of the most capable Chinese willing to serve for the good of their country.

2. Abolish the secret police and all forms of military control over civil administration. This should include the end of secret arrests, resulting in the disappearance of those arrested; it should remove from the *gendarmerie* or military police any right to arrest civilians or to enter civilian premises; and it should include the abolition of concentration camps or any similar institutions. The illegal activities of the secret police have been one of the chief sources of criticism of the National Government and the very nature of secret police control is the antithesis of democratic procedures. Fear of the secret police—who have not been exempt from charges of corruption, bribery and squeeze—has caused honest liberal Chinese to avoid any real expression of their views, has served to drive students and intellectuals increasingly toward the Communists and has prevented the expression of enlightened criticism of evils, criticism which must accompany good government and serve as a check upon despotism and tyranny.

3. The entire police system should be reorganized and removed from National Government control. Police should be organized locally and should be responsible to local administrations for the maintenance of law and order. It is reliably reported that the secret police are now quietly infiltrating the various police units in important centers throughout the country, the impetus for such action coming from Tang Tsung, a former Tai Li adherent who now heads the National Police Administration. If this trend continues, it may be expected that the various police administrations throughout the

country will be controlled by the same evil influence that have brought about the repressive power of the secret police. When the police system is reorganized, there should be provision for adequate pay and rice or other food allowances to prevent corruption and graft. The police should be given careful training along western democratic lines in order to remove the Japanese ideas which permeate police administration in China. Persons arrested must be given a prompt public trial and there must be full safeguards for the exercise of the right of habeas corpus and for the protection of the fundamental civil liberties found in democratic countries.

4. The Control Yuan should be reorganized and placed under a strong official who must be given full responsibility and authority to enable that organ to fulfill its functions. It should be allowed to take drastic steps to eliminate corruption and graft on the part of government officials and it should be free to act without fear of reprisals and with the knowledge that it has the full and unqualified support of the National Government.

5. There must be a cessation of intimidation of university faculties and students. Those professors discharged from universities should be permitted to state their cases publicly or in court and if the grounds for their discharge are insufficient they should be promptly reinstated. Those professors who are now unable to obtain positions in universities because of their political views should not be debarred from such positions and a public statement to this effect should be made and their employment in the universities should be encouraged. Failure to carry out measures along these lines will result in the continuation of the present trend of Chinese students and intellectuals toward increasing sympathy for the Chinese Communists. The cause of good government is best served by the full exercise of academic freedom of speech.

6. There should be full freedom of the press and a cessation of attacks on newspaper offices which publish views unfavorable to the government. Newspapers should not be closed or suspended by military organs and there should be no discrimination against newspapers, through registration procedures or withholding of paper supplies, because of their expression of views at variance with those of the Government.

7. The existing duplication of military or semi-military headquarters in the various provinces should be eliminated by the abolition of all unnecessary organs or by their amalgamation into one simplified organ. This would include the Office of the Director of the President's Headquarters, the Garrison Headquarters, the Pacification Commissioner's Headquarters and any other agencies of this descrip-

tion. This would reduce governmental expenditures, would prevent duplication of control and command and would to some extent reduce the number of troops necessary to maintain these headquarters. The number of troops could also be reduced through the increased utilization of police organized as suggested in 3 above.

8. The National Government armies should be reduced and reorganized to increase their efficiency and to reduce the heavy drain upon the national budget. There should be made a thorough check upon the number of troops under arms and the allocation of funds made for the various units. A thorough investigation should be made into the charges of corruption among army officers and of the illegal exactions upon the populace of the area occupied by the armies.

9. The Kuomintang practice of obtaining control over various enterprises from the Alien Property Administration should be discontinued and those already acquired in this manner should be returned to the Administration for disposal to private Chinese enterprise. Such disposal procedures should not permit the purchase of these properties under cover of fictitious persons or through any under-cover means but should be made an open and honest transaction with legitimate Chinese enterprises.

10. In Manchuria the Northeastern people should be given a majority of the positions of authority and control in the civil administration of that area, including the provincial, municipal, and district governments. This would tend to restore confidence in the National Government, should serve to eliminate many of the now prevalent abuses under the present system of administration of the area by "outsiders" and would give the local people a better reason for defending their "homeland".

11. Elections for district, municipal and provincial officials should be held at the earliest possible moment after the reorganization of the National Government and under election laws agreed upon by such a National Government. This would enable the local populace in any area to choose officials of its own liking and carry forward the idea of decentralization of power which seems essential in China. Military officers on active duty should not be permitted to stand for election to any such offices and there should be no interference by the military in the civil administration.

12. Positive measures must be taken to reduce farm rentals and implement the land laws already enacted. Similar measures must be taken to provide loans to farmers at reasonable rates of interest to prevent their being at the mercy of usurers. These measures require honesty in administration but their effect on the Chinese peasants would provide ample repayment for the emphasis and money devoted

to such a program. Conscription and the collection of land taxes in kind must be administered fairly and exactions on the peasantry must cease. At present the National Government troops are drawn largely from the peasantry and taxation lies most heavily upon the peasantry. The peasantry is the source of the greatest Communist strength and unless measures are taken by the Government to gain the support of the peasantry the prospects for peace and stability in China are not favorable.

It is realized that some of the foregoing measures are rather far-reaching, but unless the Generalissimo is made to realize the importance and necessity of sweeping reforms the result will be the customary paper reform with which we have become familiar during the past two and one-half years. The medicine must be strong if the patient is to survive. In any event, quite unrelated to the question of U. S. aid to China, he must take measures of this nature if he is to avoid continued loss of prestige and confidence and the eventual collapse or drying up of his authority.

PHILIP D. SPROUSE

121.893/8-1847

Memorandum by Mr. Philip D. Sprouse to General Wedemeyer

[NANKING,] 18 August 1947.

Three Mongol representatives in Nanking (two of them members of Chinese Government organs) called on me on August 10 to present their views on the position of the Mongols in Inner Mongolia and Manchuria. These representatives have been seeking, through the Embassy, an interview with General Wedemeyer or a member of the Mission since our arrival in Nanking. In addition to presenting a memorandum (attached)³ in Mongol, Chinese and English, the Mongols made the following comments:

Ever since the incorporation of the Mongols into China under the Manchus the Chinese had followed a policy of oppression and non-recognition of the racial rights of the Mongols. Chinese had endeavored to foster the feudal structure of Mongol society and Lamaism and had done nothing to advance the lot of the people. The Chinese farmers had made steady encroachments on Mongol grazing lands, thus threatening the livelihood of the Mongol people. During the present century, however, other forces had had an effect on the Mongols. The USSR has slowly brought Outer Mongolia into its orbit and had now legally detached it from China under a façade of

³ Not attached to file copy.

independence. Japan had during its occupation of north China established an autonomous Mongolian regime in Inner Mongolia, which was, of course, another façade since the Mongols had no real power. At the same time, however, through education and a semblance of self-government the Mongols had raised their standards of living and were no longer content with a feudal system of enslavement.

Immediately after V-J Day the Mongols themselves, without outside inspiration, organized two governing bodies of a semi-autonomous character. In western Inner Mongolia there was organized the Democratic Liberation Committee (Min Tsu Chieh Fang Wei Yuan Hui) and in western Manchuria the Eastern Mongolian Autonomous Government. The first of these organs was abolished when the Chinese Communist[s] entered Inner Mongolia. The Communists established their own regime called the Inter Mongolian United Autonomy Movement (Nei Meng Ku Lien Ho Tzu Chih Yung Tung Hui). The Mongols in western Manchuria in an effort to resist Chinese Communist overtures and pressure immediately sent one of their leaders to China for discussions with the Chinese Government. Upon his arrival at Peiping he was received by General Hsiung Shih-hui, who was unresponsive and refused to permit him to proceed to Chungking for discussions with the National Government. General Hsiung falsely accused him of being sent by the USSR. Since that time the Mongols in western Manchuria have continued to refuse to cooperate with the Chinese Communists and have maintained a neutral position. The Chinese Communists have promised them racial autonomy and local self-government but the Mongols do not trust such promises and would prefer to be the "sons" of the USSR rather than the "grandsons".

Mongols in Inner Mongolia and western Manchuria are now being confronted by the necessity of a choice between two roads: one is the road to socialism and Soviet domination; the other is the road to democracy, represented by the U. S. The Mongols feel that the U. S. alone has concern for racial minorities. The Mongols desire to follow the path of democracy and remain a part of China under a federal system, whereby Mongols will be given racial autonomy and local self-government. The Chinese wish to Sinicize them and deny them their rights. Even the local self-government provided for under the constitution last November has not been granted to the Mongols. The U. S. should persuade the Chinese Government that only by granting racial autonomy to the Mongols can they be saved from Chinese Communist and Soviet domination. These Mongols know there is no freedom under Soviet control and they resent Soviet depredations at

the time of Soviet occupation of their area. Outer Mongolian troops, however, did not indulge in looting, but their political commissars did take away Inner Mongolians as political prisoners.

In this general connection, the three Mongols say that Ma Han-san, a Chinese Tai Li agent at Peiping, recently forced several Mongols there to write a letter to General Wedemeyer setting forth six points, some of which were not true:

(1) Inner and Outer Mongolians maintain close relations—this is not true.

(2) Outer Mongolian and Soviet troops arrested Inner Mongolians and looted during their occupation of Inner Mongolia—this is true, as stated above.

(3) The Mongols in western Manchuria follow Soviet and Chinese Communist directives—this is not true.

(4) The Mongol representative from western Manchuria who came to Peiping in early 1946 was ordered by the USSR to do so—this is not true.

(5) About 2,000 Outer Mongolian special agents have recently arrived in northern Chahar—this is partially true but the number of agents is highly exaggerated.

(6) An Inner Mongolian, who went to Outer Mongolia, recently returned to north Chahar with more than 1,000 troops—this is partially true but the number is exaggerated.

Another report which may have come to General Wedemeyer's attention is also without foundation. General Fu Tso-yi has recently forced several Mongols at Kalgan to sign a letter saying that the Inner Mongolian people do not want racial autonomy and local self-government but prefer to remain under General Fu's control. The Mongols concluded that their objective was to achieve racial autonomy and local self-government and that it was their hope that the Chinese would view their aims sympathetically before it was too late.

These Mongols would be pleased to have an opportunity to discuss their problems and objectives with General Wedemeyer.

PHILIP D. SPROUSE

121.893/8-1847

Press Release Issued by the Embassy in China, August 18, 1947

The following statement was issued this noon by the Wedemeyer mission:

Throughout the presence of the Wedemeyer mission in China, members have emphasized that they would gladly receive orally or in writing any information that any individual or group desired to submit. The mission has been asked on numerous occasions if it would be willing to receive information from the Chinese Communists.

In each case the answer has been definitely yes. In the effort to achieve objectivity, the Mission has been and is glad to receive information from the Chinese Communists, as well as from any other source. As a matter of fact, strongly divergent views have already been received and are being carefully considered.

121.893/8-1947

The Ambassador in China (Stuart) to the Department of State

No. 940

NANKING, August 19, 1947.

[Received August 27.]

The Ambassador has the honor to enclose for the information of the Department, a copy of a memorandum of information he received from Mr. Chen Li-fu, concerning an alleged statement made by Major General N. V. Roschin, Military Attaché of the Soviet Embassy, regarding the mission of General Wedemeyer to China. Considering the source of this information, as well as the fact that General Roschin is famous in Nanking for his scrupulous avoidance of any conversation or comment on any political topic, there may be some doubt as to whether he actually did make this statement. This, however, is largely irrelevant since the statement undoubtedly represents his thinking, as well as that of other Soviet officials. Similar statements in recent weeks have been made by Soviet officials in Nanking. Comparable line is followed by the Soviet Embassy Information Bulletin, by such public comments in Moscow as the Embassy receives, and by Communist radio broadcasts. The only difference is that the public assertions usually adopt a more vicious and vituperative tone.

It seems wholly likely that the lower echelon officials believe their own statements, since they have access to little other information and are blinded by the rigid dogmatism of their own narrow concepts which admit of no divergence from the official interpretations. It seems more unlikely that the high, responsible officials are unaware of the truth but that they deliberately indulge in this line of falsification in the pursuit of their own foreign policy objectives.

[Enclosure]

Memorandum by the Ambassador in China (Stuart)

Under date of August 13, 1947, Mr. Chen Li-fu wrote me in Chinese that according to information received by him, the Military Attaché of the Soviet Embassy, Major General N. V. Roschin, had made the

following assertion regarding the mission of General Wedemeyer to China:

"This is part of a detailed plan by U. S. A. in preparation for war against the Soviet Union. By utilizing the manpower in Japan, Korea and China, the U. S. A. need only supply arms, technical personnel and all sorts of raw materials. Japan has already come into line and is no longer a problem. But China and Korea require further attention, so General Wedemeyer has been sent to make an inspection and to induce the Chinese Government to settle the civil war and be prepared for war with the Soviet Union. General Wedemeyer is commissioned to assure the Chinese Government that if it can assume this responsibility, U. S. A. will at once begin large scale aid in order to liquidate the Communist Party, because he is a vigorous opponent of Communism and of the Soviet Union."

Mr. Chen Li-fu is, of course, notorious for his advocacy of the extermination of Chinese Communism by force and would not hesitate to play upon American fears of Russia. On the other hand, this explicit reference to an individual would scarcely be made without some basis. Assuming this to be the case, is General Roschin acting under instructions, or is this a typical Russian reaction, revealing mistaken but none the less serious suspicions of American policy?

J. LEIGHTON STUART

121.893/8-2047: Telegram

The Consul General at Mukden (Ward) to the Secretary of State

MUKDEN, August 20, 1947—10 a. m.

[Received August 21—4: 23 a. m.]

217. Local reactions toward Wedemeyer mission. Military and political clique led by Hsiung⁴ obviously disappointed inability monopolize mission and to control its contacts. Inasmuch as Hsiung had taken great pains to have persons selected by him coached in presentation information according his light, his inability control contacts available Wedemeyer, and the patently inaccurate information which he himself advanced to Wedemeyer in presence Chinese officials and influential banker has redounded to his discredit in local circles.

Chinese industrialists impressed by desire of mission obtain facts good or bad, and at lack of interest in "Hsiung inspired" propaganda they first attempted to pass on particularly so far as Russian aid to

⁴ Gen. Hsiung Shih-hui, Director of Generalissimo Chiang Kai-shek's Headquarters in the Northeast.

Communists concerned. All were impressed with background knowledge of mission.

Visit pleased native northeasterners more than others. Their representative given hour Wedemeyer's time where he was allowed to present northeasterners' views without interference. Mission definitely bolstered their morale in that for first time they feel their grievances, solutions to problems and ideas will get through Generalissimo.

Ordinary persons impressed with lack of ostentation displayed by mission. Felt that mission here to accomplish something. Were impressed by inability Hsiung clique control mission's activities despite elaborate preparations made toward that end.

Foreign community, particularly American, most favorably impressed with background knowledge, desire for facts, and that Chinese were not afforded opportunity to sway mission through elaborate entertainment and pressure tactics. Deepest impression made by mission in short time grasping ideas of local residents and officials. Openmindedness and desires for facts appreciated.

Common foreign and Chinese criticism not enough time spent to obtain and verify information submitted to it, in fact in this regard some Chinese have voiced opinion that mission has made its decision before coming Mukden and was therefore not interested in making other than token visit Manchuria.

Sent Embassy as 343 ; repeated Dept as 217.

WARD

893.00/8-2047

*The Consul General at Hankow (Krentz) to the Ambassador in China (Stuart)*⁵

No. 37

HANKOW, August 20, 1947.

Subject: Political Notes Given to Wedemeyer Mission—Hankow

SIR: I have the honor to enclose a brief memorandum⁶ which I submitted to Admiral Trexel and Mr. Walker during the course of briefing them for interviews with Hankow persons.

The memorandum was purposely made brief and exclusive of many subjects as I wished to emphasize what I considered a basic fact in regard to Central China.

In the course of my conversations with Admiral Trexel and Mr. Walker I elaborated certain points, especially when briefing them on the mental outlook, reliability, etcetera, of persons they were about to

⁵ Copy transmitted to the Department without covering despatch; received September 10.

⁶ Not printed.

interview. Those elaborations were roughly along the following lines:

It is easy to say, and perhaps too often said, that China is in chaos. Certainly the currency is chaotic but to my mind the country, as seen in my district, is perhaps less chaotic than it has been at most times in the present century. One has only to look at the peasants, the small merchants, the coolies to see that they are well dressed and well fed by Chinese standards. The great agrarian background goes on much as it has through the centuries and the urban centers benefit as they always have from this stable hinterland. Even the ports such as Hankow, which were dependent for their great prosperity on foreign trade, are badly off only relatively. No longer can the Jardines, Butterfields⁷ and their Chinese counterparts amass great fortunes and build great mansions—but the life of “Old Hundred Names” goes on much as it always has.

In other words when one speaks of help for China it would be useful to know what one expects the help to do. Central China generally is prosperous to the extent that it has ever been prosperous. The restoration of railways and other communications would make it more prosperous and provide some insurance against crop failures, disasters etcetera. Other relatively minor works would also contribute to stability and make Central China self-supporting and self-reliant in the sense that it has been in the past.

If, however, one is contemplating the emergence in the immediate future of a strong, modern, united and democratic China, then one is contemplating help on a scale far beyond what a pedestrian mind can envisage—with the materials at hand.

I hope that I am looking at China with a practised, rather than jaundiced eye. In the twenty some years that I have been in China and neighboring areas, I see little basic change in certain factors which must be the starting point for a “New” China. Nepotism—that unbearable burden on all enterprise seems to me to be every bit as prevalent and as ingrained as it was in 1926. Chinese, versed in our ways of thought will deplore this vice to us. I know of few who follow the example of their words. The others do not even see why we consider nepotism a vice.

Red government, on which I have reported at length, is not as bad as it used to be, either under the Kuomintang or its predecessor “governments”. Order is much better maintained, public utilities etcetera function most of the time, instead of only occasionally. In a sense, the inefficiency of the government contributes to the general welfare as a Chinese sees the general welfare. For example, taxation while still a great burden is less onerous than under the *ancien régime* for the very reason that the bureaucracy is a much

⁷ British shipping companies.

less efficient collector than an individual warlord to whom taxes meant his personal fortune. I do not say or think that drastic improvement in Government is not necessary sooner or later—but I think that the present government need not hamstring prosperity on a reasonable Chinese scale and I do not think that even the amazing collection of incompetents who govern the Wuhan cities would much handicap the area were it freed from inflation and the civil war. I do not see where any sufficient number of competent officials are to come from in the next few decades at least.

Certainly some things like agrarian reform are urgently necessary. As the Communists have in some cases proven this is something which can be done within the Chinese system and without a modern state and good government as we see it.

As a Lieutenant General is paid less than my cook I do not see how graft can be eliminated until the state is in a position to remedy this obvious absurdity. But as this is no new problem and perquisites as a means of livelihood are accepted to the same extent as nepotism is, it seems to me that this reform is one which cannot be hoped for in the next decades.

Certainly most of the antecedents of the Kuomintang philosophy can be traced to Berlin, Moscow and Tokyo. It is certainly totalitarian in the most objectionable sense. But it does provide the best government China has had since the beginning of the end of the Ch'ing dynasty. I know of no alternative which can be developed from the ineffective groups who could contribute to government. The student class is as immature as the man in the street is indifferent. Certainly there is a nucleus of intelligent patriotic men—without experience. There is hope for the future. Just now there seems no reason to hope that the few competents can do other than infiltrate into the present government and use their influence for reform from within. I do not see that there is much we can do except press from without and insist on at least some degree of reform before undertaking any assistance at all.

Although the Kuomintang and/or the supposedly non-party new government is "totalitarian", it seems to me that one may go far afield in applying ideological concepts to China. This totalitarian government (with due respects to the late Tai Li) is an inefficient totalitarianism as only Chinese inefficiency can be inefficient. This is a contradiction in terms if we are thinking of Mussolini, Tojo and Hitler. China has been governed by "totalitarian" regimes during the coming of age of Europe and America. Within these "totalitarian" regimes there has always existed a peculiarly Chinese social democracy which had, and has, contempt for government. The Chinese people may be goats, but, unlike the Japanese and the Germans, they are not sheep. Autocracy of many varieties has been frustrated by an infinite passive

resistance. An inefficient autocracy at the present moment may, if one is not thinking of non-Chinese forms, be as relatively harmless as the autocracy of "Old Buddha", or Yuan Shih-kai. It is a discouraging thought, but the ringing words of the opening of the Declaration of Independence will ring few bells in typically Chinese minds.

The only assistances I could recommend for this district in conscience would be such as could qualify under Eximbank or commercial conditions; or rehabilitation of the railways, waterways etcetera, under complete American technical control.

Undoubtedly places like the Wuhan cities will continue the trend of industrialization. I have not discussed industrialization or foreign trade. The latter must undoubtedly precede the former. I have no new ideas to offer on these much explored subjects—my only point is that Central China can get along by itself without these boons—granted only currency and a reasonable amount of peace.

Unless there are high questions of policy beyond the categories in which I work—it seems to me that The Problem of China can well simmer along for a while with only our assistance as possible to reduce the military load and stabilize the currency. Anything else seems to me to be only assistance to groups and interests.

Economic and other data furnished the Wedemeyer Mission will be sent to the Department and the Embassy separately, as it is not classified material.

Respectfully yours,

KENNETH C. KRENTZ

[For substance of remarks made by General Wedemeyer on August 22 before a joint meeting of the State Council and all Ministers of the National Government at Nanking, see *United States Relations With China*, page 758. This text was communicated to the Department by the Ambassador in China in telegram No. 1799, August 25, 6 p. m. (121.893/8-2547).]

121.893/8-2247

Memorandum for General Wedemeyer

REPORT ON THE FINANCIAL AND FISCAL SITUATION IN CHINA

[Here follows report substantially as printed in *United States Relations With China*, pages 781-788.]

Conclusions on Financial Aid.

While the prospects for the emergence of a stable China in the foreseeable future are not bright, the Chinese Government, whether

stable or unstable, will demand very large amounts of material and financial aid from abroad. The total amount of funds which will be available in the United States for foreign lending is not known. In view of the increasing demands from England and Europe for American assistance which those areas can effectively utilize, in the absence of further evidence of China's ability to help itself there is a reasonable doubt concerning the availability of the amount needed by China to keep the present government a going concern for the next few years, let alone to set it on its feet and strengthen it to the point of full military control of Chinese territory. In the foreseeable future, the large but unskilled manpower resources of China are not likely to be of value to the United States, especially when they are compared with the much more skilled manpower of Europe and Japan. Heavy and large-scale investment in China might be a liability, since it would invite at a later date the diversion of scarce resources to China in order to preserve part of the original investment.

China has a place in United States interests in the Far East as an area where an example could be set for other areas in Asia. This consideration justifies the provision of some aid, but not on a scale which would be justified under the premise that China is a dependable ally of the United States. The necessity to make China a good example for Asia underlines the need for reform of the Government. Such reform is no less important an objective of American policy in China under the premise that China is being aided on ideological grounds than it would be under the military premise.

The part of China which is likely to have most influence on the rest of Asia is the part which has contact with Indo-China, Malaysia, Indonesia and India. This is precisely the part of China which has been least affected by the civil war and in which there are reasonable chances for the development of relative self-sufficiency. A reform of the government in Central and South China, with improved living standards, some industrialization and sufficient strength to hold the barrier against encroachment from the North, may be a practicable long-run policy. The economic developments required in this area are mainly those which serve agriculture, produce consumer goods for local consumption, and assist in developing foreign trade by processing agricultural raw materials. Specifically, they include fertilizer, manufacture, railroad, highway and coastal communications, and the local production of essential goods such as fibers and textile, fabricated metal products, and fuel. Development of these industries in Central and South China would strengthen the area by raising living standards. These industries are also susceptible of early development with the available personnel and without excessive expenditures of local currency.

Financial aid to China could be completely ineffectual due to a disintegrating government and hyperinflation. At the same time, an effort to sustain the present government on a limited basis may be in the interest of the United States, if the cost is not too great. The possibility that aid in any amount would have no effect in the long run, and would represent a total loss to the United States, cannot be entirely dismissed. Financial aid for specific Export-Import Bank projects, limited in amount and subject to increase upon satisfactory performance, may be considered appropriate. Advisors might be effective if they are attached to projects and assigned to see that there is proper utilization of funds. Advisors assigned to Government Ministries would face difficulties in achieving a satisfactory relationship with the nationalistic elements, and their presence might be considered a commitment and a channel of pressure for more aid than the United States is willing to give.

[Here follows section on "Immediate Steps To Strengthen the Economy" substantially the same as printed in *United States Relations With China*, pages 800-801.]

NANKING, August 22, 1947.

121.893/8-2347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 23, 1947—5 p. m.

[Received August 23—9:40 a. m.]

1787. The following is Taipei's telegram 143 of August 21:

"Following new developments may interest Wedemeyer Mission.

1. Contrary earlier announcements postponing conscription on Taiwan, Formosan youths now being summoned for physical examinations with inductions slated for November. Formosans strenuously object Chinese military service, particularly on mainland and probably against Communists, and are also apprehensive at reported seizures Formosans as replacements for deserters from regular army on Taiwan estimated as high as 500 in Taipei area. Unconfirmed reports that part of 21st reorganized division being transferred from Taiwan to Manchuria cited as cause of high desertion rate. Compulsory military service for Formosans will exacerbate discontent with mainland administration.

2. Huang Chao-chin's attribution to General Wedemeyer that US has no "special interest" in Taiwan being interpreted locally with popular dismay and disappointment to mean US has no interest in Formosans. Huang's interview with Wedemeyer is strengthening

rumor said to have been started by Huang himself that he will be appointed Governor of Taiwan. Such appointment would be disliked by majority of people despite Huang's technically being native Formosan.

3. Reliable information indicates both Governor and Madame Wei disconcerted at unfavorable impression that they feel Wedemeyer Mission received during visit and Governor has openly expressed doubt whether he will be considered competent to continue in his present post . . . This tallies with earlier indications that his effectiveness minimized by lack of supporters in administration personally loyal to him.

4. There are continuing reports and some concrete evidence that Chen Yi still exerting strong influence on island through military and civilian connections."

STUART

121.893/9-1947

*Memorandum by Mr. Philip D. Sprouse to General Wedemeyer*⁸

PRESENT SITUATION IN CHINA

China is beset with civil war, a deteriorating economic situation, social unrest and the psychological reactions inevitable under such conditions. There seems to be no possibility of any peaceful settlement in the foreseeable future between the National Government and the Chinese Communist Party. Peace proposals during the meeting of the People's Political Council in May were referred to the State Council, where they were finally shelved. The National Government then issued a General Mobilization Order with the objective of destruction of the Chinese Communist forces. Recent Communist military successes, together with the Government's increasing economic difficulties, have made less likely the possibility of any peaceful settlement along lines such as those agreed upon during the U. S. mediation effort in 1946.

The Kuomintang

On one side stands the National Government headed by Generalissimo Chiang Kai-shek and dominated by the Kuomintang under his leadership. The reactionary character of Kuomintang leadership, the repressive nature of its rule and the widespread corruption and graft among Government officials and military officers on all levels

⁸ Presented to General Wedemeyer at Nanking on August 23. Copy submitted by Mr. Sprouse on September 19 to the Director of the Office of Far Eastern Affairs (Butterworth).

have cost the Government the confidence and support of the people. Intellectuals and university students have lost confidence in the present regime; private Chinese businessmen have no faith in the Government; and the peasantry under the continuing burden of conscription and taxation are said to be unfavorably disposed toward the Government. It has left only its armies, whose morale shows signs of deterioration; its sprawling officialdom, whose interest lies in the continuation of the regime; and the benefit of the inertia of the masses, many of whom through fear of communism and of the USSR accept the Government as the lesser of two evils. Except among the strict adherents to the Kuomintang line, there is a uniform belief that unless the National Government takes drastic measures of reform, it will inevitably collapse. The only question seems to be the rate at which the disintegration will proceed. All other factors remaining constant, it is generally believed that it will be a slow and gradual process. The Generalissimo, formerly inviolate as the leader of the Kuomintang and the Government, is now described by all except party die-hards—and even by some of them in private—as the key to the situation. There is a divergence of opinion on this score, some of the liberal elements within and without the Kuomintang saying that the Generalissimo cannot change and that he is inherently incapable of carrying out those reforms which will restore to the Government the confidence and support of the people. Others, with equal conviction, feel that the Generalissimo is above all a realist and that he can be “persuaded” to carry out the necessary reforms. These Chinese state that the U. S. is in a position at this time to exert the necessary pressure on the Generalissimo and that if he is faced with the certainty of no U. S. aid unless he reforms he will be compelled to reform. Strict party liners in the Kuomintang say that the U. S. must aid the National Government to prevent Soviet domination of China through the Chinese Communists, but they make little mention of any vital need for reform. In brief, it may be said that the Generalissimo is both the key to the situation in China and the possible stumbling block to reforms which might prevent the eventual collapse of National Government authority.

The Chinese Communist Party

On the other side are the Chinese Communists. Their chief strength is perhaps negative in that it derives and grows from the inefficiency, corruption and misrule of the Kuomintang. The Chinese Communist Party leaders are a ruthless, well-disciplined group, fanatical in their devotion to their cause. They are self-professed Communists, bound ideologically to the USSR, and their eventual aim is admittedly the establishment of a socialist state in China. Their

ruthless tactics of land distribution, to the accompaniment of what is in effect lynch law, have made for them bitter enemies among the well-to-do Chinese in the rural areas, countless numbers of whom have fled for refuge to National Government-controlled cities. The Communists have in most areas been extremely antagonistic toward the foreign missionary movement, have persecuted Chinese Christians and have destroyed churches and mission property. On the other hand, there have been conflicting reports regarding the degree of their support in the rural areas under their control. Most well-informed Chinese and foreigners say that the Communist policies of land distribution and other land reforms have benefitted the poor peasants who comprise the vast majority of the population in the rural area, that these peasants have thus been given a vested interest in the continuation of the Communist regime, and that the majority of peasants, therefore, support the Communists. Other sources, including American missionaries in one area of Communist activity, state that the terroristic tactics of the Communists have alienated the vast majority of the peasants against them and that their control is based solely on fear. Whatever the tactics, the Communists have been successful in organizing the countryside against the National Government and in some areas are said to be arming every peasant to whom land has been distributed, with the admonition that he must defend his land.

Other Chinese Groups

Caught in the middle between the misrule and harsh repression of the Kuomintang and the totalitarian ruthlessness of the Chinese Communists are the politically conscious but powerless Chinese who sincerely desire democracy in China. Their emphasis is not so much on the form as it is on the real concept of the democratic way of life and respect for fundamental civil liberties. Many intellectuals, driven by hatred of the secret police system of the Kuomintang and its indifference to the welfare of the Chinese people, are turning to the Chinese Communists. In doing so, they fully realize the implications of Communist domination in terms of its effect on their hopes of democracy in China—they do so only in despair and loss of hope in the possibility of achievement under the Kuomintang. Other Chinese liberals are perhaps deterred from joining the Communist camp through fear of Soviet domination of China and deep-seated opposition to communism. It is generally accepted by many independent Chinese liberals that the minority parties offer no hope in the situation. Their leadership is mediocre and they have no great following. Some of the minority parties have joined the Government and their members have been given Government positions. No objective observer believes that these

additions to the Government have in any way improved governmental efficiency or imparted any real democratic flavor to the Government. Other minority party and non-party Chinese have remained outside the Government in the belief that they might be in a better position to influence the Government toward a more democratic approach to China's problems. Provincial interests in China are reported to be greatly dissatisfied with the National Government and to be critical of its over-centralization of power. Few Chinese believe that such provincial opposition will crystallize to the point of open rebellion unless developments should indicate an imminent collapse of National Government authority, but it is believed that plans are being quietly made in areas such as south China and north China for action by various provincial and National Government military commanders along separatist lines in the event of the collapse of the National Government. Fear of the Generalissimo and the secret police and the traditional Chinese habit of personal loyalties and ties would seem to preclude any such movements unless the participants were assured of success.

Manchuria and Formosa

In specific areas, such as Manchuria and Formosa, National Government rule has seriously alienated the local populace. The rule has been one of exploitation and corruption without regard for the welfare of the people. The latter have been given little or no real voice in the administration of their areas and the people tend to look upon Government officials as aliens and carpet-baggers. In both areas the local people privately express a preference for Japanese rule.

In Manchuria, the memory of Soviet occupation, to the accompaniment of looting, murder and rape, is so fresh in the minds of the people that they are not favorably disposed toward the Chinese Communists, whom they associate with Soviet Russia, and the Northeasterners in Government-controlled areas still express a preference for National Government rather than Chinese Communist rule. They point out, however, that given continued deterioration of the economic and military situation, exploitation for personal gain by Government officials and the failure of the Government to appoint Northeasterners to positions of real authority and control in the civil administration in Manchuria, the local people will in due course turn toward the Chinese Communists as the lesser of two evils. The Chinese Communists have played upon this feeling by enlisting the services of Northeasterners in those parts of Manchuria under their control. They have named Northeasterners to provincial chairmanships and to the command of their armies; they have recruited the majority of their forces from the local Manchurian population; and it is said

that they have modified and tempered their land distribution program in Manchuria.

In Formosa there is a similar picture in that Formosans have been denied a voice in the administration of the island. The Chinese have maintained that the Formosans did not have the administrative personnel to participate in the higher levels of the administration, but foreign observers familiar with conditions on the island during the period of Japanese occupation say that this is not true and that the Formosans did have such personnel. These observers say that the majority of such Formosans were probably killed or fled for safety during the March purge by the Chinese Government of all Formosans suspected of being connected with the incident which had led to the presentation of Formosan demands for a share in the Government and for the discontinuation of certain discriminatory monopoly practices. Formosans are now reliably said to desire a United Nations trusteeship or an American guardianship for the island since they feel that the lot of the island under Chinese rule is hopeless. The misrule of the Chinese in this island and the Formosan uprising against that rule had no Communist inspiration, although the situation now offers fertile ground for the spread of Communist influence and Chinese Communist agents are reported now to be on the island.

The USSR Vis-à-Vis China

Forming a background for the situation in China is the USSR. In spite of the Sino-Soviet Treaty and Agreements of August 1945, which granted the USSR an equal share in the administration of the most important railway lines in Manchuria and certain un-named subsidiary enterprises serving those railways, a lease of Port Arthur as a naval base and the establishment of Dairen as a free port with certain Soviet rights at that port, there has been a steady deterioration of relations between the two nations. In the exchange of notes relating to this Treaty, it was provided that the USSR would give China "moral support and aid in military supplies and other material resources, such support and aid to be given entirely to the National Government as the central government of China". Such aid has not been forthcoming and the USSR has not permitted the Chinese Government to take over the civil administration of Dairen and the Port Arthur area as provided for in the Agreements on Dairen and Port Arthur which accompanied the Treaty. Furthermore, the USSR timed the withdrawal of its troops from Manchuria in such a way as to favor Chinese Communist occupation of various points in that area and, either directly or indirectly, made available to the Chinese Communist forces the large amounts of military equipment left by the Japanese forces in Manchuria at the time of their sur-

render. In brief, the USSR has given no indication of any effort to assist the Chinese Government and has instead taken action which has favored the Chinese Communists in Manchuria. It can be said, therefore, that the USSR cannot be divorced from partial responsibility for the weak position of the National Government vis-à-vis the Chinese Communists in Manchuria.

Chinese Government charges that the USSR has trained Korean military units in north Korea for service with the Chinese Communist forces in Manchuria have not been substantiated by concrete evidence, although there is evidence that sizeable Korean units are in the Chinese Communist armies in Manchuria. It is believed that these Koreans were local residents of Manchuria and that the Communists have recruited them from the local population. Similar Chinese charges of Mongol participation in the fighting on the side of the Chinese Communists also remain unsubstantiated. Other Chinese charges include those regarding the presence of Soviet and Japanese military advisors with the Chinese Communists and the presence of Soviet-trained Japanese troops. Japanese soldiers have been captured by the National Government in Manchuria, but there has as yet been no evidence that they were Soviet-trained. It is likely that Japanese military advisers have served with the Chinese Communists; this is a practice that has been followed by both the Chinese Government and the Chinese Communists. The same is true of Japanese soldiers in fairly small numbers. No concrete evidence has been found by U. S. observers of the presence of Soviet military advisers with the Chinese Communists.

Other Soviet machinations which have embarrassed the Chinese Government are those of Soviet interference in western Sinkiang in supporting and inciting native peoples against the Chinese administration; the recent border clash between Chinese-supported native troops in Sinkiang and Outer Mongolian troops; and Soviet intrigue among the Mongols of Inner Mongolia and western Manchuria. There is basis for some of these charges, although Chinese reports on the subject have tended to magnify them out of proportion for publicity purposes. It is apparent that the Chinese Government, viewing the U. S. policy in Greece and Turkey,⁹ feel that a similar Soviet threat exists to Chinese territory and that the U. S. policy of resistance to Soviet expansionist aims in the Middle East and its aid to countries so threatened make it inevitable that the U. S. will adopt a similar policy with regard to China.

⁹ See Department of State *Bulletin*, Supplement, Aid to Greece and Turkey, May 4, 1947, p. 827. and *Foreign Relations*, 1947, vol. v, pp. 1 ff.

The Chinese Communist Party Vis-à-Vis the USSR and the US

The close ideological affinity between the USSR and the Chinese Communists is sufficiently clear to assure that Communist domination of China would result in a basic orientation toward the USSR rather than toward the U. S. It seems unnecessary to establish proof that there is direct connection and liaison between the Chinese Communist Party and the USSR since clear indications of Chinese Communist sympathy towards the USSR and antagonism towards the U. S. have been frequently revealed by Chinese Communist propaganda and actions. Reliable reports show that the Chinese Communists constantly foster anti-US feeling in areas under their control, picturing the U. S. as an imperialist power which has as its objective the enslavement of the world. The Chinese Communists in some areas of north China inform the recipients of UNRRA supplies from the US that these supplies were contributed by the USSR. The Chinese Communists offer no criticism of the Sino-Soviet Treaty of 1945, which is a reversion to the so-called "unequal treaties" of the last century, but attack violently the Sino-US Commercial Treaty of November 1946¹⁰ and the Sino-US Aviation Agreement of December 1946¹¹ as proof of U. S. imperialistic aims. These last two documents were based completely on principles of equality and reciprocity.

The Chinese Communist Problem

The Chinese Communist problem must be viewed in two lights: one, its setting in the Chinese internal scene, and two, its relation to the international scene and to U. S. interests.

1. *Internal*

Internally, it must not be forgotten that the Chinese Communist problem has existed since the split between the Kuomintang and the left-wing and Communist group of revolutionaries in 1927. The Chinese Communists have survived the campaigns of extermination directed against them since that time, interrupted only by the period of relative harmony in 1937 and during the first few years of the war. At present, in numbers, in military strength and in territory, the Communists are stronger than ever before in the history of their party. Some of this strength has come from Soviet action in Manchuria, which enabled the Chinese Communists to strengthen their position in that region. In China proper, it has come purely from Chinese sources, both positive and negative. It is positive in that the Chinese Communists have a strong party discipline and morale, a devotion to

¹⁰ Department of State Treaties and Other International Acts Series No. 1871, or 63 Stat. (pt. 2) 1299.

¹¹ Department of State Treaties and Other International Acts Series No. 1609, or 61 Stat. (pt. 3) 2799.

their cause, a capacity for endurance of hardships and high organizational ability in the rural areas—in short, it is a dynamic movement which is making a bid for leadership in China. Communist strength is negative in that the Communists profit from the misrule and corruption of the Kuomintang and from the consequent unrest, misery and discontent of the people. If the Chinese Communists can convince the people that they will offer better government and will do more for the welfare of the people, it will be a challenge that the Kuomintang will find it difficult to meet. The Chinese people are believed to be generally anti-Communist and they fear Soviet control of the Chinese Communist movement—these are handicaps to the Chinese Communists and conversely serve to the advantage of the Kuomintang. The latter's misrule, however, makes possible the spread of communism and unless the National Government can take drastic measures of reform and unless it can take steps to alleviate the misery and suffering of the people, China will be a fertile field for the further spread of communist influence and control.

It is for these reasons that the Chinese Communist problem is primarily an internal one and that no real and final settlement of this problem can be effected except by the Chinese themselves. The problem, under the guise of communism or some other ism, would exist under present conditions regardless of the international situation. It is the problem of peasant unrest which has traditionally in Chinese history led to uprisings and revolutionary movements culminating in the overthrow of the ruling dynasty. In the present instance, the movement is under Communist leadership but none the less has its source in the misery and suffering of the peasant, who customarily and traditionally endures until leadership is provided to translate his feelings into action. It is interesting to note that there have been reliable reports indicating that the revolutionary fervor of the peasants has in some cases outstripped the Communist leadership and the latter has been attacked by the peasants as being too conservative. In the absence of the international aspects of the problem, there might be an early victory by the opposition to the National Government, but the only organized opposition to the Government in this case is Communist-led and it is thus handicapped by Chinese suspicion of Soviet domination of the movement and of communism itself. The spirit of chauvinism among the Chinese and the strong urge for national unity and independence make it unlikely, however, than [*that*] any regime can last indefinitely in China if it is subservient to a foreign power and represents, in effect, a puppet state.

2. *External*

Externally, the Chinese Communist problem is highly complicated by the international aspects thereof—that is, the problem of commu-

nism and the Soviet connection with the Chinese Communists. Were these factors not present, the proper course for the U. S. would be to withdraw completely from China and allow the Chinese people to settle their own problems. However, faced with the apparent aims of the USSR to embarrass the present Chinese Government and to encourage and assist, when possible, the Chinese Communists in their aim of domination of China, the U. S. cannot view with indifference the spread of Soviet influence in this area, with the probable further spread of communism to areas in Asia lying south of China, should the Chinese Communists gain control in all of China. Present Soviet aims seem to be the maintenance of a more or less watch and wait policy since the deteriorating economic and military situation in Manchuria requires little or no action on their part to ensure eventual Chinese Communist control of that area. Soviet objectives of the integration of the economy of this region with that of Siberia, through access to food and raw materials, would seem to be served by Chinese Communist control of Manchuria. This would serve to remove from direct contact with Soviet territory in this region an obviously unfriendly Chinese Government which has close relations with the U. S. The Soviet detachment of Outer Mongolia from China in a legal manner as a result of the plebiscite provided for in an exchange of notes accompanying the Sino-Soviet Treaty of 1945 has produced the fiction of an independent state, which is actually to all intents and purposes an integral part of the USSR. Soviet aims in Inner Mongolia may be expected sooner or later to be directed to the spread of Soviet influence in that area under the guise of Outer Mongolian interests. In brief, Soviet aims seem to be directed toward the gradual detachment of segments of Chinese territory contiguous to Soviet borders through local peoples with their counterparts in Soviet territory and the ascendancy of the Chinese Communists in Manchuria.

Factors Influencing US Policy Toward China

Faced with the prospect of Chinese Communist control of Manchuria, the U. S. must consider the situation primarily in the light of its short and long term interests. It is manifestly not in the interests of the U. S. that there be established in China a government dominated by the Chinese Communists. Viewed in the light of U. S. security and strategic considerations, U. S. policy toward China must be directed, insofar as it is possible and practicable, toward preventing the development of a situation whereby the Chinese Communists would gain control of all of China. In considering U. S. policy we must take into account the attitude of the Chinese people, the question of the United Nations role, the question of US-Soviet relations

in the Far East and the extent to which we are prepared and are able to go in terms of material aid to assist China.

1. *Attitude of the Chinese People.*

While criticism of U. S. policy toward China has been an oft-repeated theme in Chinese Communist propaganda, the attitude of non-Communist Chinese toward U. S. policy must not be overlooked. Many of those non-Communist Chinese critical of U. S. policy are among the most pro-US groups in China. Many of them are outstanding intellectual leaders in a country where the influence of such persons plays a much more important part in the political life of the country than is the case in the U. S. Many of them are American-educated and they look to the U. S. for support for the cause of democracy in China. Any policy adopted by the U. S. which caused them to believe that our policy toward China was motivated solely toward stopping the expansion of communism without regard for the principles of democracy, self-determination of peoples and the continued existence of an unpopular repressive government in China would cost the U. S. heavily in prestige in China, as well as elsewhere in Asia, and would have repercussions upon our position among liberal elements throughout the world. It would probably serve to turn many such Chinese toward the Communist camp.

2. *Role of the United Nations*

In view of our experience in Greece, it is believed necessary that the U. S., in the event of the adoption of a policy of extending aid to China, make it clear that we are not by-passing the United Nations and that the U. S. is prepared to work through the United Nations and its agencies in any program of assistance for China at such time as that organization or its agencies are prepared to assume such a responsibility. Some such action is necessary in order to bolster up and strengthen the prestige of the United Nations and to make clear to the world that our motives are to assist China in its efforts to achieve economic stability and to carry out a program of rehabilitation.

3. *US-Soviet Relations*

Consideration must be given to the effect on the USSR of any measures of assistance that the U. S. may decide to extend to China. If the U. S. should extend military aid to the Chinese Government in the form of training of troops and munitions of war, it is more than likely that the USSR will take similar action to assist the Chinese Communists, either openly or covertly—the latter course is believed to [be] more likely since it would make it easier for the USSR to attack U. S. military aid to China in its propaganda and to enter a protest to the United Nations against “intervention” in China. In

any event, the result is likely to be an increase in the tension between the U. S. and the USSR and the making of China into a second Spain with dire consequences to the Chinese people as a whole.

4. *Extent of Aid Possible for China*

In any consideration of the question of aid to China, the U. S. must weigh carefully the relative importance of China to our own security and strategic interests in relation to other parts of Asia and the world. China's needs are great, but the resources of the U. S. are not limitless. We must, therefore, consider whether aid given to China might not be better spent in other parts of the world. It might be wise from a long range standpoint to concentrate any assistance that we might give to China in those areas where it might be most feasibly implemented under present conditions and where the effect on other parts of Asia might be felt to the greatest extent. This would mean a plan for economic assistance, within the limits of our capabilities, in those areas south of the Yangtze and contiguous to southeast Asia, which would serve as an example to those areas and which would also tend to block the further expansion of communism both in China and in other parts of Asia of importance to the U. S. This area is not within the zone of civil war and the cost of a program of aid in this limited area might place such a program within our capabilities.

Present Trend of Developments in China

A continuation of the present trend of developments in China appears to indicate that if the National Government, left to its own devices without any assistance from the U. S., does not change its policies it will sooner or later be confronted with two possible alternatives: (1) At some stage of its disintegration the Government will decide upon a compromise settlement with the Chinese Communists—such a compromise is likely to be on terms which would eventually mean the emergence of the Communists as the dominant group in China. (2) The Government will not compromise with the Communists, in which case the Communists would in the not too distant future gain control of Manchuria and probably parts of north China, while National Government control in south and central China will gradually contract through the development of separatist movements under local provincial leaders. The gradual spread of Communist control and influence, either by direct attack or through agreements with such provincial leaders, will then result in the eventual absorption of all of China under Communist domination. A coalition form of government may obtain for some time under such a dispensation but the Communists as the only well-organized force would be the dominant force. Lacking the administrative and technical personnel to administer all of China and faced with the prospect of assuming the

burden of rehabilitation and reconstruction of the entire country if it were to assume full control of the governmental machinery, the Chinese Communist Party would be forced to proceed slowly for a period of years; it seems unlikely that the Communists would wish to be placed in the position of taking full responsibility for these tasks for some time to come, since the USSR would obviously be in no position to offer any sizeable assistance in restoring China's economy. That would leave only the U. S. in a position to provide the foreign aid which is vital to China's economic recovery. For these reasons, it is possible that while the Communists might emerge as the dominant group if the present trends continue, they would probably prefer to continue the form of a coalition for some years to come and China would be a very minor asset to the USSR under such circumstances.

Courses of Action Open to the US

There are three broad courses of action open to the US: (1) All-out aid to the National Government for the purpose of destroying the Chinese Communist Armed Forces and Communism; (2) withdrawal from China of US official agencies except for the diplomatic and consular establishments and extension of no assistance; and (3) a program of conditional aid in an effort to foster the development of a soundly-based regime which would prevent the further spread of communism in China and its corollary, Soviet political expansionism.

1. All-out Aid to the National Government

Viewed in the light of our past experience in China there seems to be little hope that a program of all-out aid would result in the achievement of our objectives and such a program would probably require expenditures of such enormous proportions that it would not be within our capabilities. Aside from the international complications discussed above, there seems to be little hope that the presently constituted Chinese Government can eliminate communism from China even with substantial U. S. military and economic aid. The present Government offers no hope that it can carry out a program which would provide effective opposition to a dynamic communist movement in China. Within the past 20 years, the leadership of the Kuomintang has shown little, if any, fundamental change in personnel. It seems clear that the Kuomintang leaders have never given up their conviction that internal political problems could be settled by military means without consideration of the concomitant social and economic problems. Their interpretation of the present international situation, in spite of the growing opposition to Kuomintang leadership from groups who have been traditional supporters, has reinforced their conviction that force can solve the political problem of communism. A program of all-out aid might temporarily save the present Govern-

ment, but it would solve none of China's social and economic problems which must have a solution if peace and stability are to be achieved. It would mean merely the postponement of the evil day for the present leadership and when the pent-up forces demanding change in China did emerge they would likely be much more explosive than at present. It would probably mean bloody and violent revolution and the U. S. would be castigated as the enemy which had delayed the necessary changes.

2. *Withdrawal from China and Extension of No Assistance*

Such a course is manifestly impossible since it would be equivalent to cutting the ground from under the feet of the Chinese Government and laying the country open to eventual communist domination. It would have repercussions in other parts of Asia and would make easier the spread of Soviet influence and Soviet political expansionism in Asia. While it would allow for concentration upon a line of defense against Soviet expansionism in areas removed from the complexities of the China scene, such a withdrawal would be indefensible in the U. S. and would not be to the long range advantage of the U. S. in China, where our prestige is still higher than that of other nations and where we can utilize such prestige to the benefit of both China and the U. S.

3. *A Program of Conditional Aid to China*

A program of conditional aid to China would have the effect of bolstering the opposition to Communist expansion; it would maintain the U. S. position and influence while encouraging the progressive groups both within and without the Government to take measures to help themselves; it would demonstrate our willingness and ability to assist in carrying out feasible projects of mutual benefit to the U. S. and China; it would contribute to the welfare of the Chinese people through the gradual development of economic and political stability in China; and it would have a desirable effect elsewhere in Asia. It must be admitted that such a program would not be popular with the present Chinese Government, which tends to blame the U. S. partially for the ills of China with particular reference to the Yalta Agreement and the part it has played in the Manchurian situation. Many Kuomintang party liners are critical of the mediation effort during General Marshall's mission to China and say that this prevented National Government occupation of Manchuria. The Government is also guilty of a defeatist attitude in saying that without U. S. aid the Chinese Communists are certain to overthrow the Government and establish a communist regime in China. Allowing for propaganda and pressure motives behind such statements, it is undoubtedly true that the present Government has suffered deteriora-

tion psychologically as well as morally. A conditional program of aid should serve to force the Chinese toward self-reliance and an effort to take steps on their own initiative to assist in solving their economic difficulties.

In the light of the foregoing, it must be assumed that the success of any program for aid to China must be based on the willingness of the Chinese Government to carry out a wholesale house-cleaning and thoroughgoing reforms which would make possible the establishment of administrative machinery necessary for the effective implementation of such a program. It must require the emergence of a Government solidly based upon the support of the public.

In approaching the problem of achieving the establishment of such a regime in China, we must realize that the Kuomintang under its present leadership is a static party but that it contains many capable individuals who would welcome the removal of the stultifying leadership now in power. We must realize that the Generalissimo himself is the key to the situation and that unless he can be convinced of the necessity of change there is no hope for the emergence of an enlightened leadership while he is in power. We must, therefore, be prepared to assume that the Generalissimo is not indispensable to the attainment of U. S. objectives in China. Our approach to the problem must be realistic: If we can use the Generalissimo to make the necessary changes which will revive the Chinese Government—morally, spiritually and materially—it will simplify our problem. He can take the necessary measures, but he will be reluctant to do so. He will not reform as long as he retains the conviction that the U. S. will aid him, regardless of what he does, because of the USSR and American need of China in a war against the USSR. We must be careful to avoid being misled regarding steps that he must take. In short, our aid must be conditioned upon performance by the Chinese Government and not upon promises of performance. Premature extension of aid of any kind might well serve to defeat the purposes of our aid by strengthening the Generalissimo's conviction that we must aid him because of the USSR. Such aid must also be carried out under strict U. S. supervision to ensure its effectiveness.

We must have concrete evidence of actual improvement in the Government prior to the actual extension of aid and there must be provision for the stoppage of aid if at any point the U. S. felt that the necessary measures of reform were not being adequately implemented. Reform measures should be those which would at least indicate the beginnings of democracy in China even though they would not result in the early establishment of a representative government chosen by the electorate. This should include the complete separation of the Kuomintang from the Government; the abolition of the

existing secret police system; the cessation of secret arrests and arrests of civilians by military organs or the *gendarmérie*; the reorganization of the police system with general National Government supervision but under local control; the prompt and public trial of persons arrested and the full exercise of the right of habeas corpus; the cessation of intimidation of teachers and students; the reinstatement of university professors and students dismissed solely for their political views; protection of the freedom of the press; reorganization of the National Government, including both the Executive Yuan and the State Council, to ensure participation by responsible Chinese without regard for party affiliations; clearly defined delegation of responsibility and authority in the Government to increase efficiency, encourage initiative and prevent beyond all doubt the domination of governmental affairs by one individual; and the strengthening of the Control Yuan to ensure the removal and punishment of corrupt officials. A time table for the carrying out of these measures might be prepared and provision should be made for halting the aid program if the measures were not being effected.

The foregoing are drastic changes but we must remember that the Generalissimo is not immortal and that there must be built at this time a structure that will be sufficiently solidly based to endure his passing without upheaval and chaos. Only through the steady growth of good government in the areas under National Government control can there be found an effective counter-measure against Communist expansion.

One of the most important problems in regard to the question of aid to China is the military problem. It bears vital relation to the political and economic problems. There are reasons both for and against any program of military aid to China. Reasons for are: (1) to prevent Communist victories which would result in Communist domination of the nation; (2) a moral obligation to continue the supply of munitions and replacement parts for troops previously equipped with US weapons since failure to continue such supply would, in effect, be equivalent to disarming these troops; and (3) to carry out a reduction and reorganization of the Chinese armies which would probably be impossible without US aid. Reasons against military aid are: (1) the probability of increased US-Soviet tension and of Soviet military aid, either openly or covertly, to the Chinese Communists, which would result in making China a second Spain and might eventually lead to a third world war; (2) the moral position in which the US would be placed, with damage to its prestige, were it to take action which could be construed as intervention in or encouragement for civil war in China; and (3) the possibility that, given military aid, the Generalissimo would feel that once such a

US commitment was made he could avoid making the necessary political reforms in the assurance that he would receive US aid regardless of his actions.

There is, however, one aspect of the question of military aid which is paramount. Without US military assistance the Chinese Government could not, or would not, carry out any reduction and reorganization of its armies. Such action is a *sine qua non* to any real and lasting improvement in China—both politically and economically. So long as the National Government maintains huge armies and devotes approximately 80 percent of its budget to military expenditures, there can be no lasting solution to its economic problems. Furthermore, so long as China maintains an army staffed by its present type of officers, who possess great political power and who either control or constantly interfere in the civil administration, there can be little effective progress toward good government in China. Equally important, both politically and economically, are the questions of soldiers and food for the huge armies now being maintained by the National Government. The burdens of conscription and taxation, to which may be added military exactions, are those which lie most heavily on the peasantry and which have long been basic causes for peasant unrest and dissatisfaction with the Government.

Under a program of conditional aid to China, there could be included provisions for US training and equipping of a greatly reduced Chinese National Army of, say, a maximum of 10 divisions. A plan for such a program should be carried out with the clear and public understanding, in accordance with an agreement by the Chinese Government, that the Chinese troops so trained would be employed solely for purposes of protecting lines of communication and certain important centers, such as Peiping, Tientsin, Tangshan and Chinwangtao, against possible Communist attack and that such troops would not be used for offensive action against Communist-controlled areas. We would run the risk that the Generalissimo would at the first opportunity attempt to use such troops for offensive purposes—he could use the excuse that it was in reality defensive action against Communist attack. We would run the risk that the Generalissimo would take such military aid as indication of a firm US commitment to support him regardless of his actions. There would be, however, certain defenses against such action: The US should retain control of the reserves of equipment and munitions for these troops in order to prevent their accumulation of munitions of war sufficient for offensive purposes. The US should be prepared to withdraw completely from China and stop all aid to the National Government at the first instance of violation of the agreement limiting the use of these troops. This should be made definitely known to the Generalissimo and stated publicly.

In any event, a considerable period would pass before the US could properly train and equip Chinese troops and some stabilization of the military situation in north China might be achieved by that time through military action by the existing Chinese armies.

The chief problem under such a plan would be that of demobilized personnel. Some program would have to be worked out similar to that prepared under General Marshall's direction in 1946, which envisaged the formation of a Manpower Demobilization Commission. The problem of enlisted men would be relatively simple in that the vast majority of them are peasants, who could be returned to their native places. Officers, particularly high ranking ones, would present a more difficult problem. It would perhaps represent a saving to the Government if many of the older generals were retired on sufficient pension. For other officers it would be necessary to obtain employment or to provide some type of vocational training. The police forces might absorb some of them and construction projects might utilize the services of others.

Such a program of US military aid would undoubtedly arouse suspicion and criticism from the Chinese Communists and the USSR, and probably from many non-Communist Chinese. However, the implementation of such a plan should be postponed until there was definitive and completely convincing evidence of a real change in the National Government—a change in procedure and a change in spirit—and full publicity should be given to the objectives behind the plan. It is felt that the gradual development of such a program, if successfully implemented, would be welcomed by the majority of Chinese. It would eventually mean an opportunity for relief from military oppression and exactions, the development of a modern army along democratic lines, the removal of the military from power in China, the lightening of the burden on the peasantry, and finally the reduction of military expenditures and the attendant intolerable burden on the national economy.

Alternative in the Event of Chinese Rejection of a Program of Conditional Aid

If the Chinese Government should refuse to accept a program of US aid under the conditions outlined above or if it should be found necessary to halt such a program because of Chinese failure to carry out the specified conditions, the US must consider carefully the steps it should take. Assuming that, without US aid, the process of National Government disintegration will continue, it may be expected that at worst there will be a long period of disturbance verging on chaos and for a long time thereafter China would remain an insignificant asset to the USSR, while at best a middle group might emerge which would

be able to restore a modicum of stability in the areas under its control. The US should follow an interim policy of the greatest possible cultural and humanitarian aid to the Chinese people. It should encourage the traditional US interest in mission work, in education, in public health, in agriculture and in related fields. Aid of this kind would be to the interest of both China and the US and would give evidence of our concern for the Chinese people. The US should also be prepared at the proper moment to throw its support, both moral and material, to any group or combination of groups which gave indication of ability to consolidate its control over sizeable portions of the country and which would be receptive to US ideas of government. For this purpose, we might find it advisable to keep in being our military and naval advisory groups in China. The US might also during this period extend economic aid for certain small feasible projects removed from the area of actual hostilities which would aid the economy of the country. These measures would serve to give notice of our continuing interest in China, would show that we were not withdrawing from the country and would indicate that we would be prepared to give aid to a government in China which merited such aid and which would be in a position to make effective use thereof. Our moral position would not suffer thereby and the opportunity might come sooner or later to throw the weight of our influence and prestige behind a regime in China which would be worthy of aid. We would, of course, run the risk of Communist domination of the country during such a period, but certainly no more so than if we attempted, at tremendous cost to the US, to bolster up a government discredited in the eyes of its own people. To do the latter would harm US prestige both in China and elsewhere in the world.

In carrying out any program of aid to China, we would need full publicity through our USIS program to explain the US position. It should make clear that we are in opposition to narrow extremist control as represented by the present Kuomintang leadership. In doing so, we would be making an appeal to enlightened and progressive Chinese of all political colorations and we would be offering them a firm rallying point which has thus far failed to materialize from the US. This has made it impossible in the past to capitalize upon the vast reserve of good will for the US which is still extant in China and would, in effect, be an effort to give practical implementation to the appeal made by General Marshall in his statement of January 7 for the assumption of leadership in China by the liberal elements.

Possibility of Chinese Compromise Solution

A final point worthy of consideration is that regarding the eventual solution of the Communist problem in China. Many politically con-

scious Chinese feel that a compromise solution is eventually necessary if China is to avoid a never ending civil war which will exhaust the nation before final victory is won by one side or the other. An exhausting civil war, they feel, tends to provide fertile grounds for the spread of communism and in the final analysis would make a Communist victory inevitable. These Chinese feel that such a solution may provide either for a coalition government together with local autonomy for the areas under Communist control or for a federated system which would allow Communist autonomy for their areas with at least nominal allegiance to the National Government. They point out that this would at least bring peace to the country and the desire for peace is the one need on which there is unanimity of opinion throughout the nation. Other Chinese feel that there can be no solution of the Communist problem without a third world war and that the US must act on that assumption. Whatever the solution, the US must be prepared to accept the possibility of a compromise solution between the Kuomintang and the Chinese Communists—this might arise as a result of good government in National Government-controlled areas and the realization of the Chinese Communists that it would be to their advantage to seek peace. Under present conditions it is not possible that they would seek a compromise solution, since a continuation of present conditions holds open to them the prospect of eventual collapse of National Government authority and control and their eventual domination of China. While it is not a US objective to encourage or foster the idea of a coalition government with Communist participation therein, it is important that we not act in such a way that we would be placed in the position of preventing a compromise solution if the Chinese themselves sought such a solution and considered it desirable for China.

PHILIP D. SPROUSE

121.893/8-2447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 24, 1947.

[Received August 24—3:40 a. m.]

1789. Following statement distributed to press 10 a. m. local time (0100 GMT) August 24:

General Wedemeyer on leaving China today issued the following statement:

“As promised in my initial press release, an inquiry into economic, political, military and social conditions has been undertaken without commitment or prejudgement. All members of the mission have

striven for objectivity and impartiality. To that end, we have travelled widely to escape the influences peculiar to any one area, visiting Mukden and Fushun in Manchuria, Peking, Tientsin, Tsingtao, and Tsinan, in North China, Nanking, Shanghai and Hankow in Central China, Canton in South China and also the island of Taiwan.

"Successful efforts were made to reach all classes and categories of people as measured by economic position, intellectual attainment and divergent political viewpoints. Foreign businessmen and officials have been interviewed. We have seen officials of the National and local Governments and members of various political organizations, many of whom were frankly critical of the Government and some of whom were very far to the left in their views. We have received approximately 2,000 letters, a small proportion anonymous. These letters contain many suggestions which we have been able to follow up advantageously.

"The last week of our stay in China has been devoted chiefly to analyzing the enormous mass of data accumulated and relating political, economic and other items to each other in order to reach sound judgements and conclusions. Varied as were the views of many, there has been one point on which all hearts and minds in China unite. Throughout strife-torn China there is a passionate longing for peace, an early peace and a lasting peace. I wish the means of attaining it were as easily discernible.

"After V-J-Day the Chinese people rightfully expected to enjoy the fruits of their hard-earned victory. They had endured hardships and dangers and suffered untold privations in their efforts to expel a ruthless invader. In China today I find apathy and lethargy in many quarters. Instead of seeking solutions to the problems presented, considerable time and effort are spent in blaming outside influences or in seeking outside assistance. It is discouraging to note the abject defeatism of many Chinese who are competent and normally patriotic, and who instead should be full of hope and determination. Weakened and disrupted by long years of war and revolution, China still possesses most of the physical resources needed for her own rehabilitation. Recovery awaits inspirational leadership and a moral and spiritual resurgence which can come only from within China.

"While I am fully aware of the interests and problems of particular individuals or groups within the country, I am profoundly concerned with the welfare of the Chinese people as a whole. It is my conviction that if the Chinese Communists are truly patriotic and are interested primarily in the well-being of their country, they will stop voluntarily the employment of force in their efforts to impose ideologies. If they are sincere in their desire to help the Chinese people they can better do so by peaceful means in lieu of the violence and destruction which have marked these last tragic months.

"Equally important, the existing Central Government can win and retain the undivided and enthusiastic support of the bulk of the Chinese people, by removing the incompetent and/or corrupt officials that now occupy many positions of responsibility in the Government, not only in the national organization, but more so in the provincial and municipal structures.

"There are honorable officials who show high efficiency and devotion to duty and who strive to live within their ridiculously low salaries and such legitimate private means as they possess, just as there are conscientious businessmen who live up to a high code of commercial ethics. But no one will misunderstand my emphasis upon the large number whose conduct is notoriously marked by greed or incompetence or both.

"To regain and maintain the confidence of the people, the Central Government will have to put into effect immediately, drastic and far-reaching political and economic reforms. Promises will no longer suffice. Performance is absolutely necessary. It should be accepted that military force in itself will not eliminate communism.

"On taking leave, all members of my mission join me in expressing sincere gratitude for the assistance which has been uniformly given by the Generalissimo and by all patriotic Chinese with whom we have come in contact. We appreciate the hospitality and courtesies extended. All Americans hope and pray that China will achieve the unity, prosperity and happiness which her people so richly deserve and of which they have been unjustly deprived for so many years."

Department requested to furnish Taylor, War Department, with copy. Statement distributed throughout China through USIS facilities.¹²

STUART

121.893/8-2647 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, August 26, 1947—7 p. m.

[Received August 26—9:32 a. m.]

2061. Initial local reaction to Wedemeyer's statement August 24 was one of surprise. While there is some indication of hurt pride, there seems to be general recognition of sincerity of statement and justice of criticism. Many educated Chinese, including some Government officials, consider it fair and timely. Influential business groups who have been bitterly critical of Government and liberals in general, are outspoken in praise of statement.

Ta Kung Pao in edition of August 25 praises soundness of observation that Chinese people are unanimous in desire for peace, adding that what is characterized as defeatism should be understood as disgust over existing conditions and therefore not purely negative in nature but indicative of need for radical reforms.

It is too soon to determine views of Kuomintang circles here but first reaction seems to have been of stunned surprise. Some have

¹² For telegrams (Nos. 1814, August 26, 11 p. m., and 1838, August 30) concerning General Wedemeyer's statements and departure, see *United States Relations With China*, pp. 824 and 816, respectively.

tended to stress the criticism of Communists and advice that they abandon the policy of armed rebellion if they are truly patriotic, while others are frankly critical, implying that certain Chinese circles had not been adequately consulted, that situation in China should not be judged by American standards, and that in pressing China to make reforms, due regard should be made for her sovereignty and national dignity.

It is understood some persons associated with Political Science group feel stress laid on corruption and inefficiency may make it difficult for some of the elements in the Government, who are actively endeavoring to effect reforms since those opposed to their program may now accuse them of accepting dictation from abroad. While statement came as surprise to general public, Chinese in close touch with Nanking were able to anticipate its content from statements which had been made before the State Council on August 22. Some disappointment has been expressed in Government and business circles over lack of mention of possible American aid, a subject which has been uppermost in Chinese minds for some time past. Some inclined to be optimistic, take statement as evidence that aid will still be forthcoming while others take criticism as indicative that prospect of financial aid is remote.

Exchange and stock markets showed slight unfavorable reaction which may be followed by more severe break if the statement comes to be interpreted as indication that there will be no early material aid. It has been general feeling for some time that without such aid it would be difficult, if not impossible, to avoid economic collapse with far-reaching political effects.

Reaction of American community has been very favorable (remytel 2048, August 25, Nanking 1776 [1476]¹³).

Sent Nanking 1484, repeated Dept. 2061.

DAVIS

121.893/8-2647: Airgram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, August 26, 1947.

[Received September 4—8:06 a. m.]

A-855. Soviet press recently carried following items on Wedemeyer Mission.

Red Fleet of August 22, "Wedemeyer Mission to China" by I. Yaltin, states mission is result of Kuomintang's critical position

¹³ Not printed.

and is connected with US plans for enslaving China. Hubbub about non-existent Soviet aid is needed by Kuomintang to divert attention from real reasons for crisis, and by USA to justify further intervention. USA will train and arm 20 more divisions, using Japanese officers. Formosa will be training center. Aid terms postulate unrestricted American control. USA demands eight military bases.

Pravda's International Review of August 25, "What Are Real Aims of General Wedemeyer in China?" by N. Marinin, quotes Chinese press [that] Mission is intended to gain time for complete reorganization of Kuomintang army before offensive against People's democratic troops.

SMITH

121.893/8-2847: Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, August 28, 1947—6 p. m.

[Received August 29—6:35 a. m.]

2069. During past 2 days various Chinese contacts have volunteered following opinions re Wedemeyer statement of August 24 which may be regarded as typical of reaction of the better educated business and professional groups. In the first place there was no attempt to deny the essential truth of the statement, but on contrary there was a general disposition to concede the justice of the criticisms. Even K. C. Wu, mayor of Shanghai, who is unswervingly loyal to the Generalissimo, said he felt the statement was good and that he agreed with the main points, particularly the criticism of defeatism. Many business and professional men said the statement expressed their views exactly and hoped it would have an early and far-reaching effect. It should be borne in mind, however, that the Chinese in these groups are quite cosmopolitan, having an appreciation of the disastrous effect on Chinese prestige of maladministration at this time and feeling very bitter over what they regard as unnecessary and stupid mistakes made for selfish reasons during the past 2 years. Well-connected and influential friend speaking very frankly said it was surprising how many people would agree with General Wedemeyer's statement when no third person was present. Percy Chen, son of Eugene Chen,¹⁴ who has just returned from a protracted visit in the United States, praised the statement saying it should help bring about necessary changes. He said a liberal group headed by Sun Fo and including Dr. W. W. Yen¹⁵ would soon make an effort

¹⁴ A former Chinese Minister for Foreign Affairs.

¹⁵ A former Chinese Minister in the United States.

to assume a leading role in the Government under the Generalissimo with a program featuring private enterprise both domestic and foreign, establishment of early peace by negotiation, and general reform.

Members of the Political Science group while not denying the truth of the statement are inclined to take the criticism a little hard since they feel it reflects on them and will not be helpful to those trying to effect reforms. Their critics here, however, feel that they are not sufficiently aggressive and decisive to get results and they are not therefore impressed with their prospects of success.¹⁶

Sent Nanking 1491; repeated Department 2069.

DAVIS

121.893/9-347: Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, September 3, 1947—10 a. m.

[Received September 3—5:59 a. m.]

2095. It seems increasingly clear that two major features of general Chinese reaction to Wedemeyer statement are (1) admission that his observations are only too true and (2) a rankling sense of humiliation over what is considered national loss of face. Considerable complaint is voiced that events (World War, Communist "rebellion" et cetera) rather than China or its leaders are to blame for situation and that US should offer something more than humiliating criticism. However, net general effect of statement is believed good, tending to shake lethargy and spur efforts and demands for reforms. In this connection the editor-in-chief of one of Shanghai's leading Chinese papers who is considered exceptionally well informed told following to officer of ConGen:

1. Effect of statement on Kmt officials is well illustrated by old Tai Chi-tao, Kmt elder heading Examination Yuan. Tai displayed such agitation after leaving State Council meeting addressed by Wedemeyer¹⁷ that a friend asked him what unjust remarks Wedemeyer had made to disturb him. Tai replied "That's just the trouble, what he said was not unjust but perfectly true. I've never felt so humiliated in my 26 years of Kmt service".

2. Informant attended meeting of nine Shanghai university presidents which prepared joint statements on Wedemeyer (transmitted in Contel 1503, September 1, repeated Department as 2083¹⁸). All admitted Wedemeyer told facts correctly; but majority voiced opinion

¹⁶ For an interview with the President of the Executive Yuan, Gen. Chang Chun, see telegram No. 2086, September 2, from the Consul General at Shanghai. *United States Relations With China*, p. 815.

¹⁷ On August 22.

¹⁸ Not printed.

that such facts were already known to all Chinese, that it was most humiliating to have them stated by a foreigner and that what was wanted was not a statement of facts but help to remedy them in the form of a proposed concrete plan of action (which should be made known to Chinese people and not to Government only).

3. Immediately after State Council meeting, Generalissimo assembled his household servants, scolded them for having always addressed him by an "undemocratic" high title (Wei Yuan Chang) and ordered them to call him "Mr. Chang" hereafter. This is illustrative of Generalissimo's extreme irascibility since Wedemeyer's visit. Despite his bitter reaction, Generalissimo will probably go to considerable lengths toward following Wedemeyer's advice. Replacement of Hsiung Shih-hui by Chen Cheng is significant evidence of this to an extent which few Americans realize (informant would not admit that change was in any way connected with political rivalry between Political Science and Whampoa-CC factions). Hsiung had such a personal hold on Generalissimo that his removal from supremacy in Manchuria represents literally "the fall of a dynasty". Lifting of martial law in Shanghai area (effective September 1) is another indication of the Generalissimo's mood. Replacement of military men by civilians as governors of provinces south of Yangtze may be expected soon. Generalissimo will not hesitate to take drastic action provided only that it does not involve accepting American "supervision".

While credibility of informant is conditioned by fact that he is a strong Kmt (CC) man, he is so well placed that his statements are nevertheless believed worth reporting.

Repeated Nanking 1512.

DAVIS

121.893/9-1547

*General Wedemeyer to the Ambassador in China (Stuart)*¹⁹

TOkyo, 3 September 1947.

DEAR LEIGHTON: We have been working day and night to evolve a sound approach to the problems presented in Korea. The same sinister forces that militate against a program of democratization and rehabilitation in other areas of the world, including China, are present in Korea. I hope that I can present this fact forcibly and unmistakably to the President and the Secretary of State.

As you probably know, information pertaining to the Far East from whatever source and of all classifications, is forwarded to me by the State, War and Navy Departments. Therefore, the reports on my Mission in China as submitted by you, have been made available and I have carefully perused them. With reference to your

¹⁹ Copy transmitted to the Department by the Ambassador in his despatch No. 995, September 15; received September 25.

reports concerning reactions on the part of the Gimo and certain Chinese officials,²⁰ I was surprised and disappointed, particularly in view of your reassurances made personally to me in Nanking. With reference to my talk to the members of the State Council and to the Ministers, you voluntarily stated that I had been most courteous, carefully cognizant of Chinese sensibilities and that the frank appraisal of conditions was sorely needed. The Generalissimo himself urged me to make this talk. Mr. Shen reinforced his request strongly and asked me to state very frankly all of the factors that I thought pertinent in order to assist the Chinese Central Government in strengthening their position not only locally, but abroad. You may recall that I emphasized when I did make the talk that I was doing so not as a Presidential Envoy but as a friend of China. Further, I carefully refrained from giving any hint or indication of my intentions, conclusions and projected recommendations in connection with my Mission. My failure to do so I realize has piqued and disappointed the Generalissimo and many of my Chinese friends. But my position precluded definitely any revelation of my projected report to the President.

The Gimo's interest in the caliber and possible background of the members of my Mission is disconcerting. I can assure you and him that they are friendly. There will be nothing lacking in objectivity and strict fairness embodied in my report.

With reference to the list of wealthy Chinese, the Generalissimo will recall that my initial object in trying to acquire such a list was to ask such people to initiate philanthropies, schools, hospitals and libraries. I felt that this would strongly refute the propaganda of the Communists and would also make the poor people of China feel more kindly toward the wealthy class. My list is probably very inaccurate and I told him so. Also most of the data was provided by Chinese friends. Actually, General Chen Cheng provided the Generalissimo with a list of names covering the rich military leaders. I wrote a letter about a year ago to the Generalissimo concerning philanthropies and sent a copy to T. V. Soong and General Chen Cheng. Now that the financial situation is rather precarious, it seemed appropriate to suggest that foreign holdings abroad should be made available to the government. This would greatly strengthen my position in America, and would increase the Generalissimo's stand in his own country, when his people realize that everyone is patriotically contributing spiritually and materially to their country's recovery.

²⁰ See particularly the Ambassador's telegram No. 1814, August 26, 11 p. m., printed in *United States Relations With China*, p. 824.

The Generalissimo's statement that my Mission refused audience to many government representatives is not entirely accurate. In my effort to be objective and to refute, both in China and America, the charge that my personal relations with the Generalissimo and the Chinese Central Government would preclude a dispassionate and true evaluation, prompted me to take steps to contact a cross section of the Chinese people. In the limited time available, we just could not see all of the representatives of the government or those in opposition. As you know, the American Consuls at various points cooperated in arrangements to facilitate contacts and I am certain that they had no intention of denying a proportionate share of contacts to government representatives.

Before my departure from the States, the Secretary of State emphasized and re-emphasized the necessity for concrete evidence that the Generalissimo and his government are establishing a government structure and are instituting reforms (land, tax and political) that provide a basis for U. S. cooperation and assistance. Frankly this must be done. You, on numerous occasions, made similar statements to me. I can not conscientiously tell our President, the Secretary of State or the American people that such steps have been taken or are being taken. My final press release was designed to jolt the government into action and to strengthen the Generalissimo's position in ruthlessly and realistically accomplishing such reforms and changes in the government. If he, or other Chinese officials, interpret it otherwise, I am sorry, but in my heart and mind I feel that I have conducted myself in the best interest of my own country and of the bulk of the Chinese people.

I would appreciate very much if you would transmit these views to the Generalissimo and to any other Chinese officials whom you deem appropriate. After working so hard in China during the war years and then doing all possible in making talks and writing letters back in the States the past two years to assist China, I am grieved and disappointed, that the Generalissimo or any patriotic, intelligent Chinese could interpret my motives and my actions in an unfavorable light.

I expect to be back in the States as you know about September 16 and I would appreciate a letter from you commenting upon the above points which I intend fully to cover with the Secretary of State.

With sincere good wishes for your good health and happiness. Please give my best regards to Ed and other members of your fine staff.

Faithfully yours,

A. C. WEDEMEYER

121.893/9-447

*Memorandum of Conversation, by the Chief of the Division of
Chinese Affairs (Ringwalt)*

[WASHINGTON,] September 4, 1947.

Mr. Tsui ²¹ called by appointment to discuss informally, and as he indicated, without the knowledge of his Ambassador his personal views in regard to the Wedemeyer Statement and the official Chinese reaction thereto.

Mr. Tsui said that it was originally his thought that the Wedemeyer Statement had probably only been made with the prior knowledge and consent of the Generalissimo and that the purpose of the Statement was to support any action which he might wish to make in connection with a possible reorganization of the Government and removal of incompetent or venal officials. He had assumed, for example, that the statements made by certain of the more prominent Chinese officials had been made on their own initiative, or perhaps under pressure from the groups they represented. However, because of the similarity of views expressed by officials representing such diverse interests as do Chang Chun, Sun Fo, Wu Teh-chen and Chen Li-fu, he had reluctantly reached the conclusion that they must have been inspired by the Generalissimo himself.

Mr. Tsui said that apparently the Chinese Government had, perhaps prematurely, reached the conclusion that the Wedemeyer Statement presaged a recommendation from General Wedemeyer that the Chinese Government was not worthy of support. He said that it was his personal opinion that this was not necessarily the case and that notwithstanding the tenor of the Wedemeyer Statement it was nevertheless possible that General Wedemeyer would recommend substantial aid to China, perhaps with strings attached. He expressed considerable concern that the Secretary and General Wedemeyer would resent these public statements by prominent Chinese officials to the extent that it would prejudice any recommendations which they might otherwise have made on the basis of the findings of the Mission. He expressed relief that the Generalissimo himself had not attacked the Wedemeyer Statement as his failure to do so had left him free to repudiate the expressed views of his subordinates as being without authority.

I informed Mr. Tsui that I had no information in regard to what recommendations General Wedemeyer would make on his return to this country, but I assured him that both the Secretary and General Wedemeyer would understand that the Chinese reaction was largely

²¹ Tswen-ling Tsui, Counselor of the Chinese Embassy.

the result of hurt pride and that it would not unduly influence them in their recommendations. I added, however, that these public statements could not help but have a considerable influence in molding public opinion in this country and indirectly on the Congress which is responsive to public opinion and in the final analysis would have to pass upon any major program for assistance to China.

Mr. Tsui said that he would like to make a suggestion in the interests of our two countries. He asked whether it might be possible in a future press release or by other means for the Chinese to be informed that the Wedemeyer Statement did not necessarily indicate that China could not expect any substantial aid from this country (if indeed, such were the case). He indicated that this was a matter of some urgency as otherwise the Generalissimo might by some public statement or other action make any program which General Wedemeyer might be prepared to recommend increasingly difficult to implement.

I informed Mr. Tsui that I would discuss his views with Mr. Penfield.²²

121.893/9-647: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 6, 1947—10 p. m.

[Received September 7—4: 15 a. m.]

1867. Embassy has acquired text of memo handed to General Wedemeyer by the Chinese Government prior to his departure, which is popularly, if inaccurately, referred to as a Chinese reply to his farewell statement. Since the text was obtained in strict confidence from a nonofficial source, it should be considered secret until it is either released by Chinese Government or by General Wedemeyer. Full text follows:

[Here follows memorandum printed in *United States Relations With China*, page 817.]

STUART

121.893/9-747

Memorandum by General Wedemeyer

[HAWAII,] 7 September 1947.

MEMORANDUM TO MEMBERS OF MISSION:

In order to assist you in accomplishing your multifarious task, I feel that I should convey promptly my overall view concerning American policy in China.

²² James K. Penfield, Deputy Director of the Office of Far Eastern Affairs.

1. I have already indicated that I want to recommend moral encouragement and material aid.

2. The form, priority and extent of that material assistance to be determined by conferences between appropriate agencies of the two governments.

3. Such material assistance will be supervised to insure that it is not misdirected and is used fully in consonance with the policies of our government.

4. The supervisors or advisors should constitute a China Mission similar to that which we sent to Greece. The Mission to have a civilian head—preferably an outstanding economist who is dynamic, fearless, intelligent and experienced. The Mission Head should have authority to communicate direct to the State Department and other pertinent agencies of our government. However, the Ambassador would remain the diplomatic representative of the U. S. and would be responsible within the purview of his office for representations of high level government nature.

5. I feel that we should approach the Manchurian problem very much as we have already approached the Korean problem, that is, that we attempt to establish a guardianship under five powers (U. S., USSR, Great Britain, France and China[]). Failing this arrangement, for I believe Russia will refuse, then the matter should be referred to the United Nations for the establishment of a trusteeship. The request for guardianship and subsequently for trusteeship should be initiated by the Chinese Government. However, the United States could unquestionably make the suggestion that this course of action be taken.

6. The Chinese Government also should be asked to notify the United Nations of her request for material assistance and for the dispatch of a Mission predominantly economic.

A[LBERT] C. W[EDEMEYER]

121.893/9-847: Telegram

General Wedemeyer to the Secretary of State

[HAWAII,] September 8, 1947.

155. DEAR MR. SECRETARY: Members of Mission are working diligently in preparation of final report under ideal conditions completely isolated. Upon conclusion of fact-finding trips in China, I visualized using the last 5 or 6 days at Nanking in preparation of draft report and intended to use the period spent in Hawaii to review same carefully. However, the last week in Nanking we were beset by Chinese

officials and groups rendering impossible the preparation of draft report. During the 8 days in Korea we were too involved in fact-finding. Therefore, although we are working day and night without letup, it may be impossible to complete report prior to present scheduled date of departure September 14. Our progress can be more accurately stated Thursday. It may be possible to conform to present schedule.

The urgency of the Mission's finding and recommendations are realized and every effort is being made to expedite. It is understood that you will be leaving soon to attend General Assembly meetings in New York and that you will be absent from Washington a good portion of the next 6 weeks. Will you please express your desires concerning the time and place report should be submitted?

Reference is made to Ambassador Stuart's radio résumé of my talk ²³ to assembled Chinese officials, including Generalissimo, members of State Council and Ministers. The Generalissimo strongly and repeatedly urged this talk and Ambassador Stuart concurred. At the conclusion the Ambassador stated that if my Mission served no other useful purpose, the value of the talk fully justified the presence of the Mission in China. I was particularly careful in presenting the data in a courteous manner in order not to offend the finer sensibilities of the venerable gentlemen and high officials present. I emphasized that I made the talk upon the repeated request of the Generalissimo to whom I had previously related observations. I refrained meticulously from any hint or suggestion concerning my conclusions or projected recommendations. This visibly piqued and disappointed Chinese officialdom. I prefaced the talk with the statement that I was appearing before the assembled officials as a friend and not as a Presidential Envoy. My action requires no defense or apology. However, the above information appears pertinent in the light of Ambassador Stuart's message concerning the subject and also in view of both favorable and unfavorable Chinese reactions.

I have received requests from American radio and press agencies for comments, statements and for participation in radio forums. It is my belief that I should make no further statement whatsoever concerning the Mission and I have therefore been noncommittal. I do not plan to issue a press release upon my arrival in Washington and feel that the State Department should handle exclusively all information and publicity from now on out. Your reaction would be appreciated.

A. C. WEDEMEYER

²³ August 22.

121.893/9-947 : Telegram

The Secretary of State to General Wedemeyer, in Hawaii

WASHINGTON, 9 September 1947.

85909. Reference your 155, I leave for New York Friday evening 12 Sep and will spend most of my time there for the next 6 weeks, returning to Washington for brief unscheduled visits when necessary. Some thought has been given to the reception of your report and the following procedure has been suggested :

a. Shortly after you arrive in Washington talk matters over with Lovett and Butterworth and, if your report has been completed, leave several copies with them. Lovett will forward a copy to me in New York.

b. We can then arrange a time when we two will be able to get together. It may be here in Washington or in New York. My schedule in New York is necessarily very indefinite at the present time and since I want an uninterrupted discussion with you it might be several days before the opportunity arises.

I wish to see you before you see the President, who will not return to Washington until the 20th, Saturday, and therefore would not be free to see you before Tuesday the 23rd, in my opinion.

The State Department should handle all information and publicity from now on out. State Department will take the initiative in arranging for any necessary interdepartmental consideration and for distribution of your report.

If you have any divergent views or suggestions please let me have them.²⁵

121.893/9-1147 : Airgram

The Ambassador in the Soviet Union (Smith) to the Secretary of State

Moscow, September 11, 1947.

[Received September 17—11 : 42 a. m.]

A-908. *Komsomol Pravda's* International Review of August 31, "General Wedemeyer's Journey" by K. Kalugin, states that behind Wedemeyer's claim that he is establishing facts of Chinese rehabilitation hides disquiet of certain American circles over stability of their positions in China. Performance of Kuomintang troops did not justify American money spent on them. Wedemeyer fears money has

²⁵ General Wedemeyer replied the same day in telegram No. 157: "Your message appreciated and I have no divergent views. Copies of report will be turned over to Lovett upon arrival. I will be available for conference at your convenience at any time and at any place." (121.893/9-1047)

been spent in vain. USA apparently is attaching to future help very severe conditions, which will lead to complete American control of Chinese political and economic life. Wedemeyer came to China to get agreement on these conditions. Chinese public demands American troops be withdrawn and US interference cease.

SMITH

121.893/9-1247 : Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 12, 1947.

[Received September 23—8:52 a. m.]

A-181. The following is an extract from a memorandum prepared by the Ambassador on the basis of a verbal report to him by his Chinese assistant, Mr. Philip Fugh:

"On the afternoon of September [1?] I arranged for Philip Fugh to call on Chang Ch'un primarily in order to talk with him informally about the American insistence on title deeds to the various properties transferred to us under the Surplus Property Agreement of August 30, 1946.²⁶

"He found the Premier in a mood of irritation toward America in general and General W. in particular. Gen. Wedemeyer had planned to invite the Generalissimo and Madame Chiang and the Premier and Madam Chang to dinner at my home the evening before his own departure from China. They had all accepted but on the afternoon of that day the Generalissimo sent word that he had been taken ill and would be unable to attend but that his wife would be glad to do so. After some thought and consultation with others Gen. W. finally cancelled the invitations. The Premier began by expressing his dissatisfaction with this treatment. Was he not the Premier? Was it not an affront to Madame Chiang not to act on her own suggestion that the rest of them could attend? He evidently felt much aggrieved and this incident was rankling. He went on to say the [*that*] Gen. W. had not thought it worth while to talk with him at any length about the purpose of his coming to China although he had opened the way; that Gen. W. had assured him that no public statement of his impressions would be issued and yet he freely criticized the Government while giving no indication of any help to China from this self-appointed Mission. The United States Government had induced China to use American arms but was now unwilling to supply ammunition which was in effect deserting the Government and aiding its enemies. We seemed to think of China in somewhat the old colonial or subject-people terms."

STUART

²⁶ For correspondence concerning the agreement, see *Foreign Relations*, 1946, vol. x, pp. 1033 ff.

121.893/9-1547

*The Ambassador in China (Stuart) to General Wedemeyer*²⁷

NANKING, September 12, 1947.

DEAR AL: Your letter of September 3 from Tokyo has just reached me and I am replying at once. I am glad to have your comment on conditions as you found them in Korea.

Regarding your address to the State Council and the published statement I stand by all that I said to you at the time. My Embassy colleagues and I have tried to send subsequent impressions as objectively as possible but none of these seems to me to neutralize my earlier verbal comments. All that you said was courteous and with an awareness of Chinese sensibilities. No Chinese has to my knowledge questioned either your friendly intention or the facts as you presented them. What is far more important from my personal standpoint is my satisfaction that all these things were said and by you. As I remarked to the Gimo afterwards there was virtually nothing which I had not been saying to him privately. But it needed to be said with the authority of one with your special Mission, your broader and fresher viewpoint, and the respect which the Gimo and others had for you personally.

Opinions may differ as to whether it was proper or wise or helpful to have these criticisms made public. My judgment was then and still is that this should have been done because of the extremely serious situation for this Government and to shock its leaders out of their inertia or complacency and to stimulate them to overcome their very real difficulties. I could not have done this and I know of no other way in which it could have been done. The best defense of your action is perhaps the actual reform movements which have been advocated since then, especially by some of those who were present at the State Council. True, they insist that they are doing so not because of your criticisms but because they already had these in mind! And that is partially true. But they realize as never before that they are now on trial before their own people and the world, and must make good. I dare to believe that they will—to a degree and not as rapidly nor as wholeheartedly as we should like.

Now as to the reactions among the Chinese officials. These may be roughly grouped under three headings:

(1) The elders brought up in the ancient traditions of social behavior were pained at the public exposure. Among them one simply does not say disagreeable things openly about his friends—however true. Even these agree that you meant well and had your facts.

²⁷ Copy transmitted to the Department by the Ambassador in his despatch No. 995, September 15; received September 25.

Their attitude was an inevitable part of the process and can be discounted.

(2) The Gimo himself was chiefly concerned with the practical fear that your statements would stiffen the Communist intransigence and still further estrange the nonpartisans, liberals, and anti-government elements in general. From several indications reaching me I gather that, after asking you to make the statement, he became nervous about the possible consequences and has since been somewhat on the spot with the elders and the extremists in the Party. One of his fine qualities is his willingness to take anything from those whom he trusts but a conspicuous weakness is his excessive sensitiveness to public criticism. In your case, however, it was chiefly the fear of unfavorable results. It is sufficient evidence of this that there has been no change in his insistent desire that you come back as his Supreme Advisor. Actually I question whether anything that you or others of us could say or do would have much influence with the Chinese Communists, whereas your statements removed the widespread apprehension among intellectuals that you would recommend all-out aid to Chiang and his Government regardless of their failings. This has been very valuable.

(3) Another grievance which Premier Chang and others have expressed is what they feel to have been inadequate recognition of the reforms which the present Government has actually accomplished or has been steadily preparing to put into effect. He regrets that you did not give him and his colleagues the opportunity they sought to acquaint you in detail with these. Of course the obvious reply is that you were primarily concerned with calling their attention to what needed yet to be done rather than attempting any comprehensive evaluation of their whole record to date.

Even before receiving your radio message I had been explaining what I knew to be your wholly friendly and constructive purpose, and shall continue to do so on every occasion.

Once more I am very glad that your Mission—including each individual member—came and acted as you did. It was a fine performance, and if it is to result in positive aid to China—as I earnestly hope it will—you will have made it easier for us who shall try to carry on.

Pardon the length of this letter. Finally, it was a real pleasure to get to know you so intimately. I hope this fellowship will ripen with whatever service lies ahead for each of us.

Very sincerely yours,

J. LEIGHTON STUART

[For text of General Wedemeyer's Report on China to President Truman, under date of September 19, see *United States Relations With China*, pages 764-814.]

121.893/9-2447

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*²⁸

[WASHINGTON,] September 24, 1947.

General Wedemeyer has an appointment to see the President Thursday noon.²⁹ He has suggested that the Department prepare a press summary of the mission's report in the belief that information regarding the contents of the report will, in any case, probably reach the press from the White House. He also stated he had the impression from his conversation with you that you were primarily concerned in maintaining secrecy to prevent leaks before the President had the report and had seen him. Furthermore, Wedemeyer has been invited by NBC to appear on the Foreign Affairs Program on October 5 with the suggestion that Mr. Lovett also participate. He seeks your guidance in this matter since his only desire is to be helpful.

The report is certainly not susceptible to publication in full. My recommendation, concurred in by Mr. Armour and Mr. Lovett, is that, regardless of leaks which will undoubtedly occur with distribution, the report should be treated as secret just as the Ethridge report on the Balkans and the Grady report on Palestine; that no press summary be issued and that the President so state indicating that full consideration will be given the report by all the concerned Departments of the Government and it will carry considerable weight in reviewing our policy vis-à-vis China and Korea.³¹

Until full consideration can be given the report and our policy reviewed in the light of its recommendations, it seems unwise for State Department officials to appear on such an NBC program or for General Wedemeyer to do so if he proposes to make substantive statements.

To avoid publicity difficulties and in fairness to General Wedemeyer, I believe the President should make the position clear to him tomorrow noon, which inevitably entails that advice from you reach the President before Thursday noon.

²⁸ The memorandum was apparently drafted on or before September 22. A memorandum dated at New York, September 22, 5:40 p. m., gives the same text, as a message from Mr. Butterworth to the Secretary of State telephoned by the Director of the Executive Secretariat (Humelsine). A notation was added that Mr. Humelsine said that Mr. Lovett stated that he was not going to appear on a program on October 5 (121.893/9-2247).

²⁹ September 25.

³¹ Marginal notation by Mr. Lovett: "OK—L[ovett]".

121.893/9-2247

Memorandum by Brigadier General Marshall S. Carter to the Director of the Executive Secretariat (Humelsine)

NEW YORK, September 25, 1947.

Subject: General Wedemeyer's Report

MR. HUMELSINE: 1. Herewith is text of letter from Secretary to the President as telephoned to you this morning for delivery prior to noon today, September 25.

2. The Secretary believes it highly undesirable for General Wedemeyer or any Departmental official to appear on a radio broadcast or make similar public appearance to discuss the Wedemeyer Report at this time.

3. The Secretary does not want any further distribution of the report until he has had an opportunity to discuss the matter with Mr. Lovett, Mr. Armour, and Mr. Butterworth.

It is important that no leaks of any kind occur on this report.

"Dear Mr. President:

"I understand General Wedemeyer is presenting his report to you at noon today. It seems to me mandatory that we treat Wedemeyer's report strictly top secret and that no indication of its contents be divulged to the public. This will allow us time to review our policy in the light of the report, giving due consideration to it in balance with our policies in other parts of the world. If you agree, I suggest Wedemeyer be informed by you accordingly.

"If questioned by the press, you might state that a summary of the report cannot be issued, until careful consideration has been given it by the various departments of the Government concerned. Faithfully yours, G. C. Marshall."²²

M. S. CARTER

121.893/9-2247

Memorandum by the Director of the Executive Secretariat (Humelsine) to Brigadier General Marshall S. Carter

[WASHINGTON,] September 25, 1947.

GENERAL CARTER: Reference the various assignments you gave me on the Wedemeyer business, I want to report that they are all taken care of.

The Secretary's letter was delivered to the White House in time for consideration by the President prior to General Wedemeyer's visit.

²² This message was sent by Mr. Humelsine on September 25, to Matthew J. Connelly, Secretary to President Truman.

Shortly after Wedemeyer saw the President, he stopped in to see Mr. Lovett who informed him of the Secretary's views on the broadcast and the UN aspect of the recommendations. Wedemeyer agreed with the Secretary and is going to have some conferences with Mr. Butterworth and try to work the whole thing out. I will let you know of any further developments.

C[ARLISLE] H[UMELSINE]

121.893/9-2647

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Under Secretary of State (Lovett)*

[WASHINGTON,] September 26, 1947.

As requested, I saw General Wedemeyer this morning and had an interesting and pleasant conversation with him but, as regards the question at issue, he indicated that he had had second thoughts since his conversation with you yesterday. They came to this:

(1) That he was most reluctant to make any change in the report and only prepared to do so provided some statement was made in the report to the effect that changes had been made at the request of the Secretary of State or for reasons of overriding policy etc.

(2) That, in any case, distribution should be to the President, the Secretary of State, the Secretary of National Defense, the Secretaries of the Army, Navy and the Air Force, the Secretary of the Treasury, and, at the President's request, the Secretary of Commerce.³³

(3) That if the question was one of immediacy from a security point of view, he believed that the best solution would be to make distribution of the report later rather than sooner.

I told him that I was not authorized to make a definitive decision in this matter but that I would report to you, for conveyance to General Marshall, his views.

On returning to the Department, I then proposed by telephone the insertion of the following statement in the reports to be distributed provided the desired changes were effected, and General Wedemeyer accepted this possible solution, it being understood that you would submit it to General Marshall for his decision if it recommended itself to you: ³⁴

"There has been omitted from this written report one recommendation which I have conveyed directly to the President and the Secretary of State."

³³ Marginal notation by Mr. Lovett: "President Secty of State Secty of Defense".

³⁴ Marginal notation by Mr. Lovett: "I advise against this L".

121.893/9-2847

*Memorandum by the Director of the Executive Secretariat
(Humelsine) to the Under Secretary of State (Lovett)*

[WASHINGTON,] September 28, 1947.

I sent the attached memo³⁵ reference General Wedemeyer's meeting with the President to Mr. Connelly at the request of the Secretary.

In addition, the Secretary wanted you to tell General Wedemeyer:

(1) That, in his opinion, any broadcast or statement would be highly undesirable at this time.

(2) That it was his desire that there be no further distribution of the report made at this time. He feels that the Department should look into the report to see if the reference to UN in the recommendations can be deleted without calling attention to the fact that it has been.

I think that it is the Secretary's feeling that if this particular recommendation would leak that it would be dangerously embarrassing to our Delegation's position in New York.

121.893/9-2947

General Wedemeyer to the Secretary of State

FORT GEORGE G. MEADE, MARYLAND,
29 September 1947.

DEAR MR. SECRETARY: I enjoyed very much your informal extemporaneous talk at the Chinese-American gathering in New York the other day. Subsequent to your departure I heard many favorable comments on the part of the Chinese. In connection with this subject I have been asked by the Chinese to make the principal address on Double Tenth in New York City. I made such a talk one year ago on a similar occasion. I discussed the matter with Mr. Lovett and he rightly pointed out that it would not be possible to make statements that would in any way imply projected United States policy in the Far East. He did feel that I might be able to depict the economic situation and suggested that it might be advisable to accept the invitation in order not to offend the Chinese. I have thought the matter through and have decided it would be better to continue the silence that I have exercised since my return to the United States. I felt certain that you would be in accord with this decision and I have notified tact-

³⁵ Not printed; it quoted text of letter from the Secretary of State to President Truman, September 25. See memorandum by Brig. Gen. Marshall S. Carter to the Director of the Executive Secretariat, September 25, p. 777.

fully the Committee for Double Tenth ceremonies that I would be unable to make the address.

On Thursday I talked to the President. He very kindly stated that he reacted favorably to the conclusions and recommendations of my report and indicated that he had turned his copy over to Admiral Leahy for study and comment. The President gave me a copy of your explicit instructions concerning continued security. All members of my Mission have been informed.

Mr. Lovett and Mr. Butterworth discussed with me the possible deletion of certain parts of my report, at least those references to the United Nations. I explained that I had submitted the report officially to you and to the President and had made available extra numbered copies to Mr. Lovett for such distribution to be determined by the Secretary of State. In the event that certain portions are extracted from the report to permit a very limited distribution including the Secretaries of Defense, Treasury, and Commerce, Mr. Butterworth suggested that a note be attached to such copies for my signature reading as follows: "There has been omitted from this written report one recommendation which I have conveyed directly to the President and the Secretary of State."³⁷ I explained to Mr. Butterworth that I would be glad to sign such a statement. Actually I feel that the distribution and handling in general of the report, including any future releases, should be the responsibility of the State Department.³⁸

There is considerable information in the report that should reach certain Departmental heads in the Government very soon if timely and effective action is to be taken. My discussion with Mr. Butterworth was merely exploratory. He indicated that he would talk to Mr. Lovett and let me know subsequently the recommendations to be submitted to you.

I plan to submit an application for the award of the Distinguished Service Medal to Lieutenant Colonel Hutchin who accompanied my Mission. You are aware of his fine character and outstanding abilities. He was indefatigable and made a real contribution to any success that the Mission may have enjoyed. I felt that if I could submit the above-mentioned application through you in order to obtain an indorsement that might refer to the assistance he rendered in connection with your Mission it would greatly enhance the chance of approval.³⁹ If you have no objection, therefore, I will prepare such a communication and refer it to you for indorsement. His loyal and efficient service fully merits in my opinion such commendation.

³⁷ Marginal notation by the Secretary of State: "No—cannot be done".

³⁸ Marginal notation by the Secretary: "Correct".

³⁹ Marginal notation by the Secretary: "OK—G. C. M."

Inclosed herewith is a copy of a letter just received from Ambassador Leighton Stuart.⁴⁰ It will assist you in determining reactions on the part of the Chinese to my Mission in general and specifically to the critical final press release. I mentioned in Washington in our first conference after my return that I did not see the Generalissimo subsequent to my press release. You inquired about this because I had stated earlier that the Generalissimo urged me so strongly to return to China as his supreme advisor. Ambassador Stuart now reports that he still desires me to return in that capacity which would indicate that the Generalissimo realized the constructive purpose of my criticisms.

Faithfully yours,

A. C. WEDEMEYER

121.893/10-347

The Secretary of State to General Wedemeyer

NEW YORK, October 3, 1947.

DEAR WEDEMEYER: In connection with further distribution of your report, this is a responsibility of the State Department, and I will take action accordingly.

As to Hutchin's award, I would be very glad to indorse it forward as you request. You should know, however, that he has been awarded the Legion of Merit for his services in China with me, and that fact may tend to reduce the effectiveness of my indorsement in the eyes of the Award Board.

I was glad to get Stuart's reaction to your address before the State Council and your final statement.

Faithfully yours,

[G. C. MARSHALL]

121.893/10-347

General Wedemeyer to the Secretary of State

FORT GEORGE G. MEADE, MARYLAND,
3 October 1947.

DEAR MR. SECRETARY: Early in the week I was invited by Doctor Wellington Koo⁴¹ to a dinner party at the Chinese Embassy in honor of Doctor Wang Shih-chieh. I attended the dinner party, assuming of course that there would be other guests. However, I was greeted by the Ambassador and Doctor Wang. No other guests appeared. It became apparent that the object of the so-called dinner party was to elicit information concerning U. S. attitude toward

⁴⁰ Dated September 12, p. 774.

⁴¹ Chinese Ambassador.

China. As you well know, both of these men are intelligent and I had to be alert during the course of the evening. They were most friendly and initially introduced topics of conversation that were wholly innocuous.

After dinner Doctor Wang asked my military opinion on the situation in Manchuria. I told him that the Chinese Communists had the initiative in that area and had the capability under present conditions to gain military control of the entire Manchurian area. How soon this could be accomplished would be contingent upon many factors including the ability of the Nationalists to move reinforcements into the narrow finger they now control and further, the degree of success that the new commander, General Chen Cheng, might have in imbuing his officers and men to fight effectively, in obtaining the support of the civilian population, and in improving the logistical setup in the area.

Doctor Wang emphasized the importance of obtaining military equipment from the United States, particularly the urgency of ammunition for Chinese units equipped with American weapons, of completion of the 8- $\frac{1}{2}$ air group program and of obtaining maintenance parts for American motor transport now in the possession of the Chinese. He expressed the view that if these programs could be promptly executed, and assuming continued good work by Chen Cheng, the Chinese Nationalists could hold their present positions in Manchuria and could gradually expand their control to recover the entire area.

Doctor Koo suggested that if it became apparent to the Soviet Union that the United States was giving increased aid to bolster the Nationalists' efforts in North China and Manchuria that the Soviet authorities might be expected to increase their aid to the Chinese Communists, adding that it might develop into a situation resembling Spain. This was a very sound observation on the part of the Chinese Ambassador, but I did not express a view. Doctor Wang appeared somewhat perplexed in weighing Koo's expressed ideas. Doctor Wang stated that he recalled several months ago a conversation with the Generalissimo in which the latter discussed a suggestion made by General Wedemeyer in September, 1945 to the effect that a guardianship or trusteeship should be established over Manchuria until such time as the Chinese Government could assume full control of the area.

When I returned from China a fortnight ago, you asked if the question of a guardianship or trusteeship had been discussed with the Generalissimo or the Chinese officials. I told you that I had not brought up the subject because I had refrained from giving any indication of my thinking throughout my discussions in China. I

did however try to elicit information and views on the subject of guardianship and the Generalissimo several times was on the fringe of the subject. I tried to lead him on, but he did not follow up. Therefore, Doctor Wang's voluntary introduction of the subject was interesting and wholly unexpected.

In the light of Doctor Koo's conjecture about Soviet reaction to U. S. aid, Doctor Wang suggested that the situation might then be referred to the United Nations. Doctor Koo interjected that Russia could be expected to object to such a step and asked what would China's next move be and he asked me directly what would the United States reaction be. I told him that I did not know. However, I did add, that Doctor Wang's suggestion might be a logical approach, because developments in Manchuria would be placed before the bar of world opinion and further, it appeared to be in consonance with the principles of the United Nations Charter.⁴³ Doctor Wang posed the question, if a guardianship were suggested and Russia refused to participate, would the United States support China in pressing for such an arrangement. I told him that I was not able to answer the question but suggested that he discuss the matter with you.

Another subject introduced by Doctor Wang which would interest you. He expressed disappointment and concern over Doctor Sun Fo's recent statement to the effect that China might realistically consider orientation toward Moscow inasmuch as the United States was not apparently inclined to assist China. Doctor Wang added that he had radioed Doctor Sun Fo in an attempt to determine the background of such statement which he deemed a contravention of China's policy. He reaffirmed that China would align herself with the United States in policies designed to prevent the expansion of communism. He mentioned the fact that this position on the part of China was made difficult by the current American policy with reference to Japan.

Doctor Koo asked me if I had read the *Washington News* report headlined China's Thirty Days of Reform. He was referring to the enclosed clipping⁴⁴ which you may not have seen. Doctor Wang then observed that these changes were given impetus by my critical résumé issued prior to departure. He expressed the opinion that my critical statement could do harm only if the United States did not assist China in her recovery program, because China was incapable of overcoming present difficulties without our aid. I made no comment to my hosts, however as emphasized in my Final Report, if we are going to stop the expansion of the Soviet Union in the Far East, we must undertake steps soon.

⁴³ Signed at San Francisco, June 26, 1945; 59 Stat. (pt. 2) 1031.

⁴⁴ Not reprinted.

All of the above information I felt would be of assistance to you. I continue to receive requests to speak before various organizations. Mr. Butterworth indicated that you desire my report to be handled as Top Secret. Therefore, I feel that requests for talks should be uniformly disapproved. Some people have indicated that they know you intimately or that they know Mr. Lovett, and that they would apply direct to you or to him in order to obtain permission for such talks. Should any additional information become available I will pass on promptly.

With all good wishes.

Sincerely,

A. C. WEDEMEYER

MILITARY AID TO CHINA:¹ CHINESE REQUESTS FOR
AMMUNITION AND MILITARY MATÉRIEL AND EQUIP-
MENT; LIFTING OF EMBARGO ON ARMS SHIPMENTS
TO CHINA; ATTEMPTS TO SPEED FLOW OF SUPPLIES
TO CHINA

893.00/2-347

*Memorandum of Conversation, by the Secretary of State*²

[WASHINGTON,] February 3, 1947.

Participants: Secretary Marshall,
Dr. V. K. Wellington Koo, Chinese Ambassador,
General Ho Ying-chin, Chinese Delegate to Military
Staff Committee, United Nations,
Colonel Yu, interpreter,
Mr. John Carter Vincent, FE.

General Ho, accompanied by Ambassador Koo and Colonel Yu, came in this morning at 10 a. m. to make a courtesy call on me. The conversation was almost entirely social.

General Ho wished me every success in my new office³ and expressed warm appreciation of my efforts to bring about peace and unity in China.⁴ I thanked him, adding that my work in China had been small judged by results.

At the conclusion of the conversation General Ho mentioned 70 planes which the Chinese Government wished to buy but for which an export permit had not yet been forthcoming. He said 20 of the planes were for primary training purposes and 50 of them for advanced training. He said that the advanced training planes had some equipment on them of a military character but that the Chinese were quite willing to remove that. I told him that we would look into the matter.

The call terminated at 10:20.

¹ For previous correspondence on the subject of aid to China, see *Foreign Relations*, 1946, vol. x, pp. 724 ff.

² Drafted by the Director of the Office of Far Eastern Affairs (Vincent).

³ General of the Army George C. Marshall assumed office as Secretary of State on January 21.

⁴ See *Foreign Relations*, 1946, vols. ix and x.

893.00/2-347

*Memorandum by the Director of the Office of Far Eastern Affairs
(Vincent) to the Secretary of State*

[WASHINGTON,] February 5, 1947.

Attached is a memorandum of conversation which you had with General Ho this morning.⁵

Also attached in a memorandum⁶ in regard to the 70 training planes which General Ho mentioned. You will note that the Munitions Division in consultation with the FE⁷ representative on the Policy Committee on Arms Control has rejected the application for an export license for the 50 AT-6's and that any applications for export licenses for primary trainers for China would be authorized without question.

It is recommended that the action taken by the Munitions Division with respect to the AT-6's be allowed to stand for the present.⁸

J[OHN] C[ARTER] V[INCENT]

893.24/2-1047

*Memorandum by Mr. Philip D. Sprouse of the Division of Chinese
Affairs to the Director of the Office of Far Eastern Affairs
(Vincent)*⁹

With the end of the American mediation effort in China and General Marshall's return to the United States, consideration of the problem of American aid to China, particularly military aid, must be viewed in the light of the future course of our policy toward China.

It has been an oft-stated premise that our objectives in China are the creation of a united, progressive, strong and democratic nation. General Marshall's efforts over a period of thirteen months were devoted to that end. Although unity seems, for an indefinite period at least, to be unattainable in spite of strong American efforts to achieve that goal, American policy should still be directed toward the creation of a stable, progressive and democratic nation. Unity might follow, but at least for the time being we cannot continue to make unity the cornerstone of our approach to the problem. Uppermost must be the effort to prevent China's becoming a major irritant in our relations with Soviet Russia and to prevent China's coming under Chinese Communist control.

⁵ *Supra.*

⁶ Not found in Department files.

⁷ Office of Far Eastern Affairs.

⁸ Marginal notation by the Secretary of State: "OK. GCM".

⁹ Presumably drafted prior to Mr. Vincent's memorandum of February 7, *infra.*

Chinese Reaction to American Military Aid

In the light of the events in China since June 1946, it is certain that any form of American military aid to China will arouse strong protest from the Chinese Communist Party and will bring criticism from Moscow. More important from a standpoint of the future of the United States in relation to China is the attitude of other groups in China, which are critical of both the Kuomintang and the Communists and are bitterly opposed to civil war in China. Members of this group can be found within both the Kuomintang and the small minority parties and among non-party Chinese. It is reasonably certain that this group, which includes perhaps the most pro-American Chinese within its ranks, will also be critical of American military aid to the Chinese Government. Chinese Communist propaganda has undoubtedly had a tremendous effect throughout China in arousing criticism of the United States, but the Chinese in this group are capable of reaching their own conclusions and would be critical of American military aid aside from any Chinese Communist propaganda. The Chinese university students would inevitably be swayed in their attitudes and approaches by any widespread campaign, whether of Communist or other origin, directed against American military aid to China and would in turn become strongly anti-American. The anti-American feeling in China might possibly take an even more serious turn than at present.

Question of the National Government's Need for Military Aid

The next question that arises is that of the necessity of such aid. This is, of course, a question of the National Government's military supply position. I do not know the present status of that position, but press reports indicate that the Chinese Government is now launching an offensive in the southern Shantung area and that the Generalissimo has just made trips to Hsuehou and Chengchow, the latter indicating the possibility of National Government action in northern Honan. If these reports are accurate, the National Government's present military supply position cannot be too serious. The Chinese Communist forces have not yet shown any offensive capabilities in any area, beyond that for local limited actions. Their forces can cut lines of communication and successfully carry out local operations, but they have given no indication of ability to mount a sustained offensive. The Communists have no arsenals worthy of the name, while the National Government has at least some facilities for the manufacture of munitions, small though they may be. If the National Government had no opportunity to replace its expenditures in munitions, it does not seem logical that it would be embarking on

any present large scale offensive operations requiring the expenditure of military material. The time must come when the National Government will be confronted with the problem of replenishing its expenditures in munitions and matériel. It is possible that it will then cease any offensive action and be in a frame of mind more conducive to some settlement of the differences in China. It is feared that as long as the National Government feels that American military aid in the form of military matériel is forthcoming, it will for just that long continue to seek the destruction of the Communist forces. The amount of military aid that would be necessary to achieve that goal would seem to be far beyond the capacity or willingness of the United States to provide. The result might then be an almost never ending civil war or the collapse of the National Government through economic chaos, military losses and possible disaffections among local troops. Our aid would be sufficient to enable the Chinese Government to continue civil war but not conclude it—this would inevitably continue to be a possible source of a major irritant in our relations with Soviet Russia.

Other Means of Aid to China

Other means of aid to China exist which would not be the subject of bitter Chinese criticism such as could be directed against our military aid. Economic and financial aid for carefully chosen projects, which could not be related to civil war, could be extended as evidence was given of reform in the National Government. Such reform is the only practical means of combatting the challenge of the Communist Party in China. The extension of such aid could not be attacked on any solid basis (although the Communists would be certain to do so) as encouraging civil war; it would serve to indicate our continuing interest in China; it would assist in the economic rehabilitation of the country; and it would give evidence of our willingness to make reform in the Government worthwhile, thus encouraging reform rather than civil war. It would remove ammunition from Chinese critics who say that the United States supports civil war in China and backs the Kuomintang as a bulwark against Soviet Russia.

Possible Forms of Military Aid

If some form of military aid to the Chinese Government were felt to be essential, the bill providing for the detail of United States military and naval missions to foreign governments could be utilized for that purpose. This would aid in achieving the reorganization of the Chinese armies along modern lines without providing material support for actual hostilities. It would be a general program applicable to various foreign governments rather than China alone. As such it

could not be singled out for criticism of military aid to China to the extent probable in the case of the bill for military aid to China. It would serve to meet criticisms that might arise in the United States of our failure to support the Chinese National Government and of our "withdrawal" from China. It would be criticized in China and in the United States, but the criticism would have less basis and the Chinese Government would perhaps not have the feeling that it was being given a free rein and a blank check in its civil war. Chinese criticism is apt to take the line that China needs financial and economic assistance and not munitions of war. The naval training program at Tsingtao, which has less relation to civil war, could be continued on its present scale.

Conclusions

If the foregoing is accepted, it would follow that the United States Government continues its embargo on the delivery to China of munitions of war and allows only civilian type items to be delivered to the Chinese Government under the surplus property and other programs. This should be made clear to the Chinese Government.

In brief, our policy toward China would be directed toward discouragement of civil war, toward reform and stability in China to meet the Communist challenge and toward the removal of a possible source of irritation in our relations with Soviet Russia.

PHILIP D. SPROUSE

711.93/2-747

The Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

[WASHINGTON,] February 7, 1947.

MR. SECRETARY: The following review of China policy, based on renewed thought we have been giving the matter over the past month, is submitted in compliance with your recent instruction to me.

We have two controlling statements in regard to China; that issued by the President on December 18, 1946¹⁰ and that issued by you on January 7.¹¹ The President's statement of December 15, 1945¹² and the statement on China issued by the three Secretaries on December 27, 1945 at the conclusion of the Moscow Conference¹³ also continue to be applicable.

¹⁰ Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 689.

¹¹ *Ibid.*, p. 686.

¹² *Ibid.*, p. 607.

¹³ Department of State *Bulletin*, December 30, 1945, pp. 1027, 1030, or *Foreign Relations*, 1945, vol. II, pp. 815, 821.

It is our policy to assist the Chinese in achieving unity by the democratic method of consultation and agreement. It is also our policy to give the Chinese economic and other aid unrelated to civil strife "when conditions in China improve" and when there is reasonable assurance that such aid will encourage economic reconstruction and reform in China and, in so doing, will promote a general revival of commercial relations between American and Chinese businessmen.

We pursue these policies with a clear, practical purpose in mind. We are not engaged in philanthropic or "missionary" activity motivated by sentiment or sympathy for the Chinese. We desire a unified, democratically inclined China because we think that such a China would contribute towards peace and progress in the Far East. We do not think that a Communist China could make such a contribution any more than we think that a feudal-fascist China could do so. Without sacrificing any legitimate national interest, it is our purpose to prevent China from becoming a major irritant in our international relations, particularly with the U. S. S. R. These statements are made to stress the fact that a unified China is, from our point of view, a means toward an end rather than an end in itself. In short, we are following policies in China to achieve a larger objective.

Recent developments require that we review, and possibly revise, our tactics, not our strategy. There are certain specific decisions which must be reached but they should be reached after an over-all consideration of the problem. The following are some of the specific and general questions that face us: legislation to establish the Military Advisory Group at Nanking; transfer of 159 merchant ships to China¹⁴ on credit; completion of the 8½ group program for the Chinese air force; transfer, by sale or otherwise, of arms and ammunition to the Chinese; extension of credit by the Export-Import Bank¹⁵ for economic projects in China.

Consideration of these questions calls for a very careful estimate of the situation as it may develop in China during this year. Such an estimate is hard to make. We have guide posts as to what the Chinese should do. We cannot say with assurance what they will do.

In approaching the problem of economic assistance it will be up to us to determine "when", in the words of the President, "conditions in China improve". You have stated clearly the need for an "assumption of leadership by the liberals in the government and in the minority parties". You have pointed out the necessity of giving substance to the form, as exemplified in the new Constitution, by a genuine welcome of all groups actively to share in the responsibility

¹⁴ For correspondence on the transfer of ships, see pp. 942 ff.

¹⁵ For correspondence on Export-Import Bank credit, see pp. 1030 ff.

of the government and have said that the first step will be the reorganization of the State Council and the executive branch of the government to include liberals and non-Kuomintang members. You have stated specifically that the Kuomintang should cease to receive financial support from the government if the termination of one-party rule is to be a reality. These statements indicate in what manner conditions in China should improve.

In judging the steps which the Chinese Government may take to meet the conditions stated by you, it is believed that sincerity of purpose should be given greater weight than the actual length of the steps taken. While being careful not to be misled by measures adopted by the Chinese as "window dressing", we should not set such a high mark for early progress as to defeat our own ends. Thus, in determining when China merits economic assistance in carrying out approved projects, our approach should be more sympathetic than exacting or censorious. The character of the projects themselves may in large measure determine our attitude. They should not be related to civil strife and should be carefully examined to determine whether they will be made ineffectual by waste, or corrupt management on the part of Chinese officials seeking personal financial gain. Projects calculated to restore transportation, improve agricultural conditions and stimulate exports, and in general to promote a revival of Chinese-American business activity should receive a priority consideration over straight industrial schemes or long-term reconstruction ventures.

What we do with regard to arms and ammunition for China will depend largely on our estimate of coming events. It would be manifestly unrealistic to withhold arms from National Government forces if such action condemned them to a degree of military anemia which would make possible a successful offensive by the Communist forces. However, it is not believed that our withholding arms will result in such an eventuality in the coming months. It might result in the immobilization of some of the National Army's modern American equipment, but it is believed that Chiang¹⁶ has, and can get from sources within the country, a sufficient amount of small arms and ammunition to enable him to withstand a general Communist offensive in the unlikely event that one is undertaken. This situation will take the most careful day to day watching.

In any consideration of the question of American military aid to China, we should not overlook the problem of Chinese reaction in groups other than the right-wing Kuomintang and the Chinese

¹⁶ Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.

Communists. Partly because of Communist propaganda and partly through their own convictions, a sizable body of Chinese public opinion has been strongly critical of American military aid to the National Government. Existing anti-American feeling could easily be fanned by propaganda against American military supply assistance to the National Government.

It is believed that, in the last analysis, the United States would be unwilling to give the amount of military equipment and support necessary to enable the Chinese Government to destroy or reduce to negligible proportions the Chinese Communist Party and armies. Limited amounts of munitions of war might then serve only to encourage the Kuomintang military leaders to wage an inconclusive war which might cause the collapse of the National Government for economic reasons.

If we let down the bars now to munitions shipments to China, it would be very difficult to control the flow not only from the United States but also from other countries. Those reactionaries in the Chinese Government who have been counting on substantial American support regardless of their actions might have good cause to conclude that they were right. Premature action on any proposal for military aid to China might serve to weaken the effect of your statement and thus prevent any chance of genuine reform in the government, which is the only practical method of combatting the challenge of the Communists.

In the absence of evidence that the civil war may soon cease, it would be preferable from our standpoint to let the opposing Chinese military forces reach some kind of solution or equilibrium without outside interference. Should, of course, we find evidence of material support for the Chinese Communist armies from the Soviet Union, an immediate reassessment of our position would be necessary. It is believed unlikely, however, that the U. S. S. R. wishes to assume a forward position in China.

With regard to legislation for a Military Advisory Group, a small highly proficient but unobtrusive Group can, it is believed, serve a positively useful purpose in China. Over and above the service performed in giving technical assistance and aiding in the creation of a smaller and more efficient Chinese Army, it would demonstrate in a practical way our special concern for China.

The Military Advisory Group Bill as presently drafted provides for the disposal of arms and ammunition and other Government-owned supplies and equipment to China upon such terms and conditions as the President may deem proper. There is also a general Military and Naval Missions Bill for introduction into the present Congress. It is recommended that we support this general Missions Bill and

withhold action on the special bill for China. After Congress acts on this bill, affirmatively or negatively, we can determine what action to take on a special bill for China, with particular reference to the matter of supplying military equipment to China. Should we decide to seek legislation for the supply of military equipment, it is strongly recommended that provision be made for the Secretary of State to have the final word with regard to the time, type, and quantity of disposals of military equipment to China.

For the time being it is recommended that we continue to withhold delivery of military type equipment under the 8½ Air Group program. Increased activity on the part of the Chinese air force would lay us open to sharp criticism if this activity took the form of strafing and bombing Chinese villages, which is not an unlikely contingency.

China desires to obtain 159 mercantile ships under the Merchant Ship Sales Act.¹⁷ It is recommended that we give our approval to the transaction in part or in whole depending upon determination as to the number and type of ships that China can effectively use.

J[OHN] C[ARTER] V[INCENT]

711.93/2-747

*Memorandum by the Director of the Office of Far Eastern Affairs
(Vincent) to the Secretary of State*¹⁸

[WASHINGTON,] February 7, 1947.

Attached is a memorandum on "American policy toward China."¹⁹ In this memorandum it is recommended that:

(1) We continue to encourage China to achieve unity by democratic methods of consultation and agreement.

(2) We maintain a constructive and sympathetic (as distinguished from exacting) attitude in determining the extent to which conditions in China should improve as a prerequisite to giving economic assistance.

(3) We withhold military aid to China in any form which would contribute to or encourage civil war.

(4) We maintain a modest Military Advisory Group in China and to this end support in Congress the general Military and Naval Missions Bill.

(5) We defer action on a Military Advisory Group Bill in Congress pending action on the general Military and Naval Missions Bill.

¹⁷ Approved March 8, 1946; 60 Stat. 41.

¹⁸ Marginal notation by the Secretary of State: "Col. C[arter]. Hold. GCM". Col. Marshall S. Carter was Special Assistant to the Secretary of State.

¹⁹ *Supra*.

(6) In any legislation authorizing the supply of military equipment to China the Secretary of State have final decision with regard to the time, type and quantity of disposals of such equipment.

(7) We continue to withhold for the present delivery of additional military-type equipment under the 8 $\frac{1}{3}$ Air Group program.

(8) We approve the transfer to China of the 159 mercantile ships, subject to determination of China's ability to operate them effectively.²⁰

J[OHN] C[ARTER] V[INCENT]

893.24/2-747 : Telegram

The Chargé in the United Kingdom (Gallman) to the Secretary of State

LONDON, February 7, 1947—7 p. m.

[Received 10:03 p. m.]

866. We [have been] informed French Embassy recently approached Foreign Office stating Chinese had asked French Government to sell China one hundred million rounds 7.92 rifle ammunition and inquiring what British policy was toward supplying China with arms and ammunition. Foreign Office informed French [that] British policy is not to make such materials available to China at this time. French Embassy then intimated in view British policy French Government (which had such ammunition for sale) probably would reject Sino request.

Repeated Paris 91.

GALLMAN

711.93/2-747

Memorandum by Colonel Marshall S. Carter to the Secretary of State

[WASHINGTON,] February 12, 1947.

At your direction, copies of the proposed recommendation for our policy toward China were forwarded to Mr. Forrestal²¹ and Mr. Patterson²² with the statement that you would like to discuss them at the Three-Secretary meeting this morning.

In addition to this, you will recall correspondence with Forrestal on the future activities of the Naval Advisory Group and the transfer of combatant vessels to the Chinese Navy.²³ Also, there has been expressed some concern by the War Department as to the future of Army Advisory Group.

²⁰ Recommended points transmitted on February 11 to the Secretaries of War and Navy for discussion on February 12.

²¹ James Forrestal, Secretary of the Navy.

²² Robert P. Patterson, Secretary of War.

²³ For correspondence on these subjects, see pp. 942 ff.

I believe discussion at this morning's meeting should be limited entirely to the Military Advisory Group as an entity without becoming involved in proposals peculiar to either the Army or the Navy. Such individual problems can best be handled by separate conferences as suggested by Mr. Forrestal and as agreed by you.

As regards the 159 ship program, this is not a matter of detailed concern to either the Army or Navy. I suggest discussions on this matter be limited to the overall economic effect on China of such programs. There is much concern right now in Foreign Liquidation Commission and the Maritime Commission because of an apparent indication by the Chinese that they intend to use the 159 ship program to nullify that portion of the Surplus Property deal²⁴ requiring use of United States shipping. Also, there appears a Chinese tendency to divert surpluses to other countries, apparently for trade purposes.

I think the discussion this morning would best be limited to the overall security aspects as regards the United States from the War and Navy Departments' view depending upon our future policy toward China.

M[ARSHALL] S. C[ARTER]

SWNCC Files, Lot 52M45

*Minutes of Meeting of the Secretaries of State, War, and Navy,
February 12, 1947, 10 a. m.*

[Extract]

PRESENT

STATE	WAR	NAVY
Secretary Marshall	Secretary Patterson	Secretary Forrestal
Mr. Matthews ²⁵	Ass't Secretary Petersen	Under Secretary Sullivan
Mr. Penfield ²⁶		Admiral Nimitz ²⁷
		Captain Dennison ²⁸

III. *Current Problems of U. S. Policy Relating to China.*

[Identical letters dated February 11, 1947 from Secretary Marshall despatched to Secretaries Patterson and Forrestal as of that date.²⁹]

²⁴ For text of the Sino-American agreement signed at Shanghai, August 30, 1946, see Department of State publication No. 2655, *Report to Congress on Foreign Surplus Disposal*, October 1946, pp. 40-45; for documentation see *Foreign Relations*, 1946, vol. X, pp. 1033 ff.

²⁵ H. Freeman Matthews, Director of the Office of European Affairs.

²⁶ James K. Penfield, Deputy Director of the Office of Far Eastern Affairs.

²⁷ Fleet Adm. Chester W. Nimitz, Chief of Naval Operations.

²⁸ Capt. R. L. Dennison, Assistant Chief of Naval Operations.

²⁹ See footnote 20, p. 794.

Action:

a. Secretaries Patterson and Forrestal agreed to give the letter further consideration.

b. The three Secretaries agreed to defer active consideration of Secretary Forrestal's proposal relating to a proposed mission until the return of Mr. Blandford³⁰ from China.

c. Secretary Marshall agreed to make any information brought back by Mr. Blandford available to Secretaries Patterson and Forrestal.

d. Agreed to give further consideration to Secretary Forrestal's suggestion that General MacArthur³¹ visit China.

Discussion:

1. Secretary Marshall said that he had sent identical letters covering a proposed United States policy toward China to the other Secretaries for their consideration. Both Secretaries Forrestal and Patterson said that they wished to go into the subject in more detail with their own staffs. Secretary Marshall said that he believed he could furnish certain background material which might be useful to Secretaries Patterson and Forrestal in their consideration of his letter.

2. Secretary Marshall said further that in his opinion the most important civilian and military leaders of the Kuomintang had overestimated their ability to solve the Communist problem. He said that on the other hand he had been continually pressed for United States financial assistance to the Central Government.

3. Secretary Marshall stated further that it was most difficult if not impossible to convince the Generalissimo that China could only be saved by drastic political and military reforms. The influence of the Generalissimo's reactionary political and military advisors had made his task even more difficult.

4. Secretary Marshall added that in his opinion the only possible solution for China's troubles was to oust the reactionary clique within the Central Government and replace them by liberals from both the Kuomintang and Communist parties.

5. Secretary Forrestal said that the United States might as well face the fact that if the United States withdrew its support from the Central Government, the influence of the U. S. S. R. in China was bound to proportionately increase.

6. Secretary Marshall stated that in his opinion the U. S. was definitely in a negative position and that the basic question which

³⁰ John B. Blandford, Financial Adviser to the Chinese Government.

³¹ General of the Army Douglas A. MacArthur, Supreme Commander for the Allied Powers, Japan.

must be answered soon was what should the United States do at this junction [*juncture?*]?

7. Secretary Forrestal said although he disagreed initially with some of the points raised in Secretary Marshall's letter dated 11 February 1947 that he had certain proposals to offer. He went on to say that he believed that economically and financially China must "go through the wringer" as did Germany after World War I. He said that he believed that the United States position in China might be improved if a financial and economic mission were sent to China with the idea of setting-up a type of Dawes Plan.³² Such an operation should not necessarily comprehend any layout of funds on the part of this Government but would be intended to assist China in putting her own house in order. The matter of doing anything about China's current inflation would obviously be beyond the capabilities of such a mission. Secretary Forrestal further stated that he believed such a move by the United States would indicate to the Chinese that the United States was still very much interested in China and the problems in which she finds herself involved.

8. Secretary Forrestal went on to say that he believed that a visit by General MacArthur to China might have a beneficial effect on the situation there and indicate continued American interest in China.

9. Secretary Marshall said that Mr. Blandford who was now working closely with officials of the Chinese Government on economic problems would soon return to the United States. Any information which Mr. Blandford was able to provide would immediately be made available to Secretaries Forrestal and Patterson.

693.119/2-1947

Memorandum of Telephone Conversation, by the Chief of the Division of Chinese Affairs (Ringwalt)

[WASHINGTON,] February 19, 1947.

Mr. Tsui³³ told me that it was his understanding that in recent months difficulties had been experienced in obtaining export licenses covering shipments of arms and munitions to China. He asked that I give special consideration to an order which the Universal Trading Corporation desired to place with an arms factory for thirty million rounds of .50 calibre machine gun ammunition which was urgently needed in China.

³² See *Foreign Relations*, 1924, vol. II, pp. 1 ff., especially pp. 13-15.

³³ Tswen-ling Tsui, Counselor of the Chinese Embassy.

I informed Mr. Tsui that the suspension on the issuance of export licenses covering shipment of ammunition to China was still in effect and that if an application were made for such a shipment it would doubtless be rejected.

Mr. Tsui suggested that perhaps in this instance the Secretary would agree to make an exception and urged me repeatedly to refer the matter to him for a decision. I informed Mr. Tsui that I would prepare a memorandum on the subject.

A[RTHUR] R. R[INGWALT]

893.24/2-2447 : Telegram

The Secretary of State to the Ambassador in Belgium (Kirk)

WASHINGTON, February 24, 1947—4 p. m.

223. Schroeder representative of Fabrique Nationale approached US corporation in attempt to buy 50 million rounds of 7.92 rifle ammunition which constitutes one-half an order from China.

In your discretion you may wish to discuss with Spaak³⁴ this proposed sale of ammunition to China by Belgian firm pointing out that munitions from US no longer being made available to China. We feel Belgian Govt would like to know of our attitude and might wish to follow similar policy which it is understood has likewise been adopted by British. Canadians have indicated willingness to cooperate.

MARSHALL

893.24/2-2547

Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

[WASHINGTON,] February 25, 1947.

The following is a rough estimate supplied by Major Naylor of the War Department of the present status of the 8½ Group Program for China:

Over-all program involves	\$141, 000, 000
Already transferred under Lend-Lease and surplus arrangements	30, 000, 000
	<hr/>
Balance remaining to be transferred . . .	\$111, 000, 000

Of the undelivered balance, some \$54,000,000 is stockpiled in the United States and in the Pacific and the balance, approximately

³⁴ Paul-Henri Spaak, Belgian Prime Minister and Minister for Foreign Affairs.

\$57,000,000, is unavailable in Army stockpiles. Of the available \$54,000,000, approximately half represents civilian end-use items, of which about 50% involves spare parts for planes already transferred to the Chinese Government.

The Army, of course, is very anxious to dispose of the civilian end-use portions in order to rid itself of the responsibility for their maintenance. Apparently, however, FLC³⁵ is awaiting a "green light" before negotiating for their sale to the Chinese Government. Officers in the War Department express the opinion that the Chinese Government would be glad to get these items on reasonable terms and I therefore recommend that FLC be directed to proceed at once with negotiations.³⁶

J[OHN] C[ARTER] V[INCENT]

711.93/2-2747

The Secretary of War (Patterson) to the Secretary of State

WASHINGTON, [February 26, 1947.]

DEAR MR. SECRETARY: As a result of our meeting of February 12, I have devoted considerable study to the entire problem of U. S. policy towards China. While the primary responsibility for this very important problem must rest with the Department of State, I am sure that no one realizes more keenly than you do that the entire question of China's future, and the U. S. interest therein, is a matter of considerable import to the military security of this nation. It would therefore appear to me profitable to give SWNCC³⁷ special instructions from the Committee of Three to produce, within a reasonable time, a study and policy on China, consulting the Joint Chiefs of Staff on the military aspects of the problem. Or, alternatively, we might establish a special interdepartmental committee, similar to that for Korea, which shall have for its purpose the development of a China policy for the approval of the three Secretaries.³⁸

I believe that an appropriate point of departure might well be the eight points proposed by you in your memorandum of February 11.³⁹ In that regard I have some comments which appear to me to be pertinent to these eight points and which, if agreeable to you, could serve as further guidance to the committee.

³⁵ Foreign Liquidation Commission.

³⁶ Attached is a note dated February 27 stating that the Secretary had approved "your recommendation regarding the disposal to the Chinese of civilian end-use items".

³⁷ State-War-Navy Coordinating Committee.

³⁸ Marginal notation by the Secretary of State concerning the last sentence: "? GCM".

³⁹ See footnote 20, p. 794.

With regard to *point number one*, I believe that it will be necessary to determine the nature of the unity which we expect the Chinese Government to achieve. I hope that, as a result of our encouragement, ultimately a democratic multiparty government will evolve along the lines suggested in your recent statement, and that this government will draw to it those liberal elements whose repugnance to the present National Government has to date kept them aloof from that government. I doubt if we can expect a greater degree of unity at this time. While a broader base is essential in the government of China, I believe that we must recognize the fundamental nature of the differences between the Chinese Communist Party and any non-Communist government. Certainly during the period of Soviet occupation of Manchuria there was a close relationship between the Chinese Communist forces and the Soviets. There is obviously a continuing community of interest and identity of aims between the Chinese Communists and Soviet-inspired international Communism. For that reason I am doubtful if an arrangement which unifies China, and still does not give the Chinese Communists the power to control or destroy the government can ever be evolved between the Chinese Communists and a non-Communist government.

Point number two bears directly on the previous one. I agree with the necessity for a sympathetic attitude in determining the extent to which China fulfills the conditions which are prerequisite to giving economic aid. Even though we may not wish to inform the Chinese as to the exact standard of performance which we shall require, I believe that we must determine this standard for our own use in judging their attitude and accomplishments. It may be that improvement of the political situation in China is so contingent on economic improvement that any decision to withhold U. S. economic advice and assistance until positive political advancement is achieved, is tantamount to a decision that we will do nothing about the problem in the foreseeable future.

With regard to *point number three*, I find it very difficult to distinguish clearly between military aid which might contribute to or encourage civil war, and military or any other type of economic or material aid which would not have such an effect. Any stipulation similar to this point must be considered with the greatest care to avoid the impossible situation in which General Wedemeyer⁴⁰ was placed by his post-hostilities directive, which ordered him to assist National Government armies in the re-occupation of North China, but not to

⁴⁰ Lt. Gen. Albert C. Wedemeyer, Commanding General U.S. Forces, China Theater, October 31, 1944–May 1, 1946, and Chief of Staff to Generalissimo Chiang Kai-shek, Supreme Commander, China Theater.

allow such assistance to influence the internal strife involved in that re-occupation. I do not believe that the U. S. should be prepared to accept with equanimity the military collapse of the National Government. In the event of such a collapse the Chinese Communist Party, as the only strong and disciplined group in China, would be in a strong position to seize control of the entire country, with or without Russian support. I believe that this is an aspect of the problem which should be considered by the Joint Chiefs of Staff in the light of the strategic situation in the Far East, and particularly in Manchuria.⁴¹

I agree with *point number four* and believe that the present projected group is approximately sufficient. Legislation has already been enacted covering the naval portion of the Advisory Group. The War Department has placed its dependence for legislation on sponsorship by the State Department of a suitable bill.

With regard to the *fifth point*, I am firmly convinced that the effectiveness of the Military Advisory Group, and other policy measures, may be substantially reduced if provision is not made, through the Advisory Group Bill or other means, for U. S. equipment to be made available at the discretion of the State Department. The reorganization of China's armed forces will be very difficult without the matériel required to increase Chinese military efficiency. I believe that this is another question which merits further study by the Joint Chiefs of Staff.⁴¹

I agree with the intent of *point number six*. The Secretary of State unquestionably has the primary interest as to timing and political expediency of transferring military equipment to China. Present proposed legislation, however, provides that final decision on matters of this sort shall rest with the President. In view of the fact that funds, personnel and functions of other departments are involved, it would seem appropriate that the President should retain this final responsibility in so far as legislation is concerned.

The decision relative to *point number seven* is essentially a State Department responsibility. In this connection, however, the War Department is already unable to meet the full requirements to supply both military and civilian type items involved in the 8½ group program and other programs. Attached as an enclosure is a study of this problem which points out the urgent need for some early political decisions in order to preclude possible serious embarrassment to the U. S. Government.

Point number eight is closely related to several of the previous points. I believe study should be given to the manner in which judicious U. S. assistance, such as the transfer of these ships, will work

⁴¹ Marginal notation by the Secretary of State concerning last sentence: "Yes".

towards the industrial and economic development of China, and will assist in bringing about real peace and stability.

Whatever forms this assistance may take, we must be certain that it is effective, and consistent with U. S. aims in China. In order to assure this, I believe consideration should be given to the establishment of an Economic Advisory Group which would have, in the economic field, the same sort of mission now envisaged for the Military Advisory Group in the military field.⁴²

Sincerely yours,

ROBERT P. PATTERSON

[Enclosure]

MILITARY ASSISTANCE TO CHINA

1. Since V-J Day the United States has adopted a general policy of limited military assistance to China. This policy has been based on:

a. The President's oral statement to Mr. T. V. Soong on 14 September 1945,⁴³

b. U. S. Policy towards China as approved by the President on 11 [15] December 1945,⁴⁴

c. Agreed policies of the State, War and Navy Departments (specifically SWNCC 83/6⁴⁵ and SWNCC 83/17⁴⁶), and

d. Decisions made by General Marshall in his capacity as Special Presidential Envoy in China.

2. In support of this policy of military assistance, the War Department has had primary responsibility for planning and implementing five specific programs involving the supply of military equipment to China:⁴⁷

a. The Chinese Air Force (8 $\frac{1}{3}$ Group) Program (See Tab "A")

b. The Reoccupation Program (See Tab "B")

c. The Communist Training Program (See Tab "C")

d. The Chinese Peacetime Army Program (See Tab "D")

e. The Occupation (of Japan) Program (See Tab "E")

3. As discussed more fully in the enclosures, these programs cannot now be fully implemented by the War Department because of (*a*) policy decisions suspending transfer of purely military items to China, (*b*) non-existence of requisite conditions in China, (*c*) transportation, legal and financial impediments to the transfer of equipment, and (*d*) insufficient stocks of equipment to meet the full requirements of these

⁴² Marginal notation by the Secretary of State concerning the last sentence: "?".

⁴³ *Foreign Relations*, 1945, vol. VII, p. 561.

⁴⁴ *Ibid.*, p. 768. For text of statement dated December 15 from President Truman to General Marshall, see *ibid.*, p. 770.

⁴⁵ Report of October 22, 1945, *ibid.*, p. 583.

⁴⁶ Note of February 13, 1946, *ibid.*, 1946, vol. X, p. 817.

⁴⁷ Subenclosures not printed.

programs. Pending transfer to China, therefore, large quantities of equipment of all types are being stored and maintained by the Army. Budgetary and manpower limitations are such that, despite diversion of funds and personnel from other War Department requirements, there is serious deterioration and waste of all items involved.

4. It is realized that the State Department must determine, on the basis of political factors involved, the extent to which these programs must be fulfilled as U. S. commitments to China. It is essential, however, that the State Department realize that under present circumstances the War Department is unable to meet the full requirements of these programs as originally planned. As deterioration of stock-piled items increases, and as funds and personnel become more scarce, the extent to which the War Department will be able to implement these programs will steadily decrease. If the political decision is made to continue complete or partial implementation of these programs, the U. S. Government may soon find itself in a very embarrassing position through inability to deliver the goods, unless special funds are made available (a) to repair and replace unserviceable equipment (b) to procure those items which have never been available, and (c) to defray packing and shipping costs incident to Surplus Property transactions. This, of course, will require the highest political decision, enabling Legislation and adequate prior planning.

5. For planning purposes, therefore, it is essential that the War Department be informed as soon as possible (a) the extent to which these programs are to be carried out, and (b) the timing of such implementation as will be required. Unfavorable public and Congressional reaction may be expected if this equipment steadily deteriorates, or if a great expenditure of funds and manpower is required to maintain or replace it.

893.24/2-2747

Memorandum by the Secretary of State to the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] February 27, 1947.

MR. VINCENT: The President this morning had one or two communications regarding the situation in China which apparently had disturbed him. He questioned me specifically as to whether or not the time had come when we must give the National Government ammunition.

I explained that this presented the most difficult issue before our Government in the present Chinese situation. If we advance am-

munition, we certainly could be charged with assisting in the civil war. Also such action on our part would convince the reactionaries that they are in a sufficiently strong position to maintain themselves against the effort to bring some of the so-called liberal elements into power.

I told the President that the situation in China was deteriorating, I thought, rapidly and that sooner or later we would have to act. However, at the present instant, overt action on our part would virtually stabilize the Kuomintang Party in its present personnel.

I wish you would discuss this with your associates and see me about it today or tomorrow.

GEORGE C. MARSHALL

711.93/2-2747

The Secretary of the Navy (Forrestal) to the Secretary of State

WASHINGTON, 27 February 1947.

MY DEAR MR. SECRETARY: About two weeks ago you raised the question at the meeting of the three Secretaries as to what constructive steps could be taken to manifest our continuing interest, and support of, China. I take the liberty of expanding a little on the suggestion I made at that time:

I believe that the United States should offer to send to China a mission comprising men of practical knowledge (not necessarily economists or so-called fiscal experts) in the field of government finance, national banking, industrial production, transportation and agriculture.

The men selected for this mission should be of sufficient stature to command respect not only in China but here.

I believe American business would do its best to provide people of competence and experience. I believe it would be helpful to your general objective of making it plain to the Chinese that we are willing to be of help to them but not as a source of charity which turns to booty for the particular piratical group that you found leeching the economic health and prosperity of China.

This is easier to write than to implement but I believe that something along this nature must be done. The start was made in the 30's by Jean Monnet,⁴⁸ who was at that time an associate in a small banking firm called Monnet and Murnane in New York.

Sincerely yours,

JAMES FORRESTAL

⁴⁸ French banker who in 1933 became chairman of a consultative committee organized by the Chinese Minister of Finance, T. V. Soong.

711.93/2-2747

*The Secretary of State to the Secretary of War (Patterson)*⁴⁹

WASHINGTON, March 4, 1947.

DEAR MR. SECRETARY: I have read your letter⁵⁰ handed to me at the February 26 meeting of the three Secretaries regarding our policy toward China.

I am in general agreement with the comments made by you on Recommendation (1) in my memorandum of February the 11th.⁵¹ Recent events certainly make it questionable whether the Kuomintang and the Chinese Communist Party can work together in the National Government, but this obstacle does not invalidate our policy of encouraging the Chinese to achieve unity and democracy by peaceful methods. We have a clear practical purpose in mind. We desire a unified democratic China because we believe that such a China would contribute towards peace and progress in the Far East. We do not think that a Communist dominated China could make such a contribution any more than we think that a feudal-fascist China could do so. Without sacrificing any legitimate national interest, including our security, it is important to prevent China from becoming a dangerous irritant in our international relations, particularly with the U. S. S. R. I believe that we should pursue our objective with patience and perseverance in the hope that the Chinese themselves, with our encouragement, will find a satisfactory solution. We should not be deterred or deviate because of obstacles and delays; nor should we assume that Chinese military action will prove to be capable of eliminating Chinese Communism.

With regard to your comments on Recommendation (2) the President said on December the 18th last that "when conditions in China improve, we will be prepared to give China economic assistance." In my statement of January the 7th, I set forth some of the conditions which I considered would constitute an improvement. In judging the steps which the Chinese Government may take to meet the conditions mentioned by me, it is believed that sincerity of purpose should be given greater weight than the actual length of the steps taken. While being careful not to be misled by measures adopted by the Chinese as "window dressing," we should not set such a high mark for early progress as to defeat our purpose. I do not believe it is feasible, however, at this juncture to be more specific than I have been in setting a standard for Chinese achievement.

⁴⁹ Copies sent to President Truman and the Secretary of the Navy.

⁵⁰ *Ante*, p. 799.

⁵¹ See footnote 20, p. 794.

As you state, there is a direct relationship between political advancement in China and economic assistance from us. Nonetheless, there must be that minimum degree of improvement in conditions which would make it possible to advance credits with some assurance that they could be effectively used. That is not now the case. Careful appraisal of advances made by the Chinese should enable us to decide when substantial economic assistance should be given. I earnestly hope that the time will come soon, as the situation in China is rapidly deteriorating. In the meantime we are endeavoring to find solutions beneficial to China in various and sundry small problems such as shipping and surplus property. As you are aware, the attitude of the Export-Import Bank is an important, if not controlling, factor in dealing with the problem of major economic assistance.

With reference to military matters, it would be manifestly unrealistic to withhold arms, or more particularly ammunition, from National Government forces if such action condemned them to a degree of military anemia which would make possible a successful offensive by the Communist forces. However, it does not appear that our withholding munitions will result in such an eventuality in the next few months. It might result in the immobilization of some of the modern American equipment in the hands of the Government forces, but it is believed that Chiang has and can get from sources within the country a sufficient amount of small arms and ammunition to enable him to withstand a general Communist offensive, in the event that one is undertaken. This situation requires the most careful day to day watching. It would be preferable from our standpoint to let the opposing Chinese military forces reach some degree of equilibrium or a stalemate without outside interference. Should we find evidence of material support of the Chinese Communist Army from the Soviet Union, an immediate reassessment of our attitude would obviously be necessary.

In any consideration of the question of American military aid to China, we should not overlook the problem of Chinese reaction in groups other than the right wing Kuomintang and the Chinese Communists. Partly because of Communist propaganda but largely through conviction, a sizeable body of Chinese public opinion has been strongly critical of American military aid to the National Government. Existing anti-American feeling could be stimulated to serious proportions by propaganda against American military assistance to the National Government.

There is a strong doubt in my mind that, even if the United States were willing to give a large amount of munitions and support to the Chinese Government, it would be unable within a reasonable time to

crush the Chinese Communist Armies and Party. Limited amounts of munitions would encourage the Kuomintang military leaders to continue their inconclusive war which, for economic reasons, will lead, I fear, to the disintegration of the National Government.

If we let down the bars now on munitions shipments to China, it would be very difficult to control the flow not only from the United States but also from other countries. Moreover, those reactionaries in the Chinese Government who have been counting on substantial American support regardless of their actions and party corruption would have cause to conclude that they were right. Premature action on any proposal for military aid to China might thus prevent any chance of genuine reform in the Government which, in the last analysis, is the only practical method of combating the challenge of the Communists.

With regard to your comments on Recommendation (3), although I do not anticipate an early military collapse of the National Government, or disintegration of its authority to a degree that will permit Communist domination of China, I agree to your proposition that the Joint Chiefs of Staff give study to this military aspect of the problem. I believe, however, that the matter should be brought to the urgent attention of the Joint Chiefs through the normal channel of SWNCC.

Reference your comment on Recommendation (4), the State Department is prepared to sponsor suitable legislation for a Military Advisory Group in China. It is our belief now that the general Military and Naval Missions Bill is the most convenient way in which to achieve this end. A special bill for China might unnecessarily raise difficulties in the Congress at this time.

This leads directly to your comments on Recommendation (5). I am in agreement with your suggestion that the question of U. S. military equipment for China be studied by the Joint Chiefs of Staff, and I believe that this question should be handled in the same manner as I have suggested above with regard to the general military aspect of the situation in China.

With regard to your comments on Recommendation (6), it was not the intention to raise any question as to the President's final responsibility, but we believe that the decision should be based on the recommendation of the Secretary of State, presumably following consideration of the issue by the Committee of the three Secretaries.

With regard to your comments on Recommendation (7), I have already directed that we move rapidly in supplying the Chinese with the civilian end-use items under the 8 $\frac{1}{3}$ Group Program. Insofar as

the military items are concerned, I believe that this also is a matter which the SWNCC might appropriately refer to the Joint Chiefs of Staff together with the other problems mentioned above.

Reverting to the suggestion contained in your opening paragraph with regard to a study of policy on China to be made either by SWNCC or a special interdepartmental committee, I believe that we should avail ourselves of all the competent thought and guidance we can get in pursuing our China policy. Although I do not think we should set up a special interdepartmental committee at once, it might be advisable to do so after we have received from the Joint Chiefs of Staff their study on the military aspects of the problem.

With regard to your final suggestion that we establish an Economic Advisory Group in China, I have from time to time given thought to this idea. However, in the absence of any evidence that we are going to be in a position to give immediate financial and economic assistance to China, I doubt that it would be opportune or realistic to proceed with the establishment of such a Group. When we are in position to give China substantial financial assistance, I am convinced that it should be accompanied by technical assistance in the form of high level expert personnel; and I am not at all sure but that this Group should have a position vis-à-vis the Chinese Government and the expenditure of American credits more authoritative than is implied in the word "Advisory". I have in mind men who could function without hampering interference in the field of administration and management.

I am taking the liberty of sending a copy of your letter and my reply to the President and the Secretary of the Navy.

Sincerely,

G. C. MARSHALL

711.93/2-2747

The Secretary of State to the Secretary of the Navy (Forrestal)

WASHINGTON, March 4, 1947.

MY DEAR MR. SECRETARY: Thank you for your letter of February 27, 1947, in regard our sending a mission to China composed of men with practical knowledge in the field of government, finance, banking, production, transportation and agriculture.

I am in full accord with the idea and hope that conditions in China may soon make it worthwhile to put it into practice. However, until we are in a position to extend substantial credits to the Chinese I do not think it would be realistic to send such a mission. In this connection your attention is invited to the final paragraph of the enclosed

copy of my letter ⁵² in reply to a recent letter from Secretary Patterson, ⁵³ copy of which is also enclosed.

Sincerely,

G. C. MARSHALL

893.24/3-447 : Telegram

The Ambassador in Belgium (Kirk) to the Secretary of State

BRUSSELS, March 4, 1947—9 p. m.

[Received March 4—8: 48 p. m.]

329. When your 223, February 24 was received, Spaak was in Paris, but he [*we?*] outlined problem to Loridan,⁵⁴ who said he would discuss it with Spaak upon latter's return. I raised it with Spaak this afternoon. He states that, due insignificant Belgian domestic arms market, Fabrique Nationale lives by exports. Inasmuch as Chinese Government was fully recognized friendly and one of principal allies in war, he would find it very difficult vis-à-vis both Chinese Government and Fabrique Nationale to obstruct such sale in absence of specific international agreement not to sell arms to China. In view tenor of your telegram, I did not press him, and while he indicated willingness to examine matter further upon his return from Praha next week, should we press him to do so, I received distinct impression he hoped we would not.

KIRK

711.93/3-2247

The Secretary of War (Patterson) to the Acting Secretary of State

WASHINGTON, 22 March 1947.

DEAR MR. ACHESON: On 26 February 47, I gave to the Secretary of State a letter concerning the United States policy with respect to China, and outlining the status of various War Department programs of supply assistance to China.

In that letter, I stated that the War Department was unable to meet the full requirements of the programs as originally planned, and explained that, as deterioration of stockpiled items continued, the extent to which the War Department would be able to implement the programs would steadily decrease.

Information has recently been received from General MacArthur, Commander-in-Chief, Far East, indicating that the excess military type items which have been stockpiled for the Chinese Air Force (8 $\frac{1}{3}$ Group) Program in the Far East Command have deteriorated to such

⁵² *Supra.*

⁵³ Dated February 26, p. 799.

⁵⁴ Walter Loridan, secretary to the Belgian Minister for Foreign Affairs.

an extent that they can no longer be considered operational, nor are they capable of rehabilitation to an operational condition with funds and personnel available to the War Department. This is also true of similar supplies stockpiled in other areas in the Pacific. Although the War Department is investigating the possibility of applying other excess stocks to the requirements of military type items for this program, it appears at this time that no other stocks will be available for such a purpose.

Due to the continued expense of maintaining items which are now no longer capable of operational use, the War Department will direct the Commander-in-Chief, Far East, and the Commanding General, Army Ground Forces, Pacific, to begin disposal of the military type items which they have stockpiled for the 8½ Group Program, effective 28 March 47, according to present instructions concerning the disposal of excess stocks; specifically, this means that these supplies will not be turned over to the Chinese Government. If the State Department feels that any other disposal should be made of these stocks, it is requested that the War Department be notified.⁵⁵

Sincerely yours,

ROBERT P. PATTERSON

893.24/3-447: Telegram

The Acting Secretary of State to the Ambassador in Belgium (Kirk)

WASHINGTON, March 25, 1947—5 p. m.

397. If Spaak brings up question sale munitions to China (Embtel 329, Mar 4) or if you feel it desirable he have a clearer understanding of our position in this regard, you may informally give him following background:

During General Marshall's mission to China it became apparent continuation at that time of export munitions from US to China not conducive to peace and unity in China or in best interests US and action therefore taken suspend export combat items military equipment which might have bearing on prosecution civil war and internal situation in China. Dept beginning Aug 1946 withheld approval export licenses for export such items to China⁵⁶ and General Marshall in Sept caused issuance directive to US military commanders concerned ordering temporary suspension military supply action to Chinese Govt,⁵⁷ which order still in effect. British Govt has similarly

⁵⁵ The substance of this letter was discussed informally between the two Departments which agreed "that the U. S. commitment is not such as to warrant continued stockpiling of these items in the Far East."

⁵⁶ See letter of August 23, 1946, to the chairman of the Chinese Supply Commission, *Foreign Relations*, 1946, vol. x, p. 757.

⁵⁷ See letter No. OSE 466, September 27, from General Marshall to General Gillem, *ibid.*, p. 761.

refused permit export such matériel to Chinese Govt and Canadians have indicated willingness cooperate in this matter.

In communicating foregoing to Spaak, you may inform him that you are doing so to enable him understand our policy in this regard and not with view to pressing him to take action which might be embarrassing to him.

ACHESON

893.24/3-2847: Telegram

The Ambassador in Belgium (Kirk) to the Secretary of State

BRUSSELS, March 28, 1947—10 a. m.

[Received 11:24 a. m.]

491. Source in Fabrique Nationale states company is still awaiting opening of letter of credit by Chinese Government for shipment munitions (Deptel 223, February 24). Source states does not know reasons for withholding letter of credit.

KIRK

893.248/3-2847

The Acting Secretary of State to the Secretary of War (Patterson)

WASHINGTON, March 28, 1947.

MY DEAR MR. SECRETARY: Before Secretary Marshall left for Moscow he indicated that he attached great importance to the rapid completion of the civilian end-use portion of the 8½ Group Chinese Air Force Program. I would like to make clear that the statement in my letter of March 6, 1947,⁵⁸ that first priority for transferable military equipment should be assigned to Greece, was not intended to mean that any action should be taken which would delay the completion of this Chinese program.

Sincerely yours,

DEAN ACHESON

893.00/3-3147: Telegram

*The Ambassador in China (Stuart) to the Secretary of State*⁵⁹

NANKING, March 31, 1947—11 p. m.

[Received April 1—11:55 a. m.]

698. At Generalissimo's request, General Gillem,⁶⁰ formerly American Commissioner of Executive Headquarters, visited Nanking over

⁵⁸ Not printed.

⁵⁹ Repeated by the Department to the Ambassador in the Soviet Union for the Secretary of State, April 1, 3:35 p. m.

⁶⁰ Lt. Gen. Alvan C. Gillem, Jr., U. S. Army.

week end to make his farewell calls prior to sailing on April 11. In course of conversation both before and after dinner, Generalissimo brought up subject of ammunitions shortages now confronting Government forces, describing situation as the problem of "most serious concern". This morning Generalissimo sent General Yu Ta-wei⁶¹ to explain situation in detail to General Gillem.

Prior to departing for Peiping, General Gillem arranged that Colonel Underwood,⁶² who was present, should supply the following account of the conversation :

"Yu Ta-wei stated that, although there were serious shortages of all types of ammunition, small arms (including 7.92 mm) and mortar ammunition represented the primary requirements, the Communist guerrilla warfare tactics providing only occasional opportunities for use of artillery. He said frankly that American-equipped divisions were rapidly becoming ineffective because of lack of American ammunition and inferred mildly that the US had a moral responsibility to prevent the disarmament of these units.

Although the Chinese could not accept ammunition on the condition that it would not be used against Communist forces, still it did not desire American ammunition solely for that purpose. The Government's responsibility for maintaining security required a constant state of readiness to suppress sponsored rebellions in any form. Moreover, agreement now to provide ammunition would have only an indirect effect upon current campaigns because of the long period required to redistribute ammunition to depot sites and battle areas within China, following its receipt at coastal ports. He charged obliquely that this truth was being overlooked by American policymakers who were withholding ammunition on the ground that such action was in immediate direct support of the Government against the Communists.

Yu Ta-wei referred to the request tabled (see 1171, June 1946⁶³ addressed to Colonel Carter) last summer for a strategic reserve of 6 months' supply of ammunition for 39 divisions and hoped that way could now be found to honor that request. He offered to prepare for General Gillem a detailed statement of the present ammunition position, future Government requirements and distribution plans. He wished General Gillem to place this information before appropriate authorities in Washington, with a view to determining informally the American attitude in the matter. The urgency of the situation to the Chinese was clearly reflected by Yu Ta-wei's anxiety upon learning that General Gillem might not reach Washington until June 1. Yu Ta-wei stated that neither his remarks nor the proposed ammunition report should be construed as a formal request from the Chinese Government. Because of past refusals, the Chinese Government did

⁶¹ Chinese Minister of Communications.

⁶² Col. George V. Underwood, in charge of the Embassy Liaison Office which was set up as the successor to General Marshall's office in China and functioned until the establishment of the Embassy Executive Office.

⁶³ Not found in Department files; for action on this request, see telegram No. 95249, July 23, 1946, *Foreign Relations*, 1946, vol. x, p. 753.

not wish to make a formal request unless favorable response appeared probable.

General Gillem stated that the supply of ammunition to China was related to over-all policy considerations transcending his responsibility and authority. However, recognizing that a clear statement of the Government's current ammunition predicament would permit more accurate assessment of the extent and timing of possible future American aid, he agreed to accept Yu Ta-wei's report and to forward it for use simply as reference material by authorities on a decision level."

This report will be transmitted to you when received from Yu Ta-wei via General Gillem.⁶⁴

Department please repeat Moscow as 6 for personal attention General Marshall.

STUART

893.24/4-247

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] April 2, 1947.

Dr. S. C. Wang, Chairman of the Chinese Supply Commission, called by appointment and stated that he had been referred to me by Mr. Cummins, Chief of Munitions Division, in connection with his application for an export license to cover a shipment to China of one hundred million rounds of 7.92 "Generalissimo" rifle ammunition. According to Dr. Wang this ammunition was procured by the United States Army during the war for shipment to China as military Lend-Lease but never left this country. He said that the ammunition is now stored in various depots in the United States where it is tending to deteriorate and to be a source of embarrassment to the United States Army. It is of a special calibre and is therefore of no value to the United States Army. Dr. Wang asked whether in view of these facts special consideration could not be given to shipping the ammunition to China where it would fulfill an urgent need and at the same time relieve the United States Government of responsibility for its maintenance and storage.

I informed Dr. Wang that although I understood that the embargo on the shipment of arms to China was still in effect in view of the special circumstances involved I would make a memorandum of his request and refer it to my superior officers for review.

⁶⁴ Report not printed, but see memorandum by Brigadier General Timberman, April 22, p. 821.

Dr. Wang pretended considerable embarrassment, stating that he would prefer that this case be handled by me informally with Mr. Cummins, and that he would by all means wish not to make this a matter of official record. He said that he hoped that if I could not agree to his recommendation that I drop the matter entirely.

Major Naylor, the officer in the War Department primarily concerned with surplus war material, has informed me that the information given me by Dr. Wang is substantially correct. He states that as of March 31, 1947 there are stored in Army supply depots in the United States 130,616,868 rounds of 7.92 rifle ammunition which were procured for the Chinese Government but arrangements for the transfer of it to China were never completed. Major Naylor is anxious to dispose of this ammunition and will welcome any indication from the State Department that we would have no objection to its being declared surplus to the needs of the United States Army and transferred to China under FLC procedures. Major Naylor indicated that the records of his office showed that members of the Chinese Supply Commission had recently toured the ammunition depots in question and had indicated their interest in this ammunition with a view to its possible purchase. Major Naylor tells me that Secretary Marshall is aware of the existence of this supply of "Generalissimo" rifle ammunition in this country.

N. B. Major Naylor states that according to his records the ammunition referred to in the present memorandum was procured through Western Cartridge Company between June 1942 and October 1944.

A[RTHUR] R. R.[INGWALT]

893.24/4-247: Telegram

The Acting Secretary of State to the Ambassador in the Soviet Union
(Smith) ⁶⁶

WASHINGTON, April 2, 1947—7 p. m.

773. MOSKCO 40. Following info and views are offered in connection with Nanking's 698:

⁶⁶ Attached to this telegram was a memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Under Secretary of State (Acheson) dated April 2, 1947, as follows: "This telegram is the result of some wrestling I have been doing with my soul in recent weeks. Nanking's reference telegram is simply the gong.

"In submitting it, I have the feeling I am running a slow motion reverse showing of the conversion of St. Paul.

"I have discussed the matter with General Hildring, because of his Chairmanship of the Policy Committee on Arms, and he agrees with my views."

Chinese Emb official last week made renewed inquiries re 130 million rounds 7.92 ammunition, now stored in depots in US, which Chinese Govt wishes purchase provided export license can be obtained. You will recall currently approved policy is to withhold export licenses for munition shipments to China.

We continue to believe that a clear-cut and enduring solution of China's internal difficulties by military action is not in the realm of practical achievement and therefore that encouragement to Chiang to continue attempts at all-out military solution by furnishing him with unconditional or extensive military support would be unrealistic. We must nevertheless consider possibility that complete withholding of ammunition might impair defensive effectiveness of Chinese Army.

With foregoing considerations in mind we suggest as feasible and politically expedient in light of current developments an exception in the case of 7.92 ammunition which, as you know, is not suited to our needs or to possible use elsewhere except China. Procedure would be to have material declared surplus after which FLC would enter into a contract for cash sale to Chinese, Chinese Emb having been advised in advance that export license would be granted.

Also, because Brit and Canadians have at our suggestion adopted negative attitude re munition shipments to China, it would be only proper to let them know informally of exception we are making.

ACHESON

893.24/4-347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 3, 1947—3 p. m.

[Received 3:12 p. m.]

725. The Ordnance Officer of Army Advisory Group has been given the following information by Office of the Chief of Ordnance Service, Combined Service Force, Minister of National Defense. Information is classified top secret in order not to jeopardize position of Chinese Army or advisory group vis-à-vis Chinese. Information was obtained prior to promised report on same subject from Yu Ta-wei referred to Embtel 698, March 31, 7 [11] p. m.

Fifteen arsenals, 5 sub-arsenals and 1 iron and steel works are currently scheduled to produce monthly the following items: 550 caliber 7.92 Bren light machine guns; 11,000,000 rounds 7.92 ammunition; 9,000 Generalissimo rifles caliber 7.92; 250 Maxim heavy machine guns; 100 caliber 82 mm mortars; 50,000 rounds 82 mm mortar ammunition; 2500 model 28 grenade launchers; 80,000 rounds

rifle grenades; 530,000 hand grenades; 450 caliber 60 mm mortars; 85,000 rounds 60 mm mortar ammunition; 50 (estimate) 120 mm mortars.

Ordnance depot stocks include following items: 7,000 Maxim heavy machine guns; 4,000 caliber 82 mm mortars; 7,000 caliber 60 mm mortars; 35,000 Czech light machine guns; 47,000 caliber 45 US sub-machine guns; 3,000 carbines, caliber 30, M-1; 20,000 Sten sub-machine guns, caliber 9 mm.

At Hankow the Eleventh Arsenal is presently organizing to manufacture caliber 30 ammunition.

Detailed report including locations of arsenals and ordnance depots is being forwarded to Department by airmail.⁶⁷ Report concludes that "Chinese Ordnance Service is believed to have ability and capacity to maintain requirements of National troops for current operations, and adequate ordnance stores or substitutes thereof are believed to be on hand to sustain operations for a 3- or 4-month concentrated offensive".

Sent Department 725, April 3, 3 p. m.; Department please repeat Moscow for personal attentiton of General Marshall as 7 with reference to Embtel 625, March 21, 9 [7] p. m.;⁶⁸ repeated Moscow for Marshall.

STUART

893.24/4-447: Telegram

The Ambassador in Belgium (Kirk) to the Secretary of State

BRUSSELS, April 4, 1947—4 p. m.

[Received 6:26 p. m.]

553. Schroeder, son of head of Fabrique Nationale, called today to inquire specifically whether US Government contemplated initiating international action to embargo arms shipments to China.

He was told in confidence that General Marshall had reached conclusion export of munitions from US to China not conducive to unity, that US had last year suspended export licenses to China, that British Government had taken similar action and that we understood Canadians were doing likewise. (Deptel 397, March 25) He said he knew all that and added that at Dunkirk meeting Bevin⁶⁹ had proposed and Bidault⁷⁰ agreed that France should take similar action. He said French position easy to understand due Communist strength in France and possibility of arms reaching Viet Nam from China. He

⁶⁷ Despatch No. 612, April 4, not printed.

⁶⁸ Not printed.

⁶⁹ Ernest Bevin, British Secretary of State for Foreign Affairs.

⁷⁰ Georges Bidault, French Minister for Foreign Affairs.

thought Marshall might tell Molotov ⁷¹ principal western powers had stopped exporting arms to China and ask Russia do likewise.

We declined to speculate on what action US Government might take in future. He rather naively hoped we could advise him should we initiate embargo action since company would face substantial loss should it begin work on order and be confronted with Belgian embargo before it was completed. He maintained that order covered no arms and only 10 million rounds of ammunition. He stated his father's trip to China was to promote sale of numerous non-military products.

He is director of Société Générale (as well as ammunition) and [said?] that father expected shortly to complete naturalization as American citizen. Foreign Office being advised of foregoing.

KIRK

893.00/4-547 : Telegram

The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State

Moscow, April 5, 1947—7 p. m.

[Received April 5—12: 46 p. m.]

1209. Kosmos 22. For Humelsine ⁷² from Carter. Look at Department's suggestion in third paragraph of MosKco 40 ⁷³ re ammunition for China.

Before the Secretary considers the matter further, he wishes to know character of public announcement Department would make in case of sale of 7.92 mm ammunition.

Please wire me complete text of a proposed draft statement to support action Department suggests.

Understand clearly matter still completely exploratory. [Carter.]

SMITH

740.00119 Council/4-747 : Telegram

The Acting Secretary of State to the Ambassador in the Soviet Union (Smith)

WASHINGTON, April 7, 1947—7 p. m.

836. MosKco 46. From Vincent for Carter. We do not intend to initiate public announcement re sale of ammunition to China (ref Kosmos 22 ⁷⁴) and will discourage publicity from other sources. If

⁷¹ Vyacheslav Mikhailovich Molotov, Soviet Minister for Foreign Affairs.

⁷² Carlisle H. Humelsine, Director of the Office of Departmental Administration.

⁷³ See telegram No. 773, April 2, 7 p. m., to the Ambassador in the Soviet Union, p. 814.

⁷⁴ *Supra.*

press obtain info upon which to base inquiries, we would state that ammunition was procured for Chinese as result of commitment made before V-J Day; that it is unsuitable for use by US armed forces or sale elsewhere; that its retention is source of expense to US Govt; and that therefore it is being declared surplus and sold to China. If question of policy is received we would point out that transaction is unrelated to and has no bearing upon general policy toward China as enunciated in President's statement of Dec 18, 1946,⁷⁵ supplemented in personal statement of Gen Marshall on Jan 7⁷⁶ last. [Vincent.]

ACHESON

711.00111 Armament Control Military Secrets/4-847

*The Secretary of War (Royall) to the Secretary of State*⁷⁷

WASHINGTON, 8 April 1947.

Subject: Manufacture of U. S. Weapons by the Chinese Government

1. Reference is made to the attached copy of a memorandum dated 29 June 1946, from the Chinese Ministry of National Defense to the Army Advisory Group, Nanking, China.⁷⁸

2. The War Department has considered that the directive suspending property transfer of military type items to the Chinese Government did not affect the routine release of military technical information which is limited by the security provisions of SWNCC 206/29.⁷⁹ Many of the requested drawings, specifications and related information pertaining principally to types of ammunition have already been or are in the process of being supplied the Chinese Ministry of National Defense through the Chinese Military Attaché in Washington, D. C.

3. In this particular case, however, the majority of the technical data requested and not yet released to the Chinese Ministry of National Defense consists of the complete manufacturing drawings and specifications of many modern ground weapons, and thus represents export of a substantial amount of technical "Know how".

4. In view of the above, this request for manufacturing data for military type equipment is considered to be a matter requiring policy guidance from the State Department. Accordingly your comment and recommendation are requested.

For the Secretary of War:

J. E. BASTION, JR.

Colonel, GSC

⁷⁵ *United States Relations With China*, p. 689.

⁷⁶ *Ibid.*, p. 686.

⁷⁷ For attention of the Chief of the Division of Chinese Affairs (Ringwalt).

⁷⁸ Not printed.

⁷⁹ Dated November 13, 1946, not printed.

893.243/4-1147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 11, 1947—3 p. m.
[Received April 11—8:50 a. m.]

790. In message 070107Z to Chief Naval Operations, Admiral Cooke⁸⁰ has recommended that certain small arms and ammunition be made available for purchase by Chinese Maritime Customs preventive service.

In September 1946, Admiral Cooke made similar recommendation and at that time General Marshall was of opinion that even though amount munitions involved was not large, there was possibility of their falling into hands of combat troops and that a damaging publicity campaign could be manufactured out of such transfer of arms. General Marshall was willing to agree in principle to transaction only on basis that Maritime Customs be required give formal assurance that equipment would not be used in civil war. In view General Marshall's comments, proposed transfer of equipment was disapproved in October 1946.

Embassy believes that transfer of this equipment would have beneficial effect in checking smuggling and piracy activities on Chinese coast, but the considerations pointed out by General Marshall last September, particularly the adverse publicity, still apply and require Department's consideration and decision.

STUART

893.243/4-1147: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 11, 1947—6 p. m.

427. Dept now perceives no objection to transfer (Embtel 790 Apr 11) small arms and ammunition to Maritime Customs preventive service. Navy informed.

ACHESON

893.24/4-1547: Telegram

The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State

Moscow, April 15, 1947—4 p. m.
[Received April 15—9:33 a. m.]

1373. KOSMOS 39. For Vincent from Carter. The Secretary has not gone thoroughly into the problem but has stated (1) that he does

⁸⁰ Adm. Charles M. Cooke, Jr., Commander, United States Naval Forces, Western Pacific (ComNavWesPac).

not approve of ammunition sale without public announcement personally approved by him, and (2) he does not agree that the transaction would be unrelated to or have no bearing upon the general policy toward China. Your Moscow 46⁸¹ refers.

Follows now a summation of some of the pitfalls as seen here:

It seems highly improbable that the proposed ammunition transfer could be kept from the press and consequently it would appear more desirable to lay all the facts on the table, if, as and when the transfer were made. While ammunition in question was procured for Chinese as a result of commitment made before V-J Day, it is understood here that commitment was made under Lend-Lease. The President's statement of December 1946 stated categorically: "This Government has completed its wartime Lend-Lease commitments to China". Transfers of combat material were suspended last summer and have not since been resumed. The President's statement points out that Lend-Lease after February 1946 "was reduced to the fulfillment of outstanding commitments, much of which were later suspended". In discussing the Surplus Property Agreement, the President said: "No weapons which could be used in fighting a civil war were made available through this agreement". If, in view of the foregoing, a sale or transfer of ammunition to the Chinese Govt were made now, it could be construed only as a change in our policy toward China.

If anything, conditions in China have worsened since the President's statement last December, and no real improvement is apparent in the National Government. How then do we justify such a change in policy? I realize this is 64 dollar question, and must emphasize this message purely informal exploratory personal views on low working level. [Carter.]

SMITH

893.24/4-1647

Memorandum of Telephone Conversation, by the Deputy Director of the Office of Far Eastern Affairs (Penfield)

[WASHINGTON,] April 16, 1947.

Mr. Bang-Jensen⁸² telephoned this morning to inquire regarding our policy on arms exports to China. He indicated that his interest was based on the desire of the Danish Madsen interests to export some arms to China from Denmark.

I told Mr. Bang-Jensen that during the course of General Marshall's mission to China it became apparent that the continuation at that time

⁸¹ See telegram No. 836, April 7, 7 p. m., to the Ambassador in the Soviet Union, p. 817.

⁸² Povl Bang-Jensen, Counselor of the Danish Embassy.

of some phases of our programs of military aid to China, which had been set up during and just after the war for the purpose of assisting in the defeat of the Japanese and in the reoccupation of Chinese territories previously held by the Japanese, was not conducive to peace and unity in China or to the best interests of the United States. Therefore, since September 1946 no export licenses for the export to China of combat type items of military equipment have been granted and all transfer of US military equipment in China to the Chinese has been suspended. I said that these prohibitions were still in effect, although delivery of civilian type items is still being permitted. I added that the British and Canadians have been following a similar policy. I expressed an interest in learning what line the Danish Government would follow in regard to this question.

Mr. Bang-Jensen thanked me for the information and said he would bear in mind our interest in being informed of Danish policy in regard to arms exports to China.

893.00/4-2847

*Memorandum by Brigadier General T. S. Timberman, U. S. Army Representative in the Embassy Executive Office, to the Minister-Counselor of Embassy in China (Butterworth)*⁸³

AXO 9

NANKING, 22 April 1947.

Herewith is a copy of the report⁸⁴ setting forth the status of American weapons and ammunition in China as of 31 March 1947. This report was received from General Yu Ta-wei, and is being taken to Washington by General Gillem in order that it may be presented to the War Department in an unofficial manner and to preclude the possibility of its being in any way [way] considered an official request from the Chinese Government.

Attached is a tabulation⁸⁴ showing the total ammunition supplied by the United States Government to the Chinese Government since V-J Day, including the stocks which were in West China during the war, and subsequent shipments to East China which were made to assist the Chinese in the reoccupation of Manchuria. The tabulation shows the percentage of this U. S. ammunition which still remains in the stocks of the Chinese Army. It further shows the number of days of supply which these quantities of ammunition represent. In determining the number of days of supply, comparison has been made with the ammunition consumption of the Chinese Army in India during the Burma campaign. Only U. S. type weapons reported on

⁸³ Copy transmitted to the Department by the Ambassador in China in his despatch No. 675, April 28; received May 5.

⁸⁴ Not printed.

hand by the Chinese Army have been considered. This is the only comparative data available for expenditures of ammunition by the Chinese troops. These figures are considerably higher than the present experience of the Chinese armies where their operations and engagements have been of a desultory nature.

Inspection of this table shows that the quantity of ammunition remaining varies from 7 per cent to 100 per cent of the total quantities, by caliber, which they have received from the United States. This represents the ammunition requirements for periods varying from 25 days of supply to 123 days of supply. For normal wartime operations, 30 days of supply is considered as the minimum which must be on hand and additional reserve stocks must be available for continuous flow into the operational area to replenish expenditures. Any large-scale offensive would deplete this supply of ammunition within a short time, and, thereafter, leave the Chinese Army wholly dependent upon what could be manufactured within China.

The above analysis is based on the stocks of U. S. ammunition as reported by the Chinese and does not take into consideration any quantities of ammunition which may fall into the hands of the Nationalist Army as a result of the evacuation of the Marines from North China, nor does it include any stocks of ammunition which may have been manufactured in China or obtained from sources other than the United States.

It is interesting to note that in the case of 60 mm mortar shells, the stock is the lowest of any item of ammunition; however, this particular type has been placed by the Chinese in the second priority of supply. This would indicate that their manufacturing capacity within China, as reported by Major Powell, is adequate to prevent any serious shortage. The first priority of shipment is given to caliber .30 ammunition which, reportedly, has been given first priority in the establishment of manufacturing sources within China.

Conclusion: The quantity of U. S. types of ammunition, as reported by the Chinese, is inadequate for protracted operations by the Chinese Army units equipped with U. S. weapons.

T. S. TIMBERMAN

893.24/4-2247

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Ringwalt)

[WASHINGTON,] April 22, 1947.

Dr. Wang,⁸⁵ accompanied by Mr. Chen,⁸⁶ called by appointment and opened the conversation by inquiring whether there had been

⁸⁵ S. C. Wang, Chairman, Chinese Supply Commission.

⁸⁶ L. F. Chen, Chinese Supply Commission.

any reaction to his previous informal inquiry in regard to the "Generalissimo" rifle ammunition. (Reference: CA's memorandum of April 2 on the above mentioned subject, copy attached.⁸⁷) I replied by stating that, although the matter had been given consideration by my superiors, so far as I knew there was no change in the established policy of withholding export licenses for arms and munitions to China.

Dr. Wang said that he wished to acquaint me with further developments and to approach the problem from a new angle. He called attention to the fact that some of the ammunition had been in storage in this country for several years and if shipment of this ammunition to China could be arranged it would be desirable to have it inspected thoroughly and reconditioned if necessary. He said that with this thought in mind he had already entered into negotiations with a reliable Belgian organization which was thoroughly equipped to perform this service. According to Dr. Wang, the ammunition would have to be shipped to Belgium for reconditioning; this could be arranged by either of two methods: (a) the ammunition could be declared surplus and sold to the Chinese who would turn it over to the Belgian company, or (b) it could be sold direct through surplus channels to the Belgian company which would make its own arrangements with China. In response to my inquiry Dr. Wang identified the Belgian company as the Fabrique Nationale.

I informed Dr. Wang that in my view his new approach to the subject did not alter the situation, that regardless of whether the ammunition were shipped via Belgium or shipped direct the ammunition was destined for an identical purpose, and that the established policy would therefore apply equally in either case. I agreed, however, to make a record of the conversation and submit it to my superiors.

Dr. Wang said that he felt that the whole matter should be reconsidered in the light of the "Truman Doctrine".⁸⁸ I replied that it would be beyond my competence to give him any opinion in this regard. Dr. Wang then asked whether in my opinion it would expedite matters at this time if the Ambassador himself approached the Secretary. I replied that it was my personal view that it would be well to continue discussions for the present on our level. He said

⁸⁷ *Ante*, p. 813.

⁸⁸ For President Truman's address on March 12 before joint session of Congress, see Department of State *Bulletin*, March 23, 1947, p. 534. In this message the President declared the policy of the United States "to support free peoples who are resisting attempted subjugation by armed minorities or by outside pressures", and in line with this policy recommended aid to Greece and Turkey. For documentation, see *Foreign Relations*, 1947, vol. v, pp. 1 ff.

that he and the Ambassador had temporarily reached the same conclusion and that for the present the Ambassador would not intervene in the matter.

A[RTHUR] R. R[INGWALT]

893.00/4-2847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 28, 1947—midnight.

[Received April 29—1:30 a. m.]

916. T. V. Soong,⁸⁹ who returned to Nanking to attend inaugural session of State Council, sent for Philip Fugh⁹⁰ Sunday April 27 and notified him of [*for*] conveyance to me that Chinese Government was requesting aid in the form of:

(1) Immediate financial assistance in the matter of wheat and cotton loans in unspecified amounts;⁹¹ (2) ammunition; (3) complete implementation of 8 $\frac{1}{3}$ group program; (4) appointment of American Military adviser to Generalissimo.

I saw Generalissimo that evening when he reiterated these requests and asked me to convey them to you. In explanation as regards 1, he emphasized the rapid deterioration in the economic and financial situation; as regards 2, that although the military situation was improving and with needed ammunition war could be ended by August or September, the officers of lower rank were becoming aware of the ammunition supply shortage and it was affecting their morale, especially in Manchuria; as regards 3, that the airplanes were old and pilots dared not fly too low; as regards 4, a Supreme Military Adviser to him was urgently needed and that he wished to repeat the statement made to you that he would give such an officer the full authority he would gladly have given you. In this connection he emphasized that there should be a complete reorganization of Chinese Army.

In order to obtain further clarification, Butterworth and I called on Generalissimo at 9:30 this evening. The discussion began with the 8 $\frac{1}{3}$ group program and it was pointed out that there were 56,000 tons of air force supplies and equipment in Kunming and Chengtu—half were usable or reparable—plans for the moving of which had been for some time on the desk of the Chief of Staff. This the Generalissimo did not know and indicated that he would look into the matter tomorrow. It was also pointed out that the forthcoming movement of tactical groups from Nanking-Shanghai area would not,

⁸⁹ Former President of the Chinese Executive Yuan.

⁹⁰ Assistant to Ambassador Stuart.

⁹¹ For correspondence, see pp. 1293 ff.

according to present plans, be accompanied by service groups and that this would entail senseless attrition. The Generalissimo was unaware of these proposed dispositions and offered to look into the matter. Similarly, the morale factor in Manchuria was discussed in terms other than shortage of ammunition supply. Generalissimo vouchsafed the fact that these had indeed played too prominent a part. As regards the ammunition, reference was made in general terms to the information contained in top secret despatch 612 of April 4⁹² and to the fact that General Yu Ta-wei had handed to General Gillem a report—which had been despatched to Washington and was no doubt receiving appropriate consideration (see Department's [*Embassy's*] 675, of April 28⁹³)—on authoritative figures regarding the existing supply of American type ammunition. Generalissimo indicated that he was not familiar with the details of the cotton position and made the suggestion that the Cabinet officials concerned should study the matter and go over the situation with the Embassy. Question of military adviser was not touched upon.

Although Generalissimo inclined to reiterate that the requests made the previous day be transmitted to you, Madame Chiang who attended meeting used her influence to the end that these matters were left in the discussion stage.

General Chang Chun⁹⁴ who obviously had been sidetracked by T. V. Soong's initiative was on this occasion present but took no part in the proceedings.

STUART

893.00/4-2847

*Memorandum by the Director of the Office of Far Eastern Affairs
(Vincent) to the Secretary of State*

[WASHINGTON,] May 2, 1947.

Nanking's message is indicative of what we may expect from the Chinese Government in the near future in the way of a request for military and economic assistance.

[Here follows summary of telegram No. 916, April 28, midnight, from the Ambassador in China, printed *supra*.]

Following are our recommendations:

1. *Financial assistance.* We await the presentation of a formal request, which is anticipated shortly.

⁹² Not printed.

⁹³ See footnote 83, p. 821.

⁹⁴ President of the Chinese Executive Yuan.

2. *Ammunition* and 3. *8 $\frac{1}{3}$ group program*. Inasmuch as the problem of military assistance to China is now under review by Joint Chiefs of Staff, we should await their recommendations.

4. *American military adviser*. General Lucas⁹⁵ is already in China and we perceive no reason for sending an additional adviser.⁹⁶

J[OHN] C. V[INCENT]

893.00/5-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 4, 1947—noon.

[Received May 4—5 : 30 a. m.]

963. Following the conversation with the Generalissimo reported in Embtel 916, April 28, midnight, Madame Chiang sent for General Chou Chih-jou, Commander in Chief of China Air Force, and General McConnell, Director Air Division, AAG.⁹⁷ Transcribed below are the pertinent parts of the latter's memorandum of that conversation:

"Madame Chiang in opening the conversation said that on the previous evening she had a conversation with Mr. Butterworth, American Minister to China, and among other things Mr. Butterworth made two statements which the Generalissimo wanted her to discuss with General Chou and me for the purpose of clarification.

She said that the first question was: Mr. Butterworth had made the statement the previous evening that there was in Kunming and Chengtu in storage approximately 56,000 tons of military equipment, property of the CAF, which could be used for maintenance of the CAF if it could be removed to east China. She asked General Chou and me if this was actually the case. I told her that it was the case and General Chou said the actual tonnage was around 27,000 tons. I told Madame Chiang Mr. Butterworth had been given the figures by me. At the time of our survey at Kunming and Chengtu conducted jointly by officers of my staff and General Chou's staff, the estimated tonnage was about 56,000. Madame Chiang asked if it could be actually used by the CAF and General Chou and I said it could if it could be removed from west China to locations where it could be made available to using agencies of the CAF. We jointly told Madame Chiang a plan for its movement by surface transportation had been made up jointly by members of General Chou's staff

⁹⁵ Maj. Gen. John P. Lucas, Chief, American Army Advisory Group in China.

⁹⁶ An attached memorandum of May 6 indicated agreement by the Secretary of State with these recommendations.

⁹⁷ Gen. John P. McConnell, Chief of the Air Division, Army Advisory Group.

and members of my staff and had been approved by both General Chou and me and had been transmitted to the Chief of the Supreme General Staff of the Ministry of National Defense with recommendations to be approved, the money incident to its execution be appropriated and that it be extruded with the minimum delay. I showed Madame Chiang a copy of the plan and I showed her further a letter from General Lucas, Chief of the AA Group, to General Chen Cheng transmitting to him direct a copy of the plan and adding his own recommendation for its approval and implementation. I told Madame Chiang that this would be a slow process of movement unless it was given the very highest priority for transportation. I told her further that transportation could be expedited by use of transport aircraft for that purpose and rather than use the CAF transports for that purpose, commercial aircraft of domestic airlines could be very well chartered to do it. General Chou stated that he had taken out of west China many of the critical articles of supplies to the point that such items were nearly exhausted. Madame Chiang asked me where they could get critical articles of supplies such as General Chou referred to and I told her that they could not be procured; that the items which were critical in China were critical all over the world and I myself could not secure them for my own operations. Madame Chiang said that she would explain all of this to the Generalissimo.

Madame Chiang then stated that the next question was the movement of CAF tactical units without moving their supporting service organizations with them and thus wasting tactical equipment through lack of maintenance and supply. She said that Mr. Butterworth had said that CAF tactical air force units were being moved to new locations and that because of the expense involved in moving the service units, they were not also being moved to the same location. She asked General Chou and me if this were true. General Chou did not answer and I told Madame Chiang that the cases in point to which Mr. Butterworth referred was the movement of the first medium bomb group from Hankow to Peiping and that Colonel Tseng on General Chou's staff had informed that they were not going to be able to move the service group which supports the first medium bomb group because it would cost too much and they did not have the money and could not get the money. She asked General Chou if this was true and General Chou replied that he had not asked for the money and this operation was in the planning stage. She stated that Mr. Butterworth made the 'bald statement' that this was actually true and I told her that this statement Mr. Butterworth made was undoubtedly made on the basis of my comments to him and that if it was in fact not the whole truth it was because I had been misinformed. I told her that

the information which Mr. Butterworth had given her both about the surplus stocks in west China and about the movement of tactical units without their accompanying service units was information I had passed on to him during conversations which he and I had had on the subject. She stated that she accepted the principle of the surplus property in west China but she wanted to be further informed about the matter of the tactical units being moved to places where they did not have service support.

This brought up the manner of the employment of the CAF and General Chou and I jointly told Madame Chiang that the CAF was scattered in small units all over China where there was no possibility of getting not only proper service support but any service support at all. We jointly stated that this was because the ground force commanders demanded that small packets of aircraft be placed at their entire disposal and that they designated the location where they wanted this aircraft; that the Supreme General Staff upheld these demands and General Chou was forced to comply with them. We told her that this was dissipating the CAF to the extent that if it should continue it would not have any appreciable effectiveness at all within 15 to 18 months from now. We told her that many of these airdromes upon which the ground force commanders demanded the employment of aircraft were unsuitable for operations and as a result there were an excessive number of aircraft accidents. We told her that whatever logistical support the CAF might be able to extend these isolated packets of aircraft by use of air transport for delivering required spare parts, etc., was nullified by the requirements of the Generalissimo and the Supreme General Staff using these transport aircraft for communications purposes and for airlifting ground force troops. We told her that unless these practices were stopped and unless the ground force commanders were told to present their combat and transport requirements to General Chou with the understanding he would fulfill these requirements as best he could through operations which he himself directed, or detailed to his air force commanders, the CAF would soon be non-existent. We told her that unless these units could be pulled together and placed on airdromes on suitable lines of communications where service support could be rendered, the effectiveness of the tactical organizations would soon be depleted. Madame Chiang then stated that she accepted this principle and that she would tell the Generalissimo that he should issue orders telling the Supreme General Staff and ground force commanders that they should inform General Chou of what support they wanted and that General Chou should have full authority as to how this support would be rendered.

I told Madame Chiang that CAF as it was today represented an investment of dollars 250 million to the Chinese Govt and that unless the Chinese Govt was willing to put the necessary funds behind it to maintain it, the investment would soon be dissipated from wastefulness. Madame Chiang then stated that she understood it and said, 'We must do something about this because if we don't take care of our equipment, nobody is going to sell us any more.'

Madame Chiang then asked me about the state of the 8½ group program. She requested me to write down what the 8½ group consisted of, which I did. She then asked how much of this equipment had been delivered. I told her that I could not possibly say how much had been delivered except for the aircraft and that all except 129 of the aircraft had been delivered. I told her further that upon examination of the aircraft which had been delivered, we found that about 25% of them were not in serviceable condition and that I had made a recommendation to the Hdqs, AAF,⁹⁸ that this 25% be replaced, that Hdqs, AAF, stated they were willing make replacements provided the aircraft were available and the State Department approved. Madame Chiang said that it seemed to her these replacements should be made immediately since they represented serviceable [unserviceable?] aircraft already delivered and I told her that under the existing restrictions against delivery of military in-use items, such replacements could not be effected at this date.

She then asked me what restrictions I had referred to and I explained to her about the restrictions imposed against delivery of military end-use items as opposed to civilian end-use items. I told her that I had recommended to the Embassy that the civilian end-use items, since they were not restricted for delivery, be included in the over-all McCabe-Soong Pacific Surplus Property Disposal Agreement.⁹⁹ I then had to explain what this agreement encompassed and explained further that if these civilian end-use items, which were surplus in the Pacific and were earmarked for the CAF, were included in this agreement, it would not require the negotiation of another contract and that from then on all negotiations would have to be carried out in the US between duly authorized representatives of our respective Governments. She asked me what the American Embassy had said to my recommendation and I told her that I had not received any indication of its attitude.

Madame Chiang then asked me if I thought it was a good time now to request the US to fulfill the rest of its commitments for the 8½

⁹⁸ Army Air Forces.

⁹⁹ Signed at Shanghai, August 30, 1946, Department of State, *Report to Congress on Foreign Surplus Disposal*, October 1946, pp. 40-45; for documentation see *Foreign Relations*, 1946, vol. x, pp. 1033 ff.

group program. I told her that I did not know; that the request would undoubtedly have political implications of which I was not aware and that it appeared to me the Chinese Ambassador in the US could probably best advise her as to whether or not this was a propitious time to make such a request.

Madame Chiang then asked me what kind of condition the property in the Pacific was in and I told her that undoubtedly it had deteriorated since it had been lying in more or less open storage ever since the end of the war. She asked me to write this down, and I told her that I could not very well do it because I had not personally examined the state of the property. General Chou then stated that his inspectors in the Pacific looked over this property and then said that a considerable part of it was unserviceable. She then asked me to write that down and I wrote 'General Chou's inspectors have seen some of the property in the Pacific held against the 8 $\frac{1}{3}$ group program and they have stated that much of it is unserviceable'.

Madame Chiang then asked me about the serviceability of the property in west China. General Chou and I jointly told her that the west Chinese property was in a more serviceable condition than the Pacific surplus property because of the better climate in west China and because most of the west China property was in dry storage.

Madame Chiang then asked me if there was anything else I wanted to tell her and she also put the same question to General Chou and General Chou made no comment and looked at me as if I should make some comment and so I told Madame Chiang substantially as follows: That I hoped she would not lose sight of the main issues involved in our discussion, which were:

(a) That the Supreme General Staff should be told that they were to request only what effect they desired from striking forces and transport forces of the CAF and should leave the method of producing this effect and the types of aircraft used to produce it and the types of bombs and ammunition to the judgment of the CAF Commander.

(b) That the CAF Commander should be the Deputy Chief of Staff (to this statement Madame Chiang wrote in her notes 'CAF should have adequate representation on the Supreme General Staff').

(c) That the CAF must have complete autonomy in command and control of operations so as to permit the concentration of tactical units at as few stations as possible in order to provide service backing and to prevent its dissipation by spreading it out in small units over China where service backing was impossible.

(d) That without sound financial support, the CAF could not long survive.

(e) That in the civilian end-use items made available to China under the original McCabe-Soong Pacific Surplus Property Agreement, there were many items which could be used by the CAF and that most

of these items were being disposed of elsewhere and that it was merely a matter of priority as to whether they went to the CAF or to some other agency, and that sufficient priority should be given to the CAF to ensure that usable items of this civilian end-use equipment turned over to China under the terms of the original McCabe-Soong Agreement would be made available for the use of the CAF.

Madame Chiang then stated that she accepted these principles and understood them and that she would communicate them to the Generalissimo. (She further stated 'I only deal in principles.')

Madame Chiang then asked me to make up for her a proposed deployment plan for the CAF tactical and service units embodying the principles we had discussed. I told her that I could not very well do this without going very closely into the present operations which I was prohibited from doing but that I would make up a deployment plan which I considered sound from a logistical standpoint in conjunction with General Chou and that General Chou could then change it to fit the operational requirements as best he could. General Chou stated that he would do that and then give the plan to Madame Chiang.

She then asked for a schedule of estimated aircraft requirements to be used as replacements for the purpose of maintaining the CAF at its present effectiveness during the next couple of years. I told her that General Chou and I had made up such a plan and that we would give it to her. (Upon looking into this further, I found that our plans only went as far as July 1947 and so we are now making up another schedule which I shall give to General Chou and which, if he cares to, he can give to Madame Chiang.)

Madame Chiang made the remark that it appeared to her the Generalissimo should assess the degree of effectiveness he wanted from the CAF and should then put enough money and authority behind it to get that degree of effectiveness."

On leaving the Generalissimo's residence, General Chou said to General McConnell: "I think we have done good".

STUART

893.24/5-547

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] May 5, 1947.

In view of the repeated requests from Chinese Government representatives, both in China and in the United States, for the granting of an export license to cover the shipment to China of 7.92 rifle am-

munition, it is believed desirable to approve such a request for the following reasons:

1. Complete withholding of ammunition from the Chinese Government might impair the defensive effectiveness of its armies vis-à-vis the Chinese Communist forces. In this connection, the Embassy at Nanking has recently reported the loss by explosion of two National Government ammunition dumps, and there are indications of local Communist successes in Shansi and Shantung Provinces. There is also the important question of National Government military strength in Manchuria, where its lines are extended and the Communist forces are reported to be gaining strength.

2. The approval of the request for export license and the transfer under surplus property arrangements to the Chinese Government of 130 million rounds of 7.92 rifle ammunition, now stored in U. S. Army depots would not be inconsistent with the President's statement of policy of December 16 [18], 1946. This statement described the transfer of surplus property in China and in the Pacific to the Chinese Government under the Surplus Property Agreement of August 30, 1946, and said that "no weapons which could be used in fighting a civil war were made available through *this agreement*". This agreement was concluded during the period of American mediation, which has since been terminated. A transfer through sale to the Chinese Government of ammunition would not now appear to be inconsistent with public statements issued by the U. S. Government regarding U. S. policy toward China. The ammunition in question is in the United States, is useless to the U. S. Army, deteriorates with time and requires U. S. Army maintenance and storage. In reply to press inquiries which such a transfer would raise, it could be stated that this transfer does not represent a change in policy but is merely a case of a foreign [government?] purchasing surplus ammunition in the United States and not a matter of the U. S. Government's extending aid to that government.

3. It would appear to be logical that we permit the Chinese Government to purchase military supplies from manufacturers in the United States now that American mediation has been terminated, since to deprive it of access to private manufacturers in this country would be difficult to defend in the light of U. S. policy elsewhere in the world at this time and in the light of the Chinese Government's position as the legally recognized government of China. Furthermore, this access to American markets might tend to lessen Chinese demands for ammunition, if the Chinese Government knew that it would have to pay cash for such matériel rather than obtain it as a gift from the U. S. Government.

4. It would appear psychologically sound to take such action at this time. The Chinese Government has now been reorganized and, while we have had no indications of the effectiveness of this reorganization, we cannot wait until there is definite proof of improvement. The reorganization is at least a step in the right direction and, in the absence of any other immediate action to show our approval, the granting of export license for this ammunition might be taken as a sign of our approval, in principle, of the reorganization.

A[RTHUR] R. R[INGWALT]

711.00111 Armament Control Military Secrets/4-847

*Memorandum by the Chief of the Munitions Division (Cummins) to
Colonel J. E. Bastion of the War Department*

[WASHINGTON,] May 20, 1947.

Reference is made to your letter to Department, dated April 8, 1947, with respect to the desire of the Chinese Ministry of National Defense to obtain from the U. S. War Department manufacturing drawings, specifications and related materials pertaining to U. S. weapons and ammunition.

The Department favors the release to the Chinese Government of the information requested, provided that: (a) the security classifications permit such releases and (b) an agreement is secured from the Chinese Government that the information so obtained will not be divulged to other governments or to anyone not an officer, employee or agent of the Chinese Government.

E. T. CUMMINS

893.243/5-2647

*Memorandum by the Director of the Office of Far Eastern Affairs
(Vincent)*

[WASHINGTON,] May 26, 1947.

Following are directions given by the Secretary in regard to transfer of arms and ammunition to China at meeting with him at 10:30 a. m., May 26, 1947:

1. The Secretary desires that the necessary steps be taken to remove the prohibition established on July 29, 1946, on the issuance of export licenses covering the shipment of arms to China. It is his wish that the Chinese be given normal commercial access to the arms market in this country.

2. With reference to specific aspects of the above problem the Secretary desires that the following action be taken :

(a) With reference to the supply of some 130 million rounds of 7.92 "Generalissimo" rifle ammunition surplus to the needs of this Government which the Chinese desire to acquire, the Secretary desires that the Chinese authorities concerned be informed that the Department of State is prepared to issue an export license for this ammunition and that the concerned officers in the War Department and OFLC¹ be informed accordingly.

(b) The Secretary desires that, in addition to the civilian end-use items under the 8½ Air Group Program now in the process of being transferred to the Chinese Government through OFLC channels, OFLC be authorized to transfer transport planes and spare parts for all equipment transferred to China under this Program.

3. The Secretary desires that the Governments which have been cooperating with this Government in withholding the shipment of arms to China be informally advised in the sense of paragraph 1 above.

JOHN CARTER VINCENT

893.243/5-2647

*Memorandum by the Chief of the Division of Chinese Affairs
(Ringwalt)*

[WASHINGTON,] May 28, 1947.

Responsive to Mr. Vincent's memorandum of May 26, 1947 in regard to the transfer of munitions to China, the following action has been taken :

1. "*Generalissimo*" rifle ammunition. Dr. Shao-Hwa Tan, Minister of the Chinese Embassy, and Mr. L. F. Chen of the Chinese Supply Commission have been informed that there is no objection to the purchase of this ammunition through OFLC channels. Colonel Muir, P & O, War Department, and Mr. Upton, OFLC, have been given the appropriate authorization to proceed with this transfer. (See first paragraph of the attached memorandum of May 26 [28], 1947, addressed to Colonel Muir.²)

2. 8½ Air Group Program. Colonel Muir and Mr. Upton have been authorized to include in the items being transferred to the Chinese Government under this Program transport planes and spare parts for all equipment transferred thereunder. (See second paragraph of attached memorandum of May 26 [28], 1947.)

¹ Office of the Foreign Liquidation Commissioner.

² Not printed.

3. *Policy Committee on Arms Control.* The necessary clearance for the transfer of the "Generalissimo" rifle ammunition has been obtained from the PCA³ by the FE member in consultation with General Crain of A-H.⁴ In view of the policy established by the PCA on July 29, 1946, of withholding arms and ammunition from the Chinese Government, the FE member will report to the PCA at its next meeting with the recommendation that this restriction on the shipment of arms to China be rescinded.

4. *British and Canadian Governments.* On May 26, 1947, Mr. H. A. Graves, Counselor of the British Embassy, and Mr. Ralph Collins, Second Secretary of the Canadian Embassy, were orally informed that this Government is now prepared to grant export licenses covering shipments of arms to China.

ARTHUR R. RINGWALT

893.24/5-2847: Telegram

The Chargé in Belgium (Achilles) to the Secretary of State

BRUSSELS, May 28, 1947—8 p. m.

[Received May 28—4:34 p. m.]

856. Loidan states Schroeder maintains former cartridge order (Deptel 223, February 24; Embtel 553, April 4) was unimportant and not for Chinese Government but that subsequently while in China he did obtain order from Chinese Government for 1 million dollars worth of gunpowder. Schroeder remarked to Loidan that apparently we no longer objected to arms shipments to China since we were now sending large numbers ships including armed ships (Radio Bulletin 111, May 10).

Has our policy changed?

ACHILLES

893.243/5-2647

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Ringwalt)

[WASHINGTON,] May 29, 1947.

Dr. Tan⁵ called in connection with my telephone call of May 26, 1947 in which I informed him that we would be prepared to authorize the transfer to China of the "Generalissimo" rifle ammunition and that

³ Policy Committee on Arms.

⁴ Office of the Assistant Secretary of State (Hilddring).

⁵ Shao-Hwa Tan, Minister of the Chinese Embassy.

the Department would be inclined to view favorably requests for export licenses covering shipments of arms to China. Dr. Tan inquired whether the Department would also now view favorably the completion of the military phase of the 8½ Air Group Program. He stressed the view expressed by the Chinese Air Attaché that combat aircraft were among the items most highly desired in connection with the maintenance of China's air force in a manner originally contemplated at the time the Program was drafted.

I informed Dr. Tan that I was able to give him the Department's considered view in regard to this question. I said that a decision had been reached on a high level to authorize the transfer to China through OFLC of transport planes and spare parts for equipment supplied under the 8½ Air Group Program, including spare parts for combat aircraft.

Dr. Tan did not yet appear to be satisfied and renewed the request for the inclusion of combat aircraft in the 8½ Air Group Program. When I stated that to authorize the inclusion of combat aircraft would be beyond the scope of my authority he asked my view whether an appeal from his Ambassador to the Secretary might win him over to the Chinese view. I expressed the personal opinion that no useful purpose would be served by such action, at least for the present.

A[RTHUR] R. R[INGWALT]

893.00/5-847

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] June 3, 1947.

The following paragraphs comprise a résumé of Ambassador Stuart's comments on recent trends in China⁶ which he has supplied as background for President Chiang's request for (1) a cotton and wheat credit; (2) supply of ammunition; (3) completion of the 8½ Group Program; and, (4) assignment of a US military adviser.

The essence of the problem is whether the financial structure can endure until the Government achieves its military objectives, opening the way for a negotiated peace. President Chiang expects that they can be achieved by September, and the consensus is that there will be no financial collapse before then. However, President Chiang's optimism is not generally shared. The Chinese high command is divided over questions of anti-communist military strategy, General Tu Yu-ming is proving dangerously incompetent and troop

⁶ See despatch No. 706, May 8, from the Ambassador in China, p. 114.

morale is deteriorating. In the worsening economic situation, mob violence may break out and spread; if it does, it may bring about a collapse.

While the Chinese Communists probably would still be willing to enter a coalition government upon terms favorable to themselves, little time is left for them to enter a coalition regime if the constitution is to be put into effect in December 1947 as planned. Meanwhile the Communists, despite popular revulsion against them in many localities, feel confident that the situation will work increasingly to their advantage. Chinese Government leaders, in their predicament, generally consider US aid essential if disaster is to be averted. However President Chiang, almost alone among them, is reconciled to paying the price of accompanying American control in the utilization of US credits or loans.

A[RTHUR] R. R[INGWALT]

893.24/5-2847: Telegram

The Secretary of State to the Ambassador in Belgium (Kirk)

WASHINGTON, June 4, 1947—7 p. m.

771. Schroeder's ref to sending armed ships to China apparently based on recent Executive Order ⁷ implementing Public Law 512 of July 16, 1946 ⁸ by virtue of which the President was authorized to transfer to China up to 271 naval vessels (Embtel 856, May 28).

Ruling temporarily to withhold export licenses covering shipment munitions to China, adopted July 29, 1946 during period of General Marshall's mission, was rescinded last week. In your discretion you may inform Loridan.

MARSHALL

893.24/6-947

Memorandum of Telephone Conversation, by the Chief of the Division of Chinese Affairs (Ringwalt)

[WASHINGTON,] June 9, 1947.

Subject: Arms Exports to China.

With reference to a memorandum of telephone conversation dated April 16, 1947 between Mr. Bang-Jensen, Counselor of the Danish Embassy, and Mr. Penfield, on the above-mentioned subject, I in-

⁷ Executive Order 9843, April 25, Department of State *Bulletin*, May 4, 1947, p. 821, or 12 *Federal Register* 2763.

⁸ 60 Stat. 539.

formed Mr. Bang-Jensen today we have told the Chinese that we are now prepared to give favorable consideration to applications for export licenses covering shipments of arms to China.

SWNCC Files, Lot 52M45

*Memorandum by the Joint Chiefs of Staff to the State-War-Navy Coordinating Committee*⁹

SM-8388

WASHINGTON, 9 June 1947.

Subject: United States Policy Towards China.

In accordance with the request of the State Department, transmitted through the State-War-Navy Coordinating Committee, the Joint Chiefs of Staff have prepared the enclosed study of the Military Aspects of United States Policy Toward China for the consideration of the State-War-Navy Coordinating Committee (Appendix). As requested by the Secretary of State, the views of Colonel J. H. Caughey and Lt. Colonel C. E. Hutchin, Jr., were considered in the preparation of this study.

For the Joint Chiefs of Staff:
 W. G. LALOR
Captain, U. S. Navy
Secretary

[Enclosure—Appendix]

STUDY OF THE MILITARY ASPECTS OF UNITED STATES POLICY TOWARD
 CHINA

1. A study of the military aspects of United States policy toward China indicates that, however other factors in the general situation differ from those found elsewhere in the world where the United States and Soviet policies are in conflict, many of the security factors involved are very similar. In China, as in Europe and in the Middle and Far East, it is clearly Soviet policy to expand control and influence wherever possible. This policy is evidenced by Soviet pressure on those nations lying around the periphery of the Soviet sphere, whenever and wherever conditions are propitious. In the light of this policy, the objectives in China are in most respects similar to those found elsewhere. The principal difference between the situation in China and that in the Near and Middle East is that in China there

⁹ Circulated by the State-War-Navy Coordinating Committee as SWNCC 83/22, June 11; copies of the enclosure were forwarded to the Secretaries of State, War, and Navy.

does not exist a united national government on which effective resistance to Soviet expansionist policy may be based.

2. The Soviet program in China is obviously a long-range one. One apparent objective of this program, as indicated by current communist propaganda, and publicly affirmed by Stalin that "the quickest withdrawal of American forces in China is vitally necessary for the future peace," (from a release by Tass—Telegraphic Agency of the Soviet Union—dated 24 September 1946) is to exclude United States influence in China and replace it with that of Moscow. It is believed, however, that the vastness of China, coupled with other conditions which are peculiar to China, such as lack of organization, transportation and communications, have dictated a plan of progressive expansion with the immediate objective limited to the control of the great resources and industrial potential of Manchuria. Except for Manchuria, however, the Soviets probably would be satisfied if internal chaos in the remainder of China were continued. Such chaos in China would serve the interests of the USSR in at least two important respects. It would not only prevent any effective National Government resistance to realization of their aims in Manchuria but it would also facilitate their adoption of a next step into North China or Sinkiang, or both, after they have established and consolidated their control over Manchuria.

3. There is evidence that current Soviet intentions are to remove Manchuria from the Chinese economy and integrate it into the economy of Eastern Siberia. That this is the intention of the Soviets is indicated by:

a. Their obvious efforts and success in preventing the reestablishment of active Chinese sovereignty over Manchuria.

b. The stripping of equipment from important Manchurian industries and moving that equipment into Soviet industrial areas in Eastern Siberia.

c. The Sino-Soviet treaties of August 1945¹⁰ which, as a result of Soviet pressure on China, gave the Soviets legal control of Manchuria's only efficient system of communications and important trade outlets thus channeling Manchuria's food and raw materials into the expanded Soviet industrial areas, thereby contributing to the self-sufficiency of those areas.

d. The systematic encirclement of Manchuria both through the establishment of strong Soviet military positions in Northern Korea, Port Arthur and Mongolia and through encouragement given communist forces in Manchuria itself.

4. If the Soviets succeed in their efforts to integrate Manchuria into the Siberian economy, they will have gone far toward bringing

¹⁰ Signed at Moscow, August 14, 1945, United Nations Treaty Series, vol. 10 p. 300.

about the economic and military self-sufficiency of the Soviet Far Eastern Provinces which has long been an important Soviet objective. Their control of the most important economic areas, coupled with a prolongation of internal strife in China, is likely to result in complete economic collapse of the National Government, or in its ultimate submission to Soviet and Chinese communist pressure. In either case, conditions would be such as to facilitate the eventual continued expansion of Soviet power in Asia southward through China and towards Indo-China, Malaysia and India. It is believed that the economic reconstruction of China is essential to her achieving political stability, for, without economic stability, the revolutionary factors underlying the current civil war cannot be eliminated.

5. Communists in China are frequently described as differing basically from communists found in other parts of the world. While they have not always followed the normal pattern of communist operations employed in other countries, it is believed that Chinese communists have merely adjusted their techniques and operations to fit the conditions found in agrarian and undeveloped China and to facilitate progress toward achievement of their long-range objectives in the Far East. That they have in some respects improved conditions in areas brought under their control is believed due not so much to deviations from normal communistic doctrine as to the appalling conditions which existed in those areas prior to their gaining control. That improvement may, however, well prove to be temporary if the communists gain complete control of the Chinese Government. Without United States aid, these conditions are likely to continue and will offer fertile fields to further the spread of communism. It is believed, however, that the Chinese communists, as all others, are Moscow inspired and thus motivated by the same basic totalitarian and anti-democratic policies as are the communist parties in other countries of the world. Accordingly, they should be regarded as tools of Soviet policy. Indeed, the advantageous position which they currently enjoy in Manchuria and in Northern China is in great part due to the assistance which they received from the Soviet armies at the time the Soviets occupied Manchuria. During that period Chinese communist troops enjoyed complete freedom of movement and activity which enabled them to establish control over an area in which they had never previously had any significant influence. National Government troops on the other hand were hampered and delayed by the Soviets in moving troops into Manchuria to re-establish Chinese control, even though the Soviet Government had previously recognized Chinese sovereignty over that area. In addition, the Soviet withdrawal from Manchuria was so timed and conducted as to enable the

Chinese communist forces to supply themselves completely with Japanese arms and equipment "abandoned" by Soviet forces. As a direct result of this preferential treatment the communists have gained sufficient strength in Manchuria to prevent National Government forces from eliminating armed communist opposition, except possibly as the result of a protracted all-out civil war which could lead only to further deterioration in Chinese economic and military strength. Had the Soviets not thus assisted the communists in Manchuria it is quite possible that the National Government would long ago have been able to eliminate the communist forces in Northern and Eastern China. While military success of the Chinese communist army would unquestionably facilitate accomplishment of Soviet objectives in China, so also would continuation of the disunity and chaos resulting from a protracted civil war.

6. A factor of major importance, with regard to peace and security interests both of the United States and the world, is the position which China occupies in the United Nations. Due principally to United States support and insistence, China is considered as one of the great powers and, as such, shares with U. S., U. K., USSR and France a predominant responsibility for the maintenance of international peace and security. A continuation of the current conditions in China, particularly the armed opposition of the communists to the National Government, may well lead to conditions of chaos which will prevent the Chinese National Government from carrying out any of its military obligations and commitments to the United Nations. Furthermore, a Chinese National Government rendered impotent and ineffective by a continuation of internal strife will not enhance the prestige of the United Nations nor will it serve to build up confidence in that organization. As one of the great powers, China is also one of the permanent members of the Security Council and thus possesses the power of veto. A continuation of the Chinese civil war, to the point where the strength of the Chinese National Government would deteriorate and be overthrown by the communist forces, would have the effect of removing from the Security Council a Chinese government friendly to the United States and replacing it with one under the control of the USSR. Such a development would adversely affect United States security interests and, in the light of current unified communist efforts to secure control of the French Government with success quite possible in the foreseeable future, makes it imperative that the United States take positive action to prevent such an eventuality.

7. It is believed that several courses of action are open to the United States with regard to China. On one hand, the United States can

give assistance and strengthen the Chinese Government to the extent necessary to prevent Soviet expansion. Such a course of action would allow time for proper political action to be applied by the Chinese National Government and to take effect. On the other hand, the United States can choose to withdraw entirely from China and permit conditions in that country to drift further into chaos and disunity with the probable result that the Soviets will gain complete control over Manchuria and will sweep over the remainder of China. If this should occur, the United States must be prepared to accept eventual Soviet hegemony over Asia.

8. It is the understanding of the Joint Chiefs of Staff that the fundamental objective of United States policy toward China is to expedite the establishment of a stable representative government over a strong and unified China friendly to the United States. Soviet expansionist aims in China, furthered by the operations of Chinese communists, are clearly incompatible with this United States objective. In China, as elsewhere, it would appear that the threat of Soviet expansion will only be finally averted when, as a result of political development the Western concept of democracy and rights of the individual has proven to the Chinese its practical and ideological superiority over communism and other forms of totalitarianism. The nature and timing of this political action are matters beyond the competence of the Joint Chiefs of Staff. It is the opinion of the Joint Chiefs of Staff, however, that the military security of the United States will be threatened if there is any further spread of Soviet influence and power in the Far East. Early countermeasures are called for if this danger of Soviet expansion is to be halted. With a disarmed and occupied Japan, the only Asiatic government at present capable of even a show of resistance to Soviet expansion in Asia is the Chinese National Government.

9. It is recognized that serious and difficult practical problems are involved in giving aid to the present Chinese National Government. Much American money and material assistance have been given and absorbed by China since the end of the war without any noticeable effect on the steadily worsening internal affairs of that country. China is so vast, the need of her people so great, and the politico-military situation so complex, that there may be some doubt as to whether any conceivable outlay of United States money and resources could be effective. It should be recognized, however, that the assistance which the United States has provided China since the end of the war has been piecemeal and uncoordinated. There have been no firm objectives based on a definite United States policy toward China other than the aspiration to influence the two major political elements

to achieve a peaceful solution of their irreconcilable differences. Regardless of the corruption and the political shortcomings of the present National Government, it is believed that recent events have proven conclusively that under present circumstances the Chinese communists will only accept a solution which would assure their early control of the government and ultimate communist domination of China, which would jeopardize the military security of the United States.

10. The military problem in China involves important political, psychological and morale factors. A strengthened military posture on the part of the Chinese National Government may be of more importance, as the result of morale factors involved, in bringing about military success in their operations against the communists than will the operational use of any material assistance which we may contribute to the attainment of this posture. The Joint Chiefs of Staff do not have authoritative information on the specific needs of the Chinese National Government in the form of military equipment, assurance and advice, nor what material and economic aid and advice will be required to develop the sound economy necessary to build and maintain a strong military posture and unification of the country. This will require a detailed military and economic study. It is believed, however, that the latent resources and manpower of China are such that even small amounts of United States assistance to the National Government will materially strengthen its morale and at the same time weaken the morale of the Chinese communists. In this connection, the Joint Chiefs of Staff note that the President's 12 March 1947 message to Congress¹¹ had this effect on the morale of the opposing elements of the Greek populace torn by dissidence strikingly similar to that in China. It is conceivable that the announcement of firm United States support of the National Government might cause the Chinese communists to accept the terms which have been offered them by the National Government in order to bring about cessation of hostilities. If the Chinese communists do not accept these terms, it would appear that a relatively small amount of military assistance, in large part merely ammunition and replacement parts for American equipment furnished the National Government forces during and immediately following the recent war, should enable the National Government to establish control over areas now under communist control.

11. In the light of the foregoing discussion it is the opinion of the Joint Chiefs of Staff that, from the military point of view, carefully planned, selective and well-supervised assistance to the National Gov-

¹¹ Department of State *Bulletin*, March 23, 1947, p. 534.

ernment, under conditions which will assure that this assistance will not be misused, will definitely contribute to United States security interests. Such assistance should facilitate the military development which appears essential for the unification and stabilization of China. It should enable China more effectively to resist Soviet expansionist efforts in the Far East and will thus contribute to the military security of the United States. In addition, it should be a stabilizing factor throughout the Far East. A firm United States position in this regard, as in the Middle East and elsewhere in the world, would serve the cause of peace as well as the other aims of the United Nations.

12. The Joint Chiefs of Staff have prepared specific comments from the military point of view with regard to the eight point policy proposal of the Secretary of State in his memorandum dated 11 February 1947¹² and the comments of the Secretaries of War and State in their letters of 26 February 1947 and 4 March 1947 (Appendix¹³). The Joint Chiefs of Staff have attempted to limit their comments to the military security aspects of the problem. It has been necessary, however, to take cognizance of the fact that this is in reality but one element of the global problem with regard to the military security aspects of over-all United States policy. For example, it has been necessary to consider the world-wide impact of the broad policy which the President has recently proposed, and which has been approved by the Congress in connection with aid to Greece and Turkey. The over-all purpose of this policy appears to be to further the ideals of the United Nations and of the Western Democracies and at the same time to oppose further territorial and ideological expansion by the Soviet Union. From the military point of view it is believed important that if this policy is to be effective it must be applied with consistency in all areas of the world threatened by Soviet expansion. Otherwise, if temporarily halted by our action in Greece and Turkey, the Soviets may decide to accelerate expansion in the Far East, in order to gain control of those areas which outflank us in the Near and Middle East.

13. The following are the major conclusions arrived at as a result of this study:

a. The United States must seek to prevent the growth of any single power or coalition to a position of such strength as to constitute a threat to the Western Hemisphere. A Soviet position of dominance over Asia, Western Europe, or both, would constitute a major threat to United States security.

b. United States security interests require that China be kept free from Soviet domination; otherwise all of Asia will in all probability pass into the sphere of the USSR.

¹² See footnote 20, p. 794.

¹³ Subenclosure printed herewith.

c. It is to United States military interests that the nations of Eurasia oppose Soviet expansion.

d. Soviet expansionist aims and long-range objectives are being furthered in China by the military operations of the Chinese communists.

e. Soviet expansionist aims in China, furthered by operations of Chinese communists, are clearly incompatible with United States security.

f. With a disarmed and occupied Japan, the only Asiatic government at present capable of even a show of resistance to communist expansion in Asia is the Chinese National Government.

g. Unless the Chinese National Government is given military assistance sufficient to resist effectively communist expansion in China that government will probably collapse, thus terminating the only single and unified opposition to Soviet expansionist aims in Asia.

h. United States commitments to the United Nations in which China at United States insistence is one of the designated five great powers, require our support of the National Government's efforts to gain control over Manchuria; otherwise China's military potential of raw materials essential to her future development into a great power will be lost to her.

i. Time works to the advantage of the USSR in China. The continuation of chaos can be expected eventually to result in the fall of the Chinese National Government. United States assistance, including military aid, is necessary at an early date if any degree of stabilization for China is to be attained.

j. United States assistance to those nations on the periphery of Soviet controlled areas in Eurasia should be given in accordance with an over-all plan. This plan should take into account the necessity for the maintenance of the Chinese National Government's resistance to the communists and should eventually provide sufficient assistance to that Government to eliminate all communist armed opposition, the latter in accordance with the priorities established by the over-all plan.

[Subenclosure—Annex]

The following are comments from the military point of view with regard to the eight points contained in the memorandum of the Secretary of State dated 11 February 1947,¹⁴ the comments of the Secretary of War and the further comments of the Secretary of State:

1. *"We continue to encourage China to achieve unity by democratic methods of consultation and agreement."*

This is primarily a political matter and is not within the purview of the Joint Chiefs of Staff.

2. *"We maintain a constructive and sympathetic (as distinguished from exacting) attitude in determining the extent to which conditions in China should improve as a prerequisite to giving economic assistance."*

¹⁴ See footnote 20, p. 794.

This is primarily a political matter and is not within the purview of the Joint Chiefs of Staff.

3. "*We withhold military aid to China in any form which would contribute to or encourage civil war.*"

A strict interpretation of a decision to withhold aid which would contribute to or encourage civil war must mean a decision to withhold assistance of any sort to China, so long as there is armed opposition to the Chinese National Government. Any economic or financial support to China must inevitably, even though indirectly, improve to some degree the over-all position of the National Government in its present war with the Chinese Communists. The Joint Chiefs of Staff believe that to withhold military aid which might support or encourage civil war is consistent neither with our policies in other parts of Eurasia, nor with our desire for stability in China. Furthermore, the withholding of military assistance is wholly incompatible with other proposed elements of the policy toward China, such as the maintenance of a military advisory group and the delivery of non-military items and ships to China. Although indecisive in themselves, these non-military items would have a definite beneficial effect on the Chinese economy. Accordingly, they may be construed as contributing to or encouraging the National Government to continue the civil war. By providing such *indecisive* aid we are to some extent prolonging the period that the National Government is able to conduct operations in the current civil war, and are thus furthering the overall deterioration of China's ability to resist Soviet infiltration. Under these circumstances either a military stalemate or the ultimate collapse of the National Government appears to be inevitable.

From the military point of view a most serious consequence of a stalemate in China would be to assure that Manchuria is lost to China by incorporation into the eastern Siberian economy. Such incorporation would be serious for the following reasons. It would deny China her richest mineral and agricultural area, with its great industrial potential, and thus will prevent her from achieving, within the foreseeable future, the ability to defend herself from her enemies. Furthermore, the addition of Manchurian potential to the self-sufficiency of the already formidable economic and military development of eastern Siberia, and the simultaneous weakening of the remainder of China would enable and encourage the Soviets, when they deem conditions favorable, further to expand their control in eastern Asia on through China, Korea, Malaysia and India.

On the other hand, should the Chinese National Government collapse, the eventual triumph of the communists who will control the only remaining organized force of considerable strength in China,

will be certain with results identical to those which may be expected to result from a military stalemate. In view of the above, the Joint Chiefs of Staff from the strictly military point of view do not concur in withholding military aid to the Chinese National Government.

4. *"We maintain a modest Military Advisory Group in China and to this end support in Congress the general Military and Naval Missions Bill."*

The Joint Chiefs of Staff are in favor of the maintenance of a Military Advisory Group in China of sufficient size to carry out the functions assigned by the Presidential directive of 26 February 1946, and feel that the size now contemplated should be satisfactory provided the group is given proper support.

While strongly favoring the maintenance of a Military Advisory Group to China, the Joint Chiefs of Staff believe that this group would serve no useful purpose if it were United States policy to give no assistance to China which might encourage or contribute to civil war. If the Military Advisory Group makes any progress toward its objective of increasing the efficiency of the Chinese National Army, it will inevitably have some influence on the conduct of that army in the war against the communists. This can hardly be reconciled with any United States non-interference policy. It is believed that if the ultimate decision taken is that no military aid is to be given China, the influence of the Military Advisory Group will not be commensurate with the effort involved in maintaining the group, and under such circumstances it should be withdrawn. The Joint Chiefs of Staff visualize, however, that the political consequences of such withdrawal would be most serious and might influence the Chinese National Government to yield to Soviet pressure. They believe that United States personnel should be available to assure that any assistance which may be furnished China will not be misused by the National Government to entrench corrupt and inefficient control of China, but will be used entirely to attain the end of a strong and democratic China. From the military viewpoint, the Joint Chiefs of Staff concur in Point 4 above subject to the deletion of the word "modest".

5. *"We defer action on a Military Advisory Group Bill."*

It is the understanding of the Joint Chiefs of Staff that the Military and Naval Missions Bill, now before the Congress, will provide adequate legislative authority for a Military Advisory Group to China. It would appear, therefore, that the Military Advisory Group Bill is not vital at this time. Additional legislation may be required, however, to provide specific authorization for military aid to China of the general nature envisaged in this study. See comments under Points 3 and 4.

6. *"In any legislation authorizing the supply of military equipment to China the Secretary of State has final decision with regard to the time, type and quantity of disposals of such equipment."*

The Joint Chiefs of Staff concur with the views of the Secretaries of State and War that the Secretary of State has the primary responsibility for advising the President with regard to the timing and political aspects of transfers of military equipment to any foreign nations, including China, following consideration of all aspects of the issue by the Secretaries of State, War and the Navy.

7. *"We continue to withhold for the present delivery of additional military-type equipment under the 8 $\frac{1}{3}$ Air Group Program."*

The discussion under Point 3 above contains the views of the Joint Chiefs of Staff in this regard. It is noted, however, that the Chinese Government apparently believes that the United States Government is firmly committed to the fulfillment of this program.

8. *"We approve the transfer to China of the 159 mercantile ships, subject to determination of China's ability to operate them effectively."*

The Joint Chiefs of Staff concur in the advisability of transferring these ships to China under the conditions specified. It is understood that steps have already been taken to accomplish this transfer. As indicated in the discussions under Point 3, however, this transfer does not seem to be in accord with a United States policy of withholding aid which might contribute to or encourage Chinese civil war.

893.24/6-1147: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 11, 1947—4 p. m.

701. On May 26 the Chinese Emb was informed that Dept would approve sale for shipment to China of surplus supply of 130 million rounds of "Gimo" rifle ammunition, now stored in this country, which had been manufactured during war for transfer to China under Lend-Lease but not shipped from this country because of transportation difficulties (Embtel 1238 June 9¹⁵). Chinese also informed favorable consideration will be given application for export licenses covering shipment of munitions purchased in this country through commercial channels. Transfers now authorized under 8 $\frac{1}{3}$ Group CAF Program include transport planes and spare parts for all equipment under Program including spare parts for combat planes. Prohibition continues on combat planes and explosives.

Copies of pertinent memoranda forwarded by air mail.

MARSHALL

¹⁵ Not printed.

SWNCC Files, Lot 52M45

*Memorandum by the Director of the Office of Far Eastern Affairs
(Vincent) to the Secretary of State*

[WASHINGTON,] June 20, 1947.

The fundamental difference in viewpoint between our Far Eastern Office and the JCS, as stated in SWNCC 83/22,¹⁶ lies in the answer each would give to the following question: Is it good and feasible American policy to give direct and substantial military assistance to Chiang Kai-shek in his attempt to eliminate Communism from China by force?

The answer of the Far Eastern Office has been and is "no" because such a course (1) would lead inevitably to direct intervention in China's civil war; (2) would provoke the USSR to similar intervention on the side of the Chinese Communists; (3) would be inconclusive unless we were prepared to take over direction of Chinese military operations and administration and remain in China for an indefinite period; (4) would invite formidable opposition among the Chinese people; and (5) would constitute a strategic commitment in China inconsistent with . . . [the study provided by the JCS to SWNCC on May 10, 1947],¹⁷ which examines the problem of United States assistance to other countries from the standpoint of "urgency of need and importance to the national security of the United States" and places "China very low on the list of countries which should be given such assistance".

The JCS answer would seem to be "yes" (1) because Chiang can be assured of success in his campaign against the Communists by American military and economic assistance and (2) because failure to assist Chiang would result in USSR domination of China. With regard to the second point, in consideration of the administrative inefficiencies of the Chinese themselves, the magnitude of the task of dominating China, the easily aroused Chinese resentment at foreign interference, the lack of industrial development and material resources, and the inability of the Russians to give the material assistance necessary to make China a going concern, it is the opinion of the Far Eastern Office that a USSR-dominated China is not a danger of sufficient immediacy or probability to warrant committing ourselves to the far-reaching consequences which would ensue from our involvement in the Chinese civil war on the side of the National Government.

There is attached a memorandum¹⁸ giving in some detail our reaction to specific points raised in the JCS paper.

¹⁶ See footnote 9, p. 838.

¹⁷ Not printed. In forwarding the study the JCS termed it a background study that did "not represent the final views of the Joint Chiefs of Staff since certain changes and additions are now being considered."

¹⁸ Not found in Department files.

SWNCC Files, Lot 52M45

*Minutes of Meeting of the Secretaries of State, War, and Navy, June
26, 1947—11:30 a. m.*

PRESENT

STATE	WAR	NAVY
Secretary Marshall	Secretary Patterson	Secretary Forrestal
Mr. Vincent	Assistant Secretary	Under Secretary Sullivan
Mr. Penfield	Petersen	Rear Admiral Wooldridge ²¹
Mr. McWilliams ¹⁹		
Mr. Moseley ²⁰ (SWNCC)		
Secretary		

I. U. S. POLICY TOWARD CHINA

Decision:

It was agreed that the question of providing ammunition to the Chinese National Army should be put up to the President.

Implementing Action:

1. Secretary Marshall to prepare a memorandum to the President pursuant to this decision.
2. The War Department to check on the status of availability of surplus ammunition in the Philippines which might be transferred to the Chinese Army.

Discussion:

SECRETARY MARSHALL referred to the study of the JCS on U. S. Policy Toward China (SWNCC 83/22) and read a memorandum from Mr. John Carter Vincent, Director of the Office of Far Eastern Affairs of the State Department,²² giving the latter's views (Summary in Appendix²³) on the JCS report.

MR. JAMES PENFIELD, Deputy Director of the Office of Far Eastern Affairs, gave a brief account of the situation in China as he saw it during his recent visit there.

SECRETARY MARSHALL said that the immediate and urgent problem to be decided is what are we to do about rearming the Chinese National Army. He said that the Army is beginning to run out of ammunition and it appears that we have a moral obligation to provide it inasmuch as we aided in equipping it with American arms. He said that action in this case poses a real dilemma because we will be taking an indirect

¹⁹ William J. McWilliams, Executive Officer of the Office of Departmental Administration.

²⁰ Harold W. Moseley, Assistant for State-War-Navy Coordinating Committee Affairs.

²¹ Rear Adm. E. T. Wooldridge, Assistant Chief of Naval Operations.

²² Not found in Department files.

²³ The document printed *supra*.

part in the civil war if we continue to rearm the National Army; on the other hand, we will be favoring the Communists if we do not provide the equipment to the Nationalists. He said that besides the question of the "ethics" involved we must consider the possible reaction of Russia if we continue to rearm the Nationalists. Furthermore, we must consider the reaction of Congress and the public to any move we make. This is further complicated by the fact that there is a feeling in China on the part of several large groups that any aid by us merely prolongs the civil war there, and consequently aid by us will create a certain amount of ill-will towards America among those elements.

MR. PETERSEN said that there was a considerable amount of surplus small arms ammunition in the Philippines which probably could be made readily available for the Chinese National Army. He said that he would check on the availability of this war material.

SECRETARY FORRESTAL said that he favored our furnishing the ammunition and that we should not be too concerned with Russian reaction. He said that we must recognize the fact that we have an obligation to support the government in China which we have recognized and have previously supported. He said that we must maintain our interest in China and we should recognize that the Chinese Communists are, in fact, true communists and that their leaders have been Russian trained. He also cited the need for aiding the rehabilitation of the Chinese transportation and communication system, as well as providing food relief. He added that we must provide moral and material help to the Chinese people to encourage and aid business there to get back on its feet.

SECRETARY PATTERSON said that he also agreed with Secretary Forrestal in our obligation to furnish the ammunition. He said that by so doing we were only supporting a recognized government and by such action we were not necessarily taking a part in the civil war there.

MR. VINCENT said that if we do decide to go ahead and rearm the Chinese National Army we should go into this matter with our eyes open. He said that such a move on our part will not accomplish the aims of the JCS paper in eliminating the Communist forces. He added, however, that it should prevent a collapse of the Chinese National Armies.

SECRETARY MARSHALL said that this problem is of such importance that the President must be consulted before any action is taken. He said that he intended to take the matter up directly with the President and asked if there were any further views or proposals which the other Members wished him to make to the President.

There was no further comment and the Meeting came to a close.

711.93/6-2747

*Memorandum of Conversation, by the Secretary of State*²⁴

[WASHINGTON,] June 27, 1947.

Participants: The Secretary
 The Chinese Ambassador
 Mr. Thorp,²⁵ A-T
 Mr. Vincent, FE

The Chinese Ambassador called at his request on June 25. At the conclusion of lengthy discussions of economic aid to China (see memorandum of June 25 prepared by Mr. Thorp²⁶), Ambassador Koo stated that he was under instructions from Chiang Kai-shek to request full implementation of the 8½ Air Group Program. He said that the Generalissimo was anxious to obtain combat planes and ammunition.

I told Ambassador Koo that we had only recently authorized further implementation of the 8½ Group Program to the extent of supplying China with transport planes and spare parts for all types of planes and equipment under the Program and that I understood action was now being taken to make these available to China. Mr. Vincent confirmed this. I told him that the Generalissimo's request for full implementation of the Program concerned a broad issue which would have to be considered by the U. S. Government.

In response to his inquiry I told Ambassador Koo that I was not now in a position to make a reply to the Generalissimo's request.

Marshall Mission Files, Lot 54-D270

*Memorandum by the Director of the Office of Far Eastern Affairs
 (Vincent)*²⁷

[WASHINGTON,] June 27, 1947.

MEMORANDUM FOR USE IN PRESENTING TO THE PRESIDENT THE PROBLEM
 OF MILITARY ASSISTANCE TO THE CHINESE NATIONAL ARMIES

The recent deterioration in the military position of the Chinese Nationalist armies confronts us with the very serious issue of whether or not and to what extent we should afford further military assistance to the Chinese armies. Although incompetence of the Chinese high

²⁴ Drafted by the Director of the Office of Far Eastern Affairs (Vincent).

²⁵ Willard L. Thorp, Assistant Secretary of State.

²⁶ *Post*, p. 1147.

²⁷ An attached note by the Secretary of State asked for the views of the Under Secretary of State (Acheson) on this memorandum.

command under Chiang Kai-shek and a lowering of troop morale account in very large measure for reverses, a shortage of ammunition is also an important factor.

Prior to the end of the war we undertook to train and equip 39 Chinese divisions. The training of these divisions was discontinued on V-J Day, but American equipment including rifles was supplied. The extent to which the Chinese have lost this equipment is not known, but there are known to be a considerable number of Chinese divisions dependent upon American ammunition, the supply of which is running low.

Since V-J Day military lend-lease to China has approximated \$700 million. We have transported Chinese troops and we have supplied them with equipment and ammunition. Furthermore, we have abandoned to the Chinese National armies ammunition dumps in the neighborhood of Tientsin and Tsingtao containing some 7,000 tons of munitions. We have withdrawn objection to the issuance of export permits for the shipment of military supplies to China. We are now in the process of turning over to the Chinese some 130 million rounds of 7.92 ammunition as surplus property for the "Generalissimo" rifles used by Chinese troops. We are further implementing the 8½ Air Group Program by supplying China with transport planes and spare parts for all types of planes with other military and civil end-use equipment supplied under this program.

Further military assistance to Chinese armies raises very grave issues. Quite apart from the reaction of the Chinese Communists to such assistance there is known to be a large and articulate body of Chinese opinion opposed to American military support for the present Chinese Government. The reaction of the USSR to American military assistance to the Chinese Government is also a critical question. There is the additional question of whether, in view of the demonstrated incompetence of the Chinese National army command, military assistance from us will in fact enable the Chinese armies to defeat the Chinese Communists or even to maintain an effective defense.

American military assistance which would enable the National armies to defeat the Chinese Communist armies would have to be on a very large scale and would lead to our direct participation in the civil war. We would probably have to take over direction of Chinese military operations and administration and remain in China for an indefinite period, thereby undertaking a strategic commitment in China inconsistent with JCS 1769/1,²⁸ which examines the problem

²⁸ Not printed.

of United States assistance to other countries from the standpoint of "urgency of need and importance to the national security of the United States" and places "China very low on the list of countries which should be given such assistance".

On the other hand, the fact that we have trained and equipped a considerable number of Chinese divisions and the further fact that these divisions are now dependent upon the supply of American ammunition places us in a position of some responsibility for the continued effectiveness of those divisions. We could probably arrange to supply on reasonable terms these Chinese divisions with American ammunition. There is believed to be considerable surplus ammunition now in the Philippines. Limited assistance of this kind could be given without bringing us directly into the civil war and probably without arousing widespread Chinese resentment or provoking the USSR to take counter measures with regard to the Chinese Communists. These, of course, are calculated risks which we take.

It is recommended that we take prompt measures to build up China's reserves of American ammunition; that this be done in a manner to avoid publicity in so far as possible; that we as a Government stay in the background as much as possible and endeavor to direct the Chinese Government towards private purchase of ammunition if practical. In taking this action we should have clearly in mind that our objective is prevention of the collapse of the Chinese National armies. It is not believed to be good or feasible American policy to commit ourselves to a program of giving military assistance to Chiang Kai-shek in the very substantial quantity and quality that would be required to eliminate Chinese Communist opposition in China. In the final analysis the Chinese themselves must find a more fundamental solution to the problem.

In view of (1) the administrative inefficiencies of the Chinese themselves; (2) the magnitude of the task of dominating China; (3) the easily-aroused Chinese resentment at foreign interference; (4) the lack of industrial development and material resources in China; and (5) the inability of the Russians to give the material assistance necessary to make China a going concern, it is our considered opinion that a USSR-dominated China is not a danger of sufficient immediacy or probability to warrant committing ourselves to the far-reaching consequences which would ensue from our direct and large-scale involvement in the Chinese civil war on the side of the Chinese National Government.

J[OHN] C[ARTER] V[INCENT]

Marshall Mission Files, Lot 54-D270

*Memorandum by the Under Secretary of State (Acheson) to the Secretary of State*²⁹

MR. SECRETARY: I have read the attached memorandum³⁰ and discussed it with Mr. Vincent. As I understand it, the following points are made in the memorandum:

1. Military assistance to China in the sense of supplying ammunition to the National Armies will not produce the result of eliminating the Communist organization and Armies by force. The sort of assistance which would be necessary to accomplish this result would require large scale American intervention in China, which would require our participation in the civil war and our taking over the direction of military operations and administration. This large scale intervention is not regarded as practicable or desirable. With this conclusion I concur.

2. While supplying ammunition will not result in the defeat of the Chinese Communists, it will be of substantial help in preventing the Communists from administering defeats to the National forces. Furthermore, since the United States has armed some 39 Chinese divisions with American equipment, there is a moral obligation not to cut off these divisions from supply of ammunition suitable to their equipment. It may be stated more forcefully that there is a moral obligation to assist the Chinese Government in obtaining this ammunition. The fact that many elements in China feel that any help we may give the National Government supports the extreme reactionary wing of the Generalissimo's supporters, is mentioned as a counterweight. Nevertheless, the conclusion stands that there is an obligation not to hinder and possibly to help in the procurement of ammunition.

3. Action and possible action to meet the obligation mentioned in paragraph 2 above is as follows:

(a) We are turning over some 130,000,000 rounds of 7.92 ammunition as surplus property, and we are supplying China with transport planes and spare parts for all types of planes and other supplies for the 8½ Air Group Program. This, however, will take care of only immediate needs and for a short time only.

(b) We are investigating supplies of ammunition in the Philippines. These, as I understand it, are surplus to our needs and might be sold for small amounts as surplus to the Chinese. Although the amount of such ammunition which is available is unknown, it is esti-

²⁹ An attached note by the Secretary of State suggested that General Wedemeyer might read over this memorandum and the one *supra* "on which no decision has been made". Lt. Gen. Albert C. Wedemeyer was appointed on July 9 as Special Representative of President Truman to go to China on a fact-finding mission. For correspondence on this subject, see pp. 635 ff.

³⁰ *Supra*.

mated that this again will not be long range assistance but is of a more immediate and short range character.

(c) In order to have a more stable supply of ammunition the Chinese will have to purchase in the United States. I am informed that possible manufacturers of the desired ammunition are almost entirely under contract with the United States Government. Therefore, I am told that the Government must either release the contractors from their obligation and permit them, as a matter of direct sale, to manufacture for and deliver to the Chinese, or the United States Government must have the ammunition manufactured for it and then itself sell the ammunition as surplus to the Chinese. This latter course produces obvious difficulties since currently produced material cannot, as a general rule, be regarded as surplus.

I understand that Mr. Vincent recommends, and I concur, that the ammunition in the Philippines, if investigations confirm present beliefs, be turned over to the Chinese Government as surplus. He also recommends that, if you and the President believe that the Chinese should be given access to current production in the United States, it be done if possible by having the United States Government release manufacturers from their obligation to it and permit them to enter into direct dealings with the Chinese Government. If this course is practicable, it seems to me preferable to having our own Government buy the ammunition and resell it.

DEAN ACHESON

893.24/7-147

The Assistant Secretary of War (Petersen) to the Secretary of State

WASHINGTON, 1 July 1947.

DEAR MR. SECRETARY: The following is a full report on action taken by the War Department to expedite the shipment of 7.92 mm ammunition for the Republic of China:

The suspension imposed in August 1946 by your office on the transfer of arms, munitions, and lethal weapons to China was lifted on 7.92 mm ammunition by an informal memorandum from your office dated 28 May 1947.³¹ The financial, shipping, and other numerous details required to accomplish a surplus sales contract were finally agreed upon and late Friday afternoon, 20 June 1947, the Field Commissioner for Military Programs, on advice of the Chinese Supply Commission, formally requested the necessary surplus property declarations. The War Department reply of Tuesday, 24 June 1947, inclosed these documents. A letter from the Field Commissioner for Military Programs, containing a copy of the signed agreement, was delivered to the War Department the following day.

³¹ Not printed.

The first 30,000,000 rounds will be available for shipment at Pier 28, Seattle, Washington, on 14 July 1947. The balance of 100,000,000 rounds will be made available at Bangor, Washington, by 1 August 1947. These arrangements were negotiated with Mr. Walsh of the Chinese Supply Mission and confirmed as agreeable by a telephone conversation between Dr. Shou Chin Wang, Chairman of the Chinese Supply Commission, and Brigadier General T. M. Osborne.

Sincerely yours,

HOWARD C. PETERSEN

893.00/7-247: Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 2, 1947.

[Received July 14—8:48 a. m.]

A-148. Reference is made to Embassy telegrams no. 916 of April 28, midnight, and no. 963 of May 4, noon, 1947 and previous, indicating the pressure which the Embassy brought to bear on the Chinese authorities to effect a more effective use by them of the air equipment which the United States Government made available to the Chinese Air Force.

In this connection Embassy is pleased to report that as a result of its intervention the Generalissimo issued the requisite instructions and the Chinese Air Force was granted a sufficient sum of money by the Executive Yuan to permit execution of the plan which was drawn up by the Air Division of the United States Army Advisory Group for moving the surplus equipment stored in Chengtu and Kunming to the Nanking-Shanghai area. General McConnell has just returned from a visit to Chengtu and Kunming where he saw the movement in operation.

Furthermore, there has been some improvement in attaching service groups to combat groups of the Chinese Air Force. The Embassy hopes to be in a position to provide further details in the near future.

In the meantime, an illustration has come to hand which indicates progress in effecting a more cooperative attitude between the several agencies of the Chinese Government concerned with aviation matters. Early on the morning of June 9 a storm suddenly hit Shanghai and damaged 49 C-46s of the Chinese Air Force. In order to effect repairs on these planes CAF has obtained from CATC,^{31a} the operations of which are declining, a large number of control surfaces removed intact from airplanes which CATC is salvaging on Kiangwan airfield. Embassy understands that with these surfaces most of the

^{31a} Central Air Transport Corporation.

damaged CAF airplanes will be put back into commission. None is damaged beyond repair, and although a few are service group or depot jobs, they are not extensive in character.

STUART

893.00/7-747: Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 7, 1947.

[Received July 16—10:17 a. m.]

A-149. Reference is made to the Embassy's airgram A-148 of July 2, 1947. General John P. McConnell, Chief of the Air Division of the Army Advisory Group, reports that as a result of the conversations reported in the Embassy's telegrams no. 916 of April 28, and no. 963 of May 4, 1947:

"a. We were successful in establishing the principle that tactical groups would never be moved from one location to another unless their accompanying service backing could also be moved.

"b. The Generalissimo approved in principle a total expenditure of \$37,000,000,000 CNC for packing, crating and warehousing of equipment which could be used by the Air Forces provided it were removed from West China. The Generalissimo did not approve an additional \$31,000,000,000 CNC required for transportation. The approval for the \$37,000,000,000 CNC was transmitted to the Ministry of National Defense which immediately took steps to determine if such funds were available in existing budgetary allowances. It was determined that the Budgetary Department of the Executive Yuan would have to earmark new funds for this project. The \$37,000,000,000 project was approved by the Generalissimo and went through the National Defense, and is now in the hands of the Executive Yuan waiting its turn to be processed together with 59 other projects which are awaiting consideration and claim to be of an emergency nature. The request for the \$31,000,000,000 CNC for transportation purposes, since it was not approved by the Generalissimo, was submitted to the Combined Services Division of the Ministry of National Defense, and it is anticipated that in the event additional funds are allotted, the S.O.S.³² will report that they are able to accomplish the transportation requirement. In actual point of fact, no additional funds have been allocated but the Chinese Air Force itself as a result of these conferences has been using funds allocated for other purposes to crate and store this property in West China, and they are using whatever air lift can be made available to bring out as much as it is possible to lift economically by air."

STUART

³² Services of Supply.

893.20 Mission/7-747

*The Ambassador in China (Stuart) to the Secretary of State*³³

No. 863

NANKING, July 7, 1947.

[Received July 17.]

SIR: I have the honor to advert to the programs presently being undertaken by the Army Advisory Group and the Naval Advisory Group in China and to enclose a copy of a letter which Embassy addressed to the Chief of the Army Advisory Group, Nanking on June 5, 1947 asking that a brief analysis of the Army Advisory Group program be prepared. An identical letter was addressed on the same day to the Chief of the Naval Advisory Group.

Replies have now been received to the Embassy's inquiries and are currently being studied by the Executive Office of the Embassy. Meanwhile, since the information is of immediate interest to the Department, copies of the two replies are enclosed.

In addition to eliciting information, the Embassy's inquiry has also had the immediate effect of causing the Army Advisory Group and the Naval Advisory Group to review their respective programs, needs and objectives.

Respectfully yours,

For the Ambassador:
W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

[Enclosure 1]

*The Ambassador in China (Stuart) to the Chief of the Army
Advisory Group in China (Lucas)*

NANKING, June 5, 1947.

MY DEAR GENERAL LUCAS: The Department of State has expressed a desire that the Embassy prepare a current assessment of the character and extent of the Army (including Air Division) and Navy Advisory Group programs with a view to determining their effect upon overall American policy in China.

In order that the Embassy may take advantage of the best and latest information upon which to base such a broad survey of our military advisory activities, along with other related factors, I would appreciate your assistance in its preparation. I am fully aware of the not inconsiderable amount of additional work that this request will cause you, but it is a matter of some urgency and therefore I

³³ The Secretary of State requested that General Wedemeyer's comments be obtained on this despatch; a copy was transmitted to General Wedemeyer on September 22.

would like to receive as soon as possible a brief analysis of your present program covering, but not necessarily limited to, the following points:

1. The type and locality of activities with the numbers of United States personnel involved.
2. The type of training and numbers of the Chinese military affected.
3. The training and other types of United States equipment or materials being supplied for the present program.
4. The estimated annual cost of the present program in (a) Chinese National currency to the Chinese Government (including OMEA^{33a}), and (b) United States currency to the Chinese Government.
5. If United States Government restrictions now imposed were lifted, what form should the Army Advisory Group program take, having in mind the limitations of enabling legislation as now written?
6. Assuming continuation of the present program only, what amount of funds in your opinion should be earmarked for the Army Advisory Group in the event of future American loans to China of a general nature?

Please feel free to call upon members of my staff for any assistance they may be in position to afford you in the preparation of this study.

Very sincerely yours,

J. LEIGHTON STUART

[Enclosure 2]

The Chief of the Army Advisory Group in China (Lucas) to the Ambassador in China (Stuart)

[NANKING,] 28 June 1947.

YOUR EXCELLENCY, This letter is submitted in response to your memorandum of 5 June 1947, which requested a report of the current assessment of the character and extent of the Army Advisory Group. As you know, the mission of the Advisory Group may be summed up in the following extract from the Joint Chiefs of Staff memoranda of the 1330 series:³⁴

"To assist and advise the Chinese Government in the development of modern armed forces for the fulfillment of those obligations which may devolve upon China under her international agreements, including the United Nations Organization, for the establishment of adequate control over the liberated areas in China, including Manchuria and Formosa, and for the maintenance of internal peace and security."

Further recommendations of the Joint Chiefs of Staff, which have been established as policy to date indicate that:

"The contemplated activities of the Military Advisory Group envisage advice to higher staffs on organization and training matters, assistance in the training of general and special staff groups of the Ministry of War and the Supreme Headquarters, and provision of

^{33a} Officers' Moral Endeavor Association.

³⁴ See *Foreign Relations*, 1945, vol. VII, pp. 590-598, and 1946, vol. X, pp. 810 ff.

some training in the academies and service schools of the air, ground and naval forces. Sufficient personnel for close tactical or technical training assistance in lower echelons will not be available. . . .³⁵ This participation in training would not under any circumstances extend to U. S. personnel accompanying Chinese troops in any combat operations; and that the strength of the Army Advisory Group will initially be limited to 750 military (Army) personnel. However, it is also indicated that the 'ultimate size and organization of the Advisory Group can be re-examined when the pattern of political and military organization of China is more clear.'"

These extracts carry the implication that the scope and size of the Advisory Group may be subject to revision as circumstances require.

In addition to the restrictions as to personnel and scope of activities of the Advisory Group, the current policy which prohibits the transfer or sale of military supplies and equipment to China establishes a severely restrictive limitation upon the effectiveness of the efforts of the group.

The present critical military and economic situation in China convinces me that now is the time for re-assessment not only of the scope and character of the activities of the Advisory Group, but also of the policy restrictions which limit our effectiveness. Our efforts to date have been well received by the Chinese, and have met with a high degree of success; but the results have been of a preliminary nature, sited [*sighted?*] towards long-range results. Pursuant to our advice and instruction, the Ministry of National Defense and the Headquarters of the major elements of the Chinese Armed Forces have been almost completely reorganized and the foundation for an extensive and continuous training-school system for officers has been laid. But the core of the problem—the actual modernized training of the combat echelons; the development of adequate administrative, technical, and logistic services in all echelons, and the elevation of the common soldier from the status of a feudal serf to that of a self-respecting and efficiently trained fighting citizen—remains to date untouched. No effective steps in this direction can be taken until the restrictions as to personnel and equipment necessary for training, can be removed. Without the removal of these restrictions, further effort on our part can hope to achieve only rapidly diminishing results. Aside from these considerations, the tendency toward collapse of the present regime which is inherent in the existing military and economic crisis, if allowed to continue, may leave this Group in a position of complete, and possibly ridiculous, frustration.

The natural development of the program pursued up to now would require participation in the supervision of the permanent Service and Technical schools, advice and assistance in the secondary logistic and administrative elements, and, most important, initiation of closely

³⁵ Omission indicated in the original letter.

supervised training of combat troops. This latter feature should be pointed toward the ultimate development of a thoroughly trained force of as many as ten ground divisions, together with the necessary supporting and service troops to complement them. This is obviously a long-range program, whose orderly development assumes a reasonable degree of stability in the military and governmental situation in China. Further, its successful prosecution would require the revision of some of the restrictions now surrounding the activities of this Group. Substantial increases of personnel would be necessary; and the equipment and ammunition needed for training must be made available to China.

But, the present state of events in China demands something more immediate and drastic than this orderly and progressive program. The 39 Chinese divisions sponsored by the United States during the last war, and equipped with U. S. weapons and partially trained in American methods, have lost and are continuing to lose a large part of their effectiveness through defeats, loss and deterioration of men and equipment and lack of continued training. The Chinese Air Force, through lack of maintenance and parts, is rapidly approaching a condition of zero effectiveness. The stocks of American ammunition are approaching exhaustion. The National Government forces are rapidly losing control of Manchuria and their position in North China is not satisfactory. That these conditions have arisen primarily because of excessive dispersion of military effort and of fantastically inept leadership in all echelons, is not to be doubted. The lack of aggressiveness shown by National forces in the field is due not only to this inept leadership, but also to the poor condition of the troops as to morale, training and equipment. It appears evident that commanders often hesitate to commit their troops to definite, aggressive action because of the fear that their units will completely disintegrate when faced by the enemy.

Consideration must therefore be given to some form of emergency assistance to China, and to an intensification of the training program, with the view of checking further deterioration of the military situation and of providing a firm basis for eventually restoring a satisfactory measure of stability. Such emergency assistance should take the form of equipment for training; of ammunition for training and for combat operations; of repair parts for weapons, for vehicles and for aircraft; and of additional transport aircraft to support combat operations. Lest these materials and supplies be ineffectively dissipated as has so often happened in the past, it would be essential that some form of control be established by agreement, as to their disposition and use. Should the exercise of this control be delegated to this Group, together with authority to regulate the flow of these supplies into China, it is felt that sufficient influence can be exerted to improve

the strategy of operations and the quality of leadership. This, of course, presupposes that we would be permitted access to operational information in the field, and would be authorized to offer advice on operational matters to the Chinese.

Concerning the question of intensification of training of combat echelons, the Generalissimo has recently decided to initiate re-training of Chinese divisions immediately and has informally asked the assistance of this Group in organizing and supervising this training. As I have already indicated, this is a vitally necessary step either as part of any emergency program of aid or in the development of the long-range program. As an emergency measure, in view of the fact that the Ministry and the Supreme Headquarters are now functioning along re-organized lines, the Advisory Group can assist in the organization and initiation of this program of training, provided that permission to extend our activities in that direction is granted.

These emergency measures are suggested under the presumption that United States' interests in Manchuria are sufficiently vital to warrant such overt action. If they are taken without delay, it is believed that there is a reasonable chance of maintaining a foothold in that area.

The foregoing represents my personal views of the current assessment of the character and extent of the Army Advisory Group program and recommendations for the proposed expanded program in the light of recent political and military events. I have attached reports to answer the specific questions outlined in your letter of 5 June in the following annexes:³⁶

- | | |
|---|----------------|
| 1. "The type and locality of activities with the numbers of United States personnel involved" . . . | Annex 1 |
| 2. "The type of training and numbers of the Chinese military affected" | Annex 2 |
| 3. "The training and other types of United States equipment or materials being supplied for the present program" | Annex 3 |
| 4. "The estimated annual cost of the present program in (a), Chinese National Currency and (b), United States currency to the Chinese Government" | Annex 4 |
| 5. "Assuming continuation of the present program only, what amount of funds in your opinion should be earmarked for the Army Advisory Group in the event of future loans to China of a general nature?" | Annex 5 |

Sincerely,

JOHN P. LUCAS
Major General, USA

³⁶ None printed.

[Enclosure 3]

*The Chief of the Naval Advisory Group Survey Board (Murray)
to the Ambassador in China (Stuart)*

Serial: 003

TSINGTAO, 19 June 1947.

YOUR EXCELLENCY: This is in response to the request made in your secret letter of 5 June 1947 for information on the activities of the prospective Naval Advisory Group.

Before answering directly the questions listed in the second paragraph of your letter, I consider it advisable to outline the circumstances under which the Naval Advisory Group Survey Board program is presently operating. As you undoubtedly know, there exists enabling legislation for this program in the form of Public Law 512. Also, there exists the Presidential Executive Order 9843, signed April 25, 1947, which places into effect Public Law 512, subject to certain conditions and limitations as contained therein. For ease of reference, copies are attached. Prior to the passing and implementation of this legislation, ship transfers were effected under authority of lend-lease agreements. All the ships authorized under the lend-lease agreements except two have been transferred to the Chinese Navy. All ships in the future will be turned over to the Chinese Navy as stipulated in Public Law 512 and Executive Order 9843. This law authorizes the transfer of 271 ships and craft to the Chinese Government. Of these, a total of 137 are to go to the Chinese Navy, the remainder to the Chinese Maritime Customs. All transfers to the Chinese Maritime Customs are made through FLC. The figure 137 includes all authorized ship transfers to the Chinese Navy. Transfers of 95 ships and craft to the Chinese Navy has been effected to date.

Transfers of ships to the Chinese Navy under the lend-lease agreement was made the responsibility of Commander in Chief, U. S. Pacific Fleet acting through the Commander, Naval Forces Western Pacific. Accordingly, the Chinese Training Group consisting of prospective Naval Advisory Group personnel was established in Tsingtao and continues to function directly under the Commander, Naval Forces Western Pacific. In anticipation of activation of the Naval Advisory Group, and to provide the necessary assistance to the Chinese Naval Headquarters to enable them to properly operate and maintain the vessels transferred, prospective Naval Advisory Group personnel were assigned to Nanking and Shanghai in addition to Tsingtao. The members of the prospective Naval Advisory Group are all attached to the Staff, Commander Naval Forces Western Pacific and are responsible to him until activation has been effected.

The above explanation of the relationship between the prospective Naval Advisory Group and the Commander, Naval Forces Western Pacific is peculiar to the status of the Naval Advisory Group Survey Board and is considered necessary for amplification of the information to follow. In a directive received 7 June 1947, the Secretary of the Navy ordered this Group to continue to assist with the training of Chinese Naval Personnel in the operation of ships and craft transferred to China under Public Law 512 or through FLC. The Secretary of the Navy also has decided to hold in abeyance the establishment of the Naval Advisory Group under Public Law 512.

The information furnished herein is predicated on the present authorized Chinese Navy program. This program was planned to establish a small Chinese Navy to perform police duties along the Coast and Inland Waterways of China and also to provide a small amphibious lift. Public Law 512 contains a proviso that prior to the transfer of any larger combatant types of ships, the President shall obtain the authority of the Congress in each instance. Should such further authorization be obtained or the presently planned training program be enlarged then there would be necessarily a considerable increase in the expenditures enumerated below.

The following information is furnished covering the points indicated in your letter :

(1) *The type and locality of activities with the numbers of United States personnel involved:*

Locality	Activity	Type	Number of U.S. Personnel Involved	
			Officers	Men
Nanking	NAGSB Hdqtrs.	(a) Advise the Minister of National Defense, the C/S Chinese Armed Forces (C-in-C Chinese Navy) and the Deputy C-in-C Chinese Navy on organization and functions of the Chinese Naval Establishment.	12	20
		(b) In cooperation with the U.S. Army Advisory Group, make recommendations to the Minister of National Defense and the C/S Chinese Armed Forces on joint matters regarding the functions of the Ministry of National		

<i>Locality</i>	<i>Activity</i>	<i>Type</i>	<i>Number of U.S. Personnel Involved</i>	
			<i>Officers</i>	<i>Men</i>
		Defense and other matters of joint interest.		
		(c) Advise Chinese Navy Headquarters on the organization and functions of the Headquarters and the Naval Establishment.		
		(d) Act as screening agency for Chinese Naval Headquarters' requests for materials chargeable to funds deposited by the Chinese Government against Cash Deposit Lend-Lease Requisitions.		
		(e) Maintain necessary liaison with officials of the Chinese Maritime Customs and other Chinese and U.S. government agencies as required.		
		(f) Administer personnel and activities of the prospective Naval Advisory Group stationed in Shanghai and Nanking.		
		(g) As directed, act on the residual affairs of the SACO ^{sr} agreement.		
		(h) In conjunction with U.S. Army Advisory Group, provide communication facilities for the U.S. Embassy and U.S. Armed Forces in Nanking.		
		(i) Perform liaison and other duties pertaining to the U.S. Navy.		
Shanghai	Local NAGSB office	(a) Advise on organization and functions relative to Chinese Naval activities in Shanghai.	2	1

^{sr} Sino-American Special [Military] Technical Cooperation Agreement, signed at Washington on April 15, 1943. Regarding its termination, see p. 1004.

Locality	Activity	Type	Number of U.S. Personnel Involved	
			Officers	Men
		(b) Advise the Chinese head of the Kiangnan Dockyard on efficient operation of the dockyard and on the overhaul and maintenance of ships of the Chinese Navy.		
		(c) Act as directed as local U.S. Navy representative in matters pertaining to contracts of a naval nature between the U.S. and China.		
		(d) Advise on the conduct of training of Chinese naval engineers.		
		(e) Advise on establishment of a local Chinese Naval Supply System and provide necessary liaison with local U.S. Navy supply agencies.		
		(f) As Officer - in-Charge, Shanghai Group, administer personnel and activities of prospective Naval Advisory Group, Shanghai.		
		(g) Maintain liaison with local ComNavWes-Pac and U.S. Army representatives on matters relating to the logistic support of prospective Naval Advisory Group in Shanghai.		
Tsingtao	Chinese Training Group	(a) Train Chinese Naval personnel in the operation and maintenance of U.S. Navy ships to be transferred to the Chinese Navy.	22	62
		(b) Maintain necessary liaison with other U.S. naval agencies to insure required repair, outfitting of ships and completion of Chinese naval		

<i>Locality</i>	<i>Activity</i>	<i>Type</i>	<i>Number of U.S. Personnel Involved</i>	
			<i>Officers</i>	<i>Men</i>
		personnel training prior to actual transfer of ships.		
		(c) As a Task Group Commander under ComNavWesPac exercise command responsibilities for U.S. ships which are assigned his group.		
		(d) Maintain liaison with local Chinese naval authorities in matters relating to the ship transfer program.		
		(e) Advise local Chinese naval officials on repair and maintenance of ships already turned over.		
		(f) As Task Group commander administer personnel and activities engaged in the training and transfer program at Tsingtao.		
		(g) Advise on the training of prospective officers for the Chinese Navy.		
		Grand Total Personnel, Prospective Naval Advisory Group	36	83
(2) <i>The type and training and numbers of Chinese Navy directly affected:</i>				
		<i>Type of Training</i>	<i>Numbers of Chinese</i>	
	(a)	Advice on organization and functions	20,000	
	(b)	Actual training and advice on conduct of training.		
		(1) Actual training under ships transfer program	2,500	
		(2) Advice on conduct of training	10,000	
(3) <i>The training and other types of U.S. equipment and material being supplied for the present program:</i>				

Under the present program no training equipment has been transferred to the Chinese Navy, as all such equipment has been provided

for the ship transfer program by the U.S. Navy and used by the Chinese Navy under U.S. supervision and custody. Such equipment includes textbooks, instructional machinery and equipment, and all types of training aids, such as charts, films, projectors and models of actual equipment. It is contemplated that such training equipment will eventually be made available to the Chinese through transfer. There has been a small amount of ammunition transferred to the Chinese Navy in connection with the ship transfer program which is chargeable against cash deposit lend-lease requisition. This transfer of ammunition was made on the condition that it be used for training purposes only.

By Executive Order 9843 ships which may be transferred under Public Law 512 will be transferred to the Chinese Navy without compensation. The Chinese Government is to reimburse the U.S. Government in cash for necessary expenses to repair, outfit and equip vessels, craft and floating drydocks and for the material deemed by the Secretary of the Navy to be necessary for their operation and maintenance.

- (4) *The estimated annual cost of the present program in (a) Chinese national currency to the Chinese Government (including OMEA), and (b) U. S. currency to the Chinese Government.*

The estimated annual cost of the present program is divided into two parts: viz., (a) logistic support of U.S. Navy personnel and (b) training and ship maintenance programs. The costs which may be expected upon activation of the Naval Advisory Group are also shown, and are estimated from the terms of the contract previously under consideration for the Military Advisory Group. (See Enclosure (A) for details³⁸). The index of \$12,000 CNC to \$1 U.S., as of 1 May 1947, has been used in computing costs in Chinese currency.

PRESENT PROGRAM

	<i>CNC</i>	<i>U.S.</i>
Logistic Support of U.S. Navy Personnel	\$5, 032, 580, 000	20, 750
Training and Ship Maintenance Program		2, 875, 000
	\$5, 032, 580, 000	2, 895, 750

PROGRAM ON ACTIVATION OF N. A. G.

Logistic Support of U.S. Navy Personnel	\$6, 232, 580, 000	182, 290
Training and Ship Maintenance Program		2, 875, 000
	\$6, 232, 580, 000	3, 057, 290

³⁸ Not printed.

In addition to these annual costs, there will be a non-recurring charge to the Chinese Government for the repair, outfitting and equipping 42 remaining vessels to be transferred under Public Law 512. This charge will amount to approximately \$2,100,000 U.S.

If decision is made to transfer to the Chinese Government certain training aids now being used by the Chinese Navy but remaining in the custody of the U.S. Navy an additional non-recurring charge of approximately \$1,000,000 U.S. should be added to the costs shown above.

- (5) *If United States Government restrictions now imposed were lifted, what form should the Navy Advisory Group program take, having in mind the limitations of enabling legislation as now written?*

The program would continue in its present form except for minor changes in U.S. Navy command relationships and in the assumption by the Chinese of certain expenditures now being borne by the U.S. Government.

A small increase in the number of U.S. naval personnel would be required if

(a) The scope of training was broadened to include training at Tsingtao of Chinese naval personnel not specifically assigned to ex-U.S. naval vessels.

(b) The high level advice to Ministry of National Defense and Chinese Naval Headquarters was expanded to include subordinate echelons.

(c) U.S. naval personnel were allowed to accompany on training cruises Chinese naval vessels other than those transferred by the U.S.

(d) The present plan of the Chinese Navy to establish a Marine Corps is carried out.

Any such increase of personnel could be accomplished easily within the allowance now authorized by enabling legislation which authorized a maximum of 100 officers and 200 enlisted personnel of the Navy and Marine Corps.

- (6) *Assuming continuation of the present program only, what amount of funds in your opinion should be earmarked for the Naval Advisory Group in the event of future American loans to China of a general nature?*

Assuming the continuation of the present program only and that the Naval Advisory Group Survey Board is activated under Public Law 512, it is proposed that the sum of U.S. \$13,000,000 should be ear-

marked for the Naval Advisory Group in the event of a future loan to China. The authority under Public Law 512 has four years to run from July 16, 1947. The figure of \$13,000,000 U.S. is composed of the sum of the following:

(a) Four times the annual U.S. currency cost for logistic support of U.S. Naval personnel.

(b) Four times the annual U.S. currency cost for training in China and for training in the U.S. program.

(c) Ship maintenance program costs in U.S. currency for four years.

(d) Non-recurring U.S. currency costs of outfitting and equipping 42 vessels yet to be transferred to Chinese Navy.

(e) Non-recurring U.S. currency costs of certain training aids.

(See Enclosure B for details³⁹)

This letter has been shown to the Commander Naval Forces Western Pacific and he concurs in its contents. I trust that the information herein will assist you in the preparation of your assessment of the character and extent of the Prospective Naval Advisory Group.

Respectfully yours,

S. S. MURRAY
Rear Admiral, USN

893.248/7-1147

*Memorandum by the Chief of the Division of Chinese Affairs
(Ringwalt) to Brigadier General Marshall S. Carter*

[WASHINGTON,] July 11, 1947.

Responsive to your request for a statement on the present status of the 8½ group program, I have set forth hereunder a summary of the most recent estimates available to the War Department and OFLC:

1. To complete 8½ program		\$141, 200, 000
2. Transfers already completed	\$30, 000, 000	
3. Value of Matériel available for transfer:		
(a) From Zone of Interior	\$16, 435, 476	
(b) From Pacific sources	5, 076, 928	
Total Available		21, 512, 404
4. Transferred and available for transfer		51, 512, 404
5. Estimated shortages		\$89, 687, 596

In case you are interested in a further breakdown of these figures,

³⁹ Not printed.

I have attached hereto the following tables supplied me yesterday by OFLC:

1. Estimated Value of the Chinese Air Force 8½ Group Program.
2. Completed transfers from China.
3. Aircraft and Material available from Pacific sources.

We have not yet entered into formal negotiations with the Chinese for the acquisition of these supplies. OFLC has been withholding action pending the receipt of more definite information from the War Department and field representatives of OFLC as to the quantity and type of supplies which can be made available. Dr. S. C. Wang of the Chinese Supply Commission has asked informally that these supplies be considered as having been included in the Surplus Property Sales Agreement of August 30, 1946, or failing that very liberal credit terms. It is my understanding that OFLC will ask for cash payment but is prepared to make very liberal price concessions.

Neither the Army or OFLC can accept the costly and time-consuming procedure required in making an item by item check. OFLC hopes that each local deal by depot should be a complete transaction in itself and that the price established for any particular deal should be such that it would afford adequate coverage for any disparity in condition, type or quantity.

A[RTHUR] R. R[INGWALT]

[Annex]

*Memorandum Prepared by the Office of the Foreign Liquidation
Commissioner*

ESTIMATED VALUE OF THE CHINESE AIR FORCE 8½ GROUP PROGRAM

	<i>Military</i>	<i>Civilian</i>	<i>Total</i>
Aircraft	\$ 3,500,000	\$ 3,700,000	\$ 7,200,000
Air Force Supplies	61,000,000	41,000,000	102,000,000
Common User Items	2,000,000	21,000,000	23,000,000
Ammunition	9,000,000		9,000,000
Total	\$75,500,000	\$65,700,000	\$141,200,000

VALUE OF PROPERTY ALREADY TRANSFERRED AND TO BE TRANSFERRED
AS COMPARED TO TOTAL REQUIREMENTS

	<i>Total Requirement</i>	<i>Total Available</i>	<i>Percentage</i>
Aircraft	\$ 7,200,000	\$ 6,500,000	90
Air Force Supplies	102,000,000	39,029,754	38
Common User Items	23,000,000	3,282,650	14
Ammunition	9,000,000	2,700,000	30
Total	\$141,200,000	\$51,512,404	36

COMPLETED TRANSFERS FROM CHINA*

	<i>Military</i>	<i>Civilian</i>	<i>Total</i>
Aircraft	\$2,800,000	\$3,700,000	\$6,500,000
Air Force Supplies	500,000	4,800,000	5,300,000
Common User Items	200,000	3,000,000	3,200,000
Total	\$3,500,000	\$11,500,000	\$15,000,000

COMPLETED TRANSFERS FROM INDIA-BURMA THEATER
(HOGAN PROJECT)*

	<i>Military</i>	<i>Civilian</i>	<i>Total</i>
Air Force Supplies	\$9,000,000	\$6,000,000	\$15,000,000

TOTAL VALUE OF COMPLETED TRANSFERS

	<i>Military</i>	<i>Civilian</i>	<i>Total</i>
Aircraft	\$2,800,000	\$3,700,000	\$6,500,000
Air Force Supplies	9,500,000	10,800,000	20,300,000
Common User Items	200,000	3,000,000	3,200,000
Total	\$12,500,000	\$17,500,000	\$30,000,000

AIRCRAFT AND MATÉRIEL AVAILABLE FROM PACIFIC SOURCES

	<i>Military</i>	<i>Civilian</i>	<i>Total</i>
Air Force Supplies	000	\$4,994,278	\$4,994,278
Common User Items	000	82,650	82,650
Ammunition	000	000	000
Total	000	\$6,575,599	\$5,076,928

[sic]

MATÉRIEL AVAILABLE FROM ZONE OF INTERIOR

	<i>Military</i>	<i>Civilian</i>	<i>Total</i>
Air Force Supplies	\$7,400,000†	\$6,335,476	\$13,735,476
Ammunition	2,700,000†	000	2,700,000
Total	\$10,100,000	\$6,335,476	\$16,435,476

TOTAL VALUE OF AIRCRAFT AND MATÉRIEL TO BE TRANSFERRED

	<i>Military</i>	<i>Civilian</i>	<i>Total</i>
Air Force Supplies	\$7,400,000	\$11,329,754	\$18,729,754
Common User Items	000	82,650	82,650
Ammunition	2,700,000	000	2,700,000
Total	\$10,100,000	\$11,412,404	\$21,512,404

*Lend-Lease and surplus arrangements per Mr. Vincent's memo to Secretary of State, 25 February 1947. [Footnote in the original; memorandum not found in Department files.]

†Suspended transfer [Footnote in the original.]

893.00/7-1147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 11, 1947—7 p. m.

[Received July 11—10 a. m.]

1506. Following is General Lucas' memorandum of conversation with Generalissimo on June 30, 1947:

"This afternoon, the Generalissimo sent for me and asked me to repeat a conversation I had had 2 days before with the Chief of Staff⁴⁰ with regard to the military situation. The Chief of Staff was present. I asked the Generalissimo if I could speak frankly and assured him that I would always do so, and must insist that any remarks of mine must be limited to military subjects as I could give no advice on political matters. He said that he appreciated my point of view.

I told the Generalissimo that, in my opinion, the struggle with the Communists was not going to be completed in a month or in 3 months and perhaps not in a year. I told him that I believe he should consider this a long war and should prepare accordingly. I told him that one of the great difficulties at the present time of the Chinese Army was its lack of training. He had a number of divisions which he liked to speak of as 'American trained', but at the present time he had very few divisions that were actually trained at all. Those that had been trained under American supervision were well-trained 2 or 3 years ago but were not at the present time.

I told him that it had been my personal experience in World War II that a military unit deteriorated very rapidly in battle. In the first place, such a unit had losses in personnel and new men who took the place of the casualties had, in many cases, not received a great deal of training as replacements. In the second place, there was a distinct loss of morale due to continuous action. In the third place, men in battle lost, in a very short time, the military knowledge they had acquired in the training period. It, therefore, became necessary to relieve divisions from action periodically and put them through a course of training of limited duration in order to make them effective units again. I then told the Generalissimo that, in my opinion, some such method of retraining was necessary for the Chinese Army if it was ever going to be effective in the field.

I then handed him a program for the training of divisions. This program covered in general what should be taught in a retraining project of 13 weeks' duration. It assumed that a school was being run for officer replacements by which these replacements had 3 months' training before entering the division. It assumed that a replacement system for enlisted personnel would be established as rapidly as possible.

I told the Generalissimo that, as he knows, I was at present time limited in the advice that I could give to the Chinese Armed Forces. My mission, as it presently exists, was to organize the higher echelons of the Chinese Army and to establish and assist in the establishment

⁴⁰ Gen. Chen Cheng.

of schools for the training of officer and enlisted personnel for the Armed Forces; that I was prohibited from assisting in any way in the actual training of those forces which were fighting the civil war; that even if this restriction were removed, I was so limited in personnel that it would be difficult for me to be of a great deal of assistance in such a project; that I was willing to request the removal of this restriction so far as regards advice on the retraining of divisions in the training center that I would suggest that he set up. If this restriction were not removed, I would still be able to assist by the influence of the advisory group on the ground forces headquarters; that I was not willing to suggest that the restriction be removed allowing the participation my advisory personnel in advice given to troops actually in the field.

I then pointed out to the Generalissimo that it was difficult for me to work with the ground forces headquarters because of the misconception on the part of the Chinese as to the function of that headquarters. The advice of the advisory group had been to the effect that the ground forces headquarters was a zone of interior organization and was responsible for the training, shipping and supplying of ground troops in the zone of interior; and that it had no functions with any theater of operations except to supply that theater with trained, organized and equipped units and replacements. I pointed out to the Generalissimo that in spite of the fact, he had taken the commanding general of the ground forces and had sent him up to command in a theater of operations and had furnished no replacement for him in the ground forces; that, in addition to this, he had allowed the commanding general of the ground forces to take with him a considerable number of the staff of the ground forces and that no replacements had been furnished for these officers. Under these conditions, therefore, it was impossible for me to work with the ground forces and I could take no part in the organization of this training center. The Generalissimo stated that he would appoint a commander and staff to work with me on this matter. I answered that that was not all that was necessary. The thing that was absolutely necessary was to reorganize the headquarters of the ground forces because I was organized to work with this headquarters and could not change my organizations and I could not take the responsibility of assisting in this matter except through the headquarters of the army ground forces. He stated that he would send a deputy commander to the army ground forces and would replace the staff officers that had been removed therefrom for duty in the theater of operations.

I did not suggest any location for this training center but I had suggested to the Chief of Staff that it be placed in Formosa, as the climate was suitable there for year-round training and there were facilities established by the Japanese that would allow such a center to be set up with a minimum of new construction. The Generalissimo asked me how many divisions should be trained. I told him that we could start off with 1. Until that was pretty well along in its training, I did not think we should attempt to expand. I did think, however, that we could expand so as to take 2 or 3 at a time ultimately, until approximately 10 divisions had been through the training center. He suggested 9 instead of 10, to which I had no objection.

He asked me what type of division we should have. I told him that this program I had given him was drawn up for the 'Alpha'⁴¹ type, but that it could be easily changed and the schedules drawn up so as to apply to any other type of division. I added that the advisory group had under consideration the type of division organization that would best suit the Chinese; that this would give us an opportunity to test this organization and make a final recommendation to him. I stated that the training given in the training center should be limited to that which we considered necessary to fight the present civil war and this did not mean that when that war was over and the Chinese Army was being re-organized and retrained, that a different type of training would not be necessary.

The Generalissimo spoke at length to the Chief of Staff but, as this was not translated, I do not know what he said. He finally said that he approved of what I had suggested. I thanked him for listening to me and departed.

My liaison officer with the Chief of Staff came to me the next day and said that the Generalissimo and the Chief of Staff were contemplating establishing three such training centers. I told him to tell the Chief of Staff that in that case I could be of no assistance as the personnel of the advisory group which I could place on this duty was so limited that it could not possibly be divided into three sections. I told him that I would do the best I could by conferences and with advice to the army ground forces headquarters to be of some assistance. I have heard nothing more about the project."

Additional developments and Embassy's comment follow.

STUART

893.00/7-1147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 11, 1947—8 p. m.
[Received July 12—12: 55 a. m.]

1507. On July 10 General Lucas informed Embassy that 207th Division of Youth Army has been tentatively selected for training scheme on Formosa mentioned by Lucas to Generalissimo in conversation with latter on June 30. (Reference Embassy's telegram 1506, July 11, 7 p. m.)

General Lucas considers that supervision training this division by Advisory Group is imperative and has requested that Butterworth,⁴² who is familiar with his thinking in this regard, be so informed. General Lucas went on to explain that American assistance in training division would be in nature of a school in order determine best possible organization for Chinese combat unit. General Lucas

⁴¹ American-trained troops.

⁴² Mr. Butterworth was returning to the Department from Nanking.

considers this project necessary first step to larger training program if present deteriorating military situation is to be salvaged. It is his desire that this specific project be taken up with view to relaxing instructions now imposed on Advisory group to extent necessary to permit his group carry on this training experiment on Formosa. Assumably General Lucas has already communicated with War Department in this sense.

Inasmuch as primary mission of Advisory Group in reorganization of Ministry of National Defense and senior command echelons of Chinese Army has been virtually accomplished, next logical step is supervising training of combat units. Embassy pointed out to General Lucas, however, that this type of combat training would inevitably carry with it definite stigma of involvement in present civil war even more so now than formerly since the promulgation of a national mobilization order (reference Embassy's telegram 1465, July 5⁴³). It was further pointed out that it would be questionable under present Chinese command situation whether risk entailed would be commensurate with any practical benefits to be derived therefrom by the United States.

Embassy realizes that approval this training project would be a realistic immediate action to permit more efficient use of Advisory Group personnel now in China, but nevertheless Embassy considers that to do so at this time would be interpreted by Chinese as relaxation of American effort to bring about fundamental, beneficial changes in Chinese Government. Furthermore many months would elapse before effect of training program would be felt in combat areas, and in final analysis no training program can be disassociated from question of supplies, munitions and matériel.

STUART

893.24/7-2347

*Memorandum by the Director of the Office of Far Eastern Affairs
(Vincent) to the Secretary of State*

[WASHINGTON,] July 23, 1947.

There is attached a copy of memorandum, prepared in OFLC, of a meeting held on July 18, 1947 between officers in the Department and the Chinese Supply Commission in regard to the 8 $\frac{1}{3}$ Group Program.⁴⁴

During the course of the meeting Dr. Wang, Chairman of the Commission, was given the basis on which the transfer to China of

⁴³ Not printed.

⁴⁴ Memorandum not attached to file copy.

the matériel earmarked for the 8 $\frac{1}{3}$ Program could be made. In brief, the terms offered were as follows:

(1) The commitments under the Program will be met up to the limits of availability from surpluses in the Pacific and the Zone of Interior;

(2) OFLC's field representative at Manila has been given complete authority to negotiate a contract for the sale of Pacific source items and transfer of stocks made available from the Zone of Interior would be handled by Colonel Kingman, Field Commissioner for Military Programs in Washington;

(3) Under no circumstances can the transfer be made a part of the Bulk Sale Agreement of August 30, 1946;

(4) No item-by-item check will be considered;

(5) Any contract must be on a cash basis although we are prepared to offer liberal terms;

(6) Combat matériel, such as fighter aircraft and lethal weapons, are specifically excluded although spare parts for matériel already transferred may be included; and

(7) On the basis of present estimates there are available for this Program some \$5,000,000 (procurement cost) of matériel in the Pacific and \$16,000,000 in the Zone of Interior.

With regard to sub-paragraph (5) above, although Dr. Wang was not so informed, OFLC is prepared to offer open-end contracts on about the following terms: 20–25% on spare parts and 30% on common user items with over-all 10% discount if considered desirable in order to offset shortages and deterioration.

Dr. Wang said that it was his Government's hope that China might be given concessions beyond those outlined by OFLC and that the transfer might be considered to have been included in the Bulk Sale Agreement, or, failing that, China could arrange for a generous credit. He was informed by OFLC that the Program had been given very thorough consideration and that the terms and conditions offered were considered both fair and liberal. In reply to a further inquiry, Dr. Wang was informed that, if it developed that the Chinese Government had insufficient funds to purchase the entire amount, consideration might be given to the transfer of only a portion of the items to be set aside, but on a category—rather than on an item—basis.

After the meeting Dr. Wang told Mr. Ringwalt privately that Ambassador Koo had received instructions from the Generalissimo to urge that the matériel held for the 8 $\frac{1}{3}$ Program be considered to have been transferred under the Bulk Sale Agreement and that the Ambassador would doubtless wish to take up the matter with the Secretary in the near future.

On July 22 Mr. Ringwalt discussed this question with General McConnell who very emphatically expressed the opinion that the

8 $\frac{1}{3}$ Program should be kept entirely separate from the Bulk Sale Agreement because (1) if it were included there would be likelihood that items earmarked for the Chinese Air Force would become dissipated in the black market, and (2) we have consistently held that the Bulk Sale Agreement contained only civilian end-use items. OFLC strongly concurs in these views.

It is recommended that if the Chinese Ambassador raises the issue he be informed that the 8 $\frac{1}{3}$ Program can not be considered to have been included in the Bulk Sale Agreement.

J[OHN] C[ARTER] V[INCENT]

893.24/7-2347

The Secretary of War (Patterson) to the Secretary of State

WASHINGTON, 23 July 1947.

DEAR MR. SECRETARY: As a result of our discussion of the question of providing ammunition to the Chinese National Army at our meeting of June 26, the War Department has investigated the availability of ammunition which might be transferred to the Chinese Army.

With the exception of .30 caliber rifle ammunition, all essential items listed (in the so-called "Gillem Report") by the Chinese as their requirement for a six months' supply of U. S. type ammunition can be met from existing excesses or from war reserve. In the latter case it would be necessary to declare some war reserve ammunition surplus and dispose of it through the Foreign Liquidation Commission. Only about 8% by weight of this requirement comprise true surpluses in the Pacific and Far East, the remainder would have to be shipped or replaced from the United States. The .30 caliber ammunition requirement can be fully met only by reducing the stocks now being held for Western Hemisphere Defense and Universal Military Training programs by approximately 20%. These programs, however, are not yet approved, and could not be implemented for some time subsequent to approval.

The War Department has determined that private American industry would be interested in selling ammunition to the Chinese, and has the productive capacity to meet the immediate Chinese requirements, but would not be able to begin to fill Chinese orders for several months. The impact on War Department stocks of an emergency supply of ammunition might possibly be lessened or eliminated through replacement by Chinese orders on U. S. industry.

If the U.S. Government decides upon the immediate transfer of ammunition to China as an emergency expedient, the question of a continuing supply will surely arise before this ammunition is ex-

hausted. If, as a result of the long range comprehensive analysis contemplated in your letter of 4 March, U. S. policy were to envisage such a continuing supply, the best arrangement would appear to be the purchase of ammunition by the Chinese directly from U. S. industry, perhaps from plants which we might wish to encourage private industry to establish in China itself. Otherwise, we would be faced by a situation wherein it is now calculated it would not be reasonably possible to continue even a partial supply for more than two years from stocks now held for civilian components and for other War Department programs. It is impossible to prepare any firm estimate of our capability from these sources since the Greek and Turkish, and possibly other programs, are not yet fully developed.

Sincerely yours,

ROBERT P. PATTERSON

893.24/7-2347

The Secretary of State to the Secretary of War (Royall)

WASHINGTON, July 28, 1947.

DEAR MR. SECRETARY: I have received Secretary Patterson's letter of July 23 in which he discusses the availability of ammunition which might be transferred to the Chinese Army.

I agree that the best method for the Chinese Army to obtain ammunition from U. S. sources on a continuing basis would be for the Chinese to purchase directly from United States industry. Before taking further steps in this matter, however, I suggest that we await the return of General Wedemeyer and the submission of his report and recommendations which should provide us with full information upon which to base our decision.

Faithfully yours,

G. C. MARSHALL

893.24/8-147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 1, 1947—2 p. m.

[Received August 1—7: 16 a. m.]

1629. In course of conversation President Chiang stated that he desires to purchase from the American Government 10 million rounds of M-2 .50 caliber aircraft machine gun ammunition, with links, the delivery to be earliest possible being urgently needed for immediate use. He suggests two possibilities, 1, existing stock on or near west coast authorized for immediate shipment to be replaced by

the Chinese purchase or stock somewhere in western Pacific be similarly advanced. Have advised President Chiang communicate directly with Chinese Embassy Washington for dealing with War and Navy Departments.

STUART

893.24/8-147

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Deputy Director of the Office of Far Eastern Affairs (Penfield)

[WASHINGTON,] August 7, 1947.

In the course of a conversation with Dr. Shao-Hwa Tan, Minister of the Chinese Embassy, yesterday afternoon, he stated that his Government urgently required ten million rounds of M-2 .50 caliber aircraft machine gun ammunition and asked whether such ammunition could be purchased from United States Government stocks, if possible from stocks surplus to our needs. He said that his Government was reluctant to place an order with a private firm because of the necessary time lag. He added that it was his understanding that a similar approach had been made to our Ambassador at Nanking.

I said that Ambassador Stuart had been approached on the subject (reference Nanking's 1629, August 1), copy attached.⁴⁵ I said that the Chinese Government was, of course, at liberty to purchase ammunition from private firms in this country, but that my authority did not extend to assisting the Chinese Government in the purchase of ammunition from Government sources. I said that nevertheless I would refer his inquiry to my superiors and would inform him when a decision had been reached.

It is recommended that if we can avoid doing so we make no reply to the Chinese Embassy for the present. If we are pressed for a reply we might say that for the time being this Government does not have in stock any ammunition surplus to its needs.

A[RTHUR] R. R[INGWALT]

893.24/8-1347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 13, 1947—1 p. m.

[Received August 13—5:42 a. m.]

1711. Generalissimo has sent word to me repeating request for our assistance in procurement aviation ammunition (Embtel 1629, August

⁴⁵ *Supra.*

1). He suggests that ammunition be sold and delivered from stocks Western Pacific area, these to be replaced by newly-purchased stocks. Repeated requests through Chinese Embassy, Washington, have failed thus far to bring response.

Please advise nature of reply which should be made to Generalissimo.

STUART

893.24/8-1447 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 14, 1947—7 p. m.

1021. If you continue to be pressed for reply to inquiry re ammunition (Embtel 1711 Aug 13) you may state that no facilities exist for temporary loan from US Army stocks and that at present Army has no ammunition of type required surplus to its needs. You may add that Chinese Govt is of course at liberty to procure ammunition through private dealers in this country. Dept is adopting similar attitude in reply to inquiries from Chinese Emb.

Dept informed Chinese now negotiating with private manufacturers.

LOVETT

811.2393/8-1547 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 15, 1947—1 p. m.

1025. Para 7 of Resolution adopted by UN General Assembly on Dec. 14, 1946 reads in part as follows:

“It (The General Assembly) recommends the Members to undertake . . .⁴⁶ the withdrawal without delay of armed forces stationed in the territories of Members without their consent freely and publicly expressed in treaties or agreements consistent with the Charter and not contradicting international agreements.”

This Govt proposes to fulfill requirements of resolution by negotiating exchange of notes with Member States of UN on whose territory US armed forces are stationed.

Request Emb negotiate with Chinese Govt exchange of notes which should contain brief statement that US armed forces stationed on Chinese territory are present with consent of Chinese Govt. No reference should be made to number of armed forces involved. Request there be no premature publicity on this agreement which will be registered at proper time with UN.

LOVETT

⁴⁶ Omission indicated in the original telegram.

893.20 Mission/7-747

*Memorandum by the Chief of the Division of Chinese Affairs
(Ringwalt) to Brigadier General Marshall S. Carter*⁴⁸

[WASHINGTON,] August 20, 1947.

AAG. As a new long-term program, General Lucas proposes⁴⁸ that the AAG supervise the work of training schools, assist in the development of logistic and other services, and most important of all, assist in the training of combat troops. In support thereof, he proposes as an emergency measure to provide equipment for training the Chinese Army, ammunition for training and operations, repair parts for weapons, vehicles, and aircraft, and additional transport aircraft to support combat operations. He recommends that some form of control over the use of this equipment be vested in the AAG. If this were done, General Lucas believes the AAG could exert sufficient influence to improve the strategy of Government forces and the quality of Government leadership. If such an emergency measure is adopted, he considers that there is a reasonable chance of Government forces maintaining a foothold in Manchuria.

(The War Department states that no communication requesting a changed directive has been received from General Lucas. The War Department will initiate no action unless such a request is received. WM⁴⁹)

Annex 1⁵⁰ to General Lucas' letter reveals that 1,236 military personnel are assigned to the AAG—a number considerably in excess of its authorized strength of 750. Of these, 855, or approximately seventy percent, are listed as performing administrative duties. It is understood that the AAG is providing for the administrative and service needs of all Army units in China and may thus claim justification for carrying personnel over its authorized strength. It would nevertheless appear that its current over-strength is excessive, and that the number of AAG personnel assigned to administrative duties is out of proportion to the number listed as engaged in the advisory missions with which the AAG is charged.

NAG. Admiral Murray indicates that should present restrictions be lifted the Navy program would continue for the most part in its present form.

⁴⁸ Marginal notation by the Secretary of State: "I will want Gen. Wedemeyer's comment on this. GCM".

⁴⁸ See despatch No. 863, July 7, from the Ambassador in China, p. 859.

⁴⁹ William McAfee, of the Division of Chinese Affairs.

⁵⁰ Not printed.

893.20 Missions/9-847

*The Chief of the Army Advisory Group in China (Lucas) to the Ambassador in China (Stuart)*⁵¹

NANKING, 5 September 1947.

YOUR EXCELLENCY: In my letter to you of 28 June 1947⁵² regarding the assessment of the character and extent of the Army Advisory Group, I discussed at length my thought regarding additional training for the Chinese Armed Forces.

Due to the vital importance of this training and after a detailed study of [SM-4992],⁵³ I feel that advice and assistance to Division staffs on organization and training is essential and within the contemplated activities of this Group. Consequently, I plan to send Advisory Teams to such Division Training Centers as the Ministry of National Defense may establish south of Yangtze or in Formosa.

Any Division Training Centers south of the Yangtze or in Formosa would be removed from the combat zone and from Communist dominated areas, thus exempting these locations from the very general restriction imposed by General Marshall orally to members of this Group before his departure from China.

Realizing that a program of this type undertaken by this Group will lead to criticism in the press and radio from certain quarters, I intend to advise the War Department of my plans for these Advisory Teams. Prior to my communicating with the War Department, I would appreciate your comments on the political aspect or implications of this plan, so your thoughts may be forwarded to the War Department for their information.

Sincerely,

JOHN P. LUCAS
Maj. Gen., USA

893.20 Missions/9-847

*The Ambassador in China (Stuart) to the Chief of the Army Advisory Group in China (Lucas)*⁵⁴

NANKING, September 6, 1947.

DEAR GENERAL LUCAS: In your letter of September 5, 1947 you request the comments of the Embassy with regard to political implications which may result from your plan to send American advisory

⁵¹ Copy transmitted to the Department by the Ambassador in his despatch No. 985, September 8; received about September 26.

⁵² *Ante*, p. 860.

⁵³ February 13, 1946, *Foreign Relations*, 1946, vol. x, p. 817.

⁵⁴ Copy transmitted to the Department by the Ambassador in his despatch No. 985, September 8, 1947; received about September 26.

teams to such division training centers for the Chinese Army as the Ministry of National Defense may establish south of the Yangtze River or in Formosa.

In connection with a conversation which you had had on June 30 with Generalissimo Chiang Kai-shek with regard to a projected divisional training program, the Embassy reported to the Department of State on July 11 that in as much as the primary mission of the Army Advisory Group in reorganizing the Ministry of National Defense and senior command echelons of the Chinese Army had been virtually completed, the next logical step was to advise and assist in unit training. The Embassy went on to point out, however, that this type of training would inevitably carry with it the definite stigma of direct involvement in the present civil war even more so than formerly because of the promulgation of a National Mobilization Order on July 4.

It was further pointed out to the Department of State that it would be questionable under the existing Chinese military command situation whether the risk of direct involvement in the civil war entailed in the launching of such a training program would be commensurate with any practical benefits to be derived therefrom by the United States. The Embassy stated that it realized that approval of this training project would constitute realistic and immediate action to permit more efficient use of Advisory Group personnel already in China; nevertheless, the Embassy was constrained to observe that the implementation of such a program would be interpreted by the Chinese as a relaxation of American efforts to bring about fundamental and beneficial changes in the Chinese Government, that many months would elapse before the effect of the training program would be felt in combat areas and that in final analysis no training program could be disassociated for long from the question of supplies of matériel and munitions.

The Embassy is aware of the desirability from a purely military point of view of proceeding with advice and assistance to Chinese divisional staffs on organization and training, but feels that this matter cannot be divorced from other and larger considerations involving overall American policy decisions regarding not only China but the entire Far Eastern area. Specifically in the case of Formosa the Embassy is concerned with regard to the projected presence of American military advisors in an area which was the scene of rebellion against the policies of the Central Government early this year and where conditions which brought about the rebellion in large measure continue to exist.

It may be assumed that the report of the Wedemeyer Mission will consider among other questions that of American military aid to

China. In as much as this question is susceptible of overall review in light of prevailing conditions in China, the Embassy considers that final decision with regard to American participation at Division Training Centers is unlikely at this time and would be premature. The Embassy believes that the complexity of our position in the Far East is such that decision with regard to expansion or contraction of the present American military advisory effort in China will form but a part of overall policy decisions arrived at between the concerned departments of the Government in Washington.

This letter is being brought to the attention of the Department of State for its information.

Very sincerely yours,

For the Ambassador:
WILLIAM T. TURNER
First Secretary of Embassy

898.243/9-1147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 11, 1947—2 p. m.
[Received September 11—11: 33 a. m.]

1899. In conversations with General Cheng Kai-min, representing the Generalissimo, he revealed that while the National Government armies are making good progress in Shantung and are generally displaying better morale and fighting qualities elsewhere, they are running desperately short of ammunition. They would like to buy ammunition supplies in the US in order to avoid delays and other abuses. Purchasing would be handled by team of General Pee⁵⁵ in Washington and General Cheng Kai-min in Nanking. However, according to Cheng Kai-min, China's foreign exchange position is such that she cannot pay cash and he wondered whether an arrangement could be worked out whereby China could purchase the munitions on account or against an advance, either of which is presumably another name for a loan.

An alternative bruited and urged by Mr. Bullitt⁵⁶ is the declassification of combat equipment and supplies in the Pacific so that they could be made available to Chinese under Surplus Property Agreement of August 30, 1946. However, Military Attaché⁵⁷ informs us that Army does not keep munition supplies surplus to its needs on hand; this proposal would not therefore appear to be practicable.

⁵⁵ Gen. Peter T. K. Pee, Chinese Military Attaché, formerly personal aide to Generalissimo Chiang Kai-shek.

⁵⁶ William C. Bullitt, former Ambassador in the Soviet Union and in France.

⁵⁷ Brig. Gen. Robert H. Soule.

Military Attaché reports that in fact Chinese do not themselves know whether or not they are short of ammunition as they do not have an adequate inventory or supply system, on the basis of which estimates of supplies on hand can be accurately gauged.

STUART

893.243/9-1147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 11, 1947—4 p. m.

[Received September 11—1:21 p.m.]

1902. Further reference to Embtel 1899, September 11, the Ambassador has now received a communication from General Cheng Kai-min, on behalf of the Generalissimo, which is quoted in full below :

“Prior to V-J Day 39 divisions of the Chinese Ground Force and 8½ groups of the Chinese Air Force were equipped with American matériel and ammunition.

“After 2 years of service, the replenishment of equipment, ammunition, and spare parts for the Chinese Ground and Air Forces is most urgently needed. Since we are unable to manufacture American munitions with existing facilities in this country, we request that the US Govt consider the immediate supply of our requirements from declassified stocks against payment. The matériel required falls into the following categories :

a. Six months' supply of ammunition. This ammunition requirement was presented to General Marshall in June 1946 and again to General Gillem in April 1947. Concurrently we negotiated to purchase 130,000,000 rounds of 7.92 mm ammunition which was originally manufactured for the Chinese Ground Force under Lend-Lease but not shipped before V-J Day. The Chinese Govt was informed by our Ambassador in June 1947 that the American ammunition could be purchased and the deal for 7.92 mm ammunition was subsequently concluded. No action has yet been undertaken in connection with the purchase of American ammunition. A copy of the list presented to General Gillem will be furnished.

b. Weapons, motor vehicles, et cetera, to replenish the equipment of the 39 divisions. Requisitions are being discussed with the MAG and will be forwarded as soon as they are completed.

c. Automotive spare parts. Upon the request of the Chinese Ministry of War, a requisition list for spare parts for motor equipment transferred to the Chinese Govt by US Army in western China was prepared and approved by the USAF HQ in Shanghai. On the recommendation of the USAF HQ, a contract (W-ANL (CH) 1270) was entered into with the Foreign Liquidation Commission of the US Govt in December 1946. Advanced

payment of US dollars 1,800,000 was made. On June 11, 1947, the Foreign Liquidation Commission advised us that the contract was considered cancelled. We are still in urgent need of the spare parts and prompt solution which will secure the spare parts will be appreciated. A copy of the original list will be furnished.

"d. Air Force equipment. The 8½ group plan was approved by the US War Dept and the approval was formally communicated to the Chinese Govt in March/May 1946. Details are covered in a separate memorandum and requisitions are being reviewed with the MAG and will be forwarded as soon as they are completed."

Dept will observe that this communication raises again the overall question of supply of matériel and equipment to the Chinese armed forces in addition to the supply of small arms ammunitions. General Cheng Kai-min has been informed that the Embassy in the premises is acting as a transmitting agent of the foregoing information and has stated that the question of overall munitions and equipment supplies is a subject which should be raised in Washington by Chinese Govt representatives there.

STUART

893.24/9-1247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 12, 1947—7 p. m.

[Received September 13—3:30 a. m.]

1916. In letter to me dated September 5 from Tokyo, General Wedemeyer stated that, while in Manchuria, General Chen Cheng discussed with him question getting ammunition from stockpiles in western Pacific areas. General Chen Cheng explained urgent need China for ammunition and suggested following procedure: China purchase ammunition various categories in United States and ship to western Pacific areas designated by CinCFE.⁵⁸ Concurrently CinCFE would ship ammunition from his stockpiles to China points.

General Wedemeyer discussed procedure with General MacArthur who indicated that he would interpose no objection upon receiving authority for such a procedure from Washington. If decision is made to implement this proposed procedure it would be helpful, for obvious reasons, to transmit the information to the Chinese through Embassy Nanking.

With reference to Embassy's telegrams 1899, September 11, 2 p. m. and 1902, September 11, 4 p. m., it will be noted that proposal discussed by General Chen Cheng with General Wedemeyer and by General

⁵⁸ Commander in Chief, Far East, General of the Army Douglas MacArthur.

Wedemeyer with General MacArthur involves cash payment by Chinese for ammunition purchases.

It will be obvious to Department that ammunition withdrawal from stock-piles of United States forces in western Pacific areas would be a closer involvement in Chinese civil war than direct purchases on commercial basis by China in United States and direct shipment therefrom.

STUART

711.93/9-1947: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 19, 1947—10 a. m.

[Received September 19—4: 55 a. m.]

1958. In February of this year Army Advisory Group raised question of placing additional aid and ground teams in Hsuechow, Sian and Peiping. Embassy liaison office with Embassy's concurrence informed War Department it considered placing of teams at Hsuechow and Sian out of the question until there was a change in overall policy towards China. War Department confirmed views of the Embassy liaison office.

On 6 March 1947 the Embassy liaison office informed War Department it was planned to lift ban on placing AAG teams in Hsuechow unless there were objections in Washington. On 11 March 1947 War Department stated that Department of State did not consider time appropriate to send team to Hsuechow. On 9 April 1947 (in 95790) War Department advised that Department of State still felt time was not appropriate for sending these teams.

AAG now requests authority to send ground team of not to exceed four officers and three enlisted men to Hsuechow for purpose of advising Chinese in conduct of armored school and states that this team will have no connection with Chinese Army GHQ located in that vicinity. Since this school is opening on September 15, it is highly desirable from the military point of view to permit AAG to provide this assistance.

AAG considers that establishment of armored force team in Hsuechow is no different from establishment similar teams at Peiping, Chengtu, Hankow and at Nanking and vicinity.

Hsuechow area is now remote from fighting and Military Attaché considers it safe for AAG personnel.

Embassy considers that proposed establishment of team at Hsuechow is within scope of authorized activities of AAG and that establishment of Hsuechow unit would not signify extension of direct support

by United States to National Government in military effort. Accordingly Embassy recommends that appropriate authorization be granted subject to revision in light of developments.⁵⁹

STUART

811.2393/9-1947

The Ambassador in China (Stuart) to the Secretary of State

No. 1005

NANKING, September 19, 1947.

[Received October 1.]

Subject: Agreement Regarding United States Armed Forces in China⁶⁰

The Ambassador has the honor to enclose a copy of the Embassy's note no. 1109 of August 29, 1947, with translation,⁶¹ dispatched to the Minister for Foreign Affairs in response to the Department's confidential telegram no. 1025 of August 15, 1947,⁶² and the original note (in Chinese) received from the Vice Minister for Foreign Affairs⁶³ in response, together with a translation of the latter⁶¹ prepared in the Embassy, to the effect that United States Armed Forces stationed in China are so stationed with the consent of the Chinese Government. The English version of the Embassy's note and the Chinese version of the Ministry's note are, of course, the two official versions.

It will be noted that Vice Minister Liu in his response added a proviso not included in the Embassy's note to the Minister, as follows:

"It is mutually understood that when either the Chinese Government or the Government of the United States considers that these Armed Forces of the United States of America should be withdrawn, the Armed Forces must be withdrawn forthwith."

The Embassy discussed the inclusion of this proviso with the Vice Minister, pointing out that while there was no objection to its inclusion it appeared that its acceptance should be confirmed formally by the United States Government in order to forestall possible criticism by third countries to the effect that the United States Government had not given such confirmation. It was suggested to the Vice Minister that a new exchange of notes which would include such a proviso be arranged. He preferred, however, that the matter stand, point-

⁵⁹ The Department, in telegram No. 1178, September 22, 2 p. m., replied: "No objection perceived to establishment of Army Advisory Group armored force team" at Hsuechow.

⁶⁰ For text of notes exchanged, see Department of State Treaties and Other International Acts Series No. 1715, or 61 Stat. (pt. 4) 3755.

⁶¹ Note and translation not attached to file copy.

⁶² *Ante*, p. 882.

⁶³ Liu Chieh.

ing out that the wording of the note sent to the Embassy was that upon which the Minister himself had decided and had instructed was under no circumstances to be changed.

It would be appreciated if the Department would instruct the Embassy whether it considers the notes satisfactory or that further action vis-à-vis the Chinese Government is necessary.

893.24/10-1047

The Chinese Minister for Foreign Affairs (Wang) to the Secretary of State

AIDE-MÉMOIRE ON THE REQUIREMENT OF THE CHINESE GROUND AND AIR FORCES

Prior to VJ Day, thirty-nine divisions of the Chinese Ground Force and 8½ groups of the Chinese Air Force were equipped with American material and ammunition.

After two years of service, replenishment is now urgently needed of equipment, ammunition and spare parts. As there are not sufficient industrial facilities in China for the manufacture of American-type munitions and for the maintenance of a modern air force, the Chinese Government necessarily looks to the United States as a principal source of logistical support.

The equipments and material most urgently required fall into the following categories:

1. supply of ammunition,
2. weapons, motor vehicles, etc.,
3. automotive spare parts,
4. Air Force equipments.

In regard to these requirements, discussions have at various times taken place with the American Military Advisory Group in China and other United States authorities, and in some cases agreements were arrived at but remain to be carried out.

In the light of the vital and urgent needs of the Chinese Ground and Air Forces and in view of China's financial limitations, the Chinese Government hopes that the United States Government will consider the immediate supply of Chinese requirements from declassified stock against payment. Should this request of the Chinese Government be acceptable in principle to the United States Government, it is suggested that the United States Embassy or the Military Advisory Group in China be authorized to proceed with negotiations with the appropriate authorities of the Chinese Government for the imme-

diate supply of Chinese requirements and for the financial arrangements in connection therewith. Alternatively, if the United States Government would so prefer, the Chinese Government is prepared to designate a representative in Washington for purposes of consultation with the appropriate agencies of the United States Government.

NEW YORK, October 10, 1947.

893.00/10-1147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 11, 1947—1 p. m.

[Received October 11—7:27 a. m.]

2060. Following for President Truman from Representatives Cole,⁶⁴ Hébert,⁶⁵ Hess⁶⁶ and Norblad,⁶⁷ Members Armed Services Committee, House of Representatives.

A considered survey of Chinese-American interests prompts us to urge extension of immediate aid to the Chinese Government by meeting its appropriate needs from our available military materials and reviving implementation of previous commitments.

STUART

893.20 Mission/10-1347

Memorandum by General Wedemeyer to the Chief of the Division of Chinese Affairs (Ringwalt)

FORT GEORGE G. MEADE, MARYLAND, 13 October 1947.

The attached communication⁶⁸ was referred to me the latter part of September, 1947. I have carefully considered the contents and have intentionally delayed my expression of views in the hope that the State Department would give some indication of policy with reference to China. Frankly it was my conviction that prompt action would be taken upon the conclusions and recommendations submitted to the President and the Secretary of State on September 18, 1947⁶⁹ inasmuch as the urgency of such action was pointed out both in the report

⁶⁴ W. Sterling Cole (Republican), New York.

⁶⁵ F. Edward Hébert (Democrat), Louisiana.

⁶⁶ William E. Hess (Republican), Ohio.

⁶⁷ Walter Norblad (Republican), Oregon.

⁶⁸ Despatch No. 863, July 7, from the Ambassador in China, p. 859.

⁶⁹ See General Wedemeyer's Report, dated September 19, Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 764.

and orally. In the absence of such action and in compliance with the Secretary's request for my comments, I submit herewith the following views.

The assistance presently given by the Army Advisory Group in China is greatly restricted due to the lack of instructions clearly outlining the scope of such assistance. As I interpret the purpose of the Military Advisory Group in China, we Americans are striving to assist them in overcoming the critical economic and military situation existing there. It is recognized that these conditions are the natural aftermath of eight years of war and that these conditions have been greatly confounded by the penetration and infiltration of Communism.

There have been so many delays and restrictions with reference to such assistance the past several months, actually conditions have deteriorated to an alarming degree. If the Military Advisory Group is to be continued in China and if it is to be of real assistance as above suggested, a clarifying directive should be dispatched at once to that group, removing current restrictions with reference to the scope of its activities. My recent observation in China caused me to recommend that the Military Advisory Group be permitted to assist the Chinese as suggested by the memorandum submitted to the American Ambassador on June 28, 1947 by Major General John P. Lucas. The one restriction that I would include in any directive to Americans in the government service in China would be designed to preclude direct involvement in fratricidal warfare. It must be accepted that by indirection even today Americans are assisting the Nationalists in their struggle against the Chinese Communists, but I would not permit American military personnel in the operational areas of the current military conflict.

If our assistance to the National Government is to be timely and effective, the above ideas with reference to the Military Advisory Group should be implemented immediately, and further, instead of vacillating with reference to requests by the Chinese Government for military equipment, we should facilitate the sale and delivery of same.

A. C. WEDEMEYER

893.20 Missions/10-1447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 14, 1947—5 p. m.

[Received October 14—2:38 p. m.]

2070. Embassy understands from War Department's 877078 to AAG that division training program is matter of interdepartmental con-

sultation. AAG's reply to this message (CYF 755) mentions that divisional training program was discussed with Embassy representative.

For Department's information there is quoted below full text of letter dated October 9 from Ambassador to General Lucas:

"I have read with great interest the copy of radiogram 877078 from the Department of the Army enclosed with your letter of October 6, 1947. I am gratified to learn that this important matter is the subject of interdepartmental consultations in Washington.

Mr. Ludden has reported to me the nature of his talk with you and members of your staff on the morning of October 8. In general, I feel that the divisional training program, or for that matter the continuation of an American Army advisory group in China, cannot be considered as an individual problem, but is essentially an integral part of the overall question of how the United States can best assure its national interests and at the same time contribute to the emergence in China of conditions more acceptable to American political concepts than those now prevailing.

I realize that most of the questions posed in the Department of the Army's radiogram under reference are military in nature and you are better qualified than I to answer them. However, I am sure you will agree that especially in circumstances now prevailing in China, any purely military program has important political and economic ramifications and that such a program must be examined in the light of these ramifications as well as on a purely technical basis.

Since the rebellion which occurred in Formosa during last February and March,⁷⁰ I have felt that the plan of the Central Government to establish a training center there while political tensions continued was ill-advised. The stationing of American personnel at such a training center, although their direct involvement in any further insurrection against the government would be remote, could possibly be interpreted by the Formosan population as direct American support of a government which has been slow to make any adequate attempt to win the good will of the local population.

Specifically with regard to point "H" I believe that official reaction to the implementation of a divisional training program would be favorable and would offer at least a temporary morale boost to the present government. This morale effect in my opinion, however, could as well, perhaps better, be created by limited economic support, such as, commodity loans. On the other hand, reaction outside of official circles would undoubtedly be initially unfavorable even though largely inarticulate because of suppression of the press. This unfavorable reaction would continue and develop, perhaps into a wave of serious anti-Americanism, unless we had in mind and proceeded to implement an overall program which clearly indicated that we were not champions of the *status quo*.

Furthermore, it is my conclusion that the implementation of the contemplated military program would not have any significant effects,

⁷⁰ See pp. 423 ff.

either favorable or adverse, with respect to beneficial reforms in the Chinese Governmental structure or to the effective implementation of the national mobilization order and continued procurement of necessary personnel. I am forced to this conclusion by the conviction that unless competent measures are taken by the Chinese Government to ameliorate current social and [apparent omission] organization purely military measures by themselves will not induce any of the desired changes in the overall situation.

I appreciate your offer to supply me with a copy of your reply to the message under reference.

Very sincerely yours."

STUART

893.20 Missions/10-1547

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] October 15, 1947.

There is attached a "Memorandum for Mr. Ringwalt", prepared by General Wedemeyer,⁷¹ in response to a tag from Mr. McWilliams of S/S indicating that you desired that Mr. Ringwalt obtain General Wedemeyer's comments on an assessment made by General Lucas last June of the Army Advisory Group. It was General Lucas' opinion that the Army Advisory Group should expand the scope of its activities so as to permit more active participation in the development of an effective Chinese Army, especially in the training of combat troops (Tab 1).

In his "Memorandum for Mr. Ringwalt", General Wedemeyer expresses the view that if the Army Advisory Group is to be continued in China a clarifying directive should be dispatched at once to that Group removing current restrictions on the scope of its operations to permit activities such as those recommended by General Lucas, so designed, however, as to preclude direct involvement in civil war (Tab 2).

In the attached message (2253, 11 October 1947⁷²) (Tab 3), General Lucas outlined a training program which could be implemented realistically only if additional United States equipment were provided. He estimated that to train ten divisions successively in a center with a capacity for one division would require the following equipment:

- a. Equipment for one United States infantry division modified to suit Chinese needs.
- b. Sufficient ammunition for normal training of ten divisions.
- c. Major training aids.

⁷¹ October 13, p. 892.

⁷² Not attached to file copy.

General Lucas indicated ideal results would be achieved if divisions arriving at the center could be given United States equipment which they would later take with them into combat. This would require ten sets of divisional equipment plus ammunition for the United States weapons taken into combat.

General Lucas stated that present plans call for the establishment of a training center in Formosa, initially to be advised by twenty-five United States Army personnel. He estimated that twenty-two months would be required to deliver five trained divisions from such a center, that ten divisions could stabilize the military situation, but that additional divisions would be required to retake Manchuria. This program in his opinion would provide a morale boost to the Government but might produce a wave of anti-Americanism outside of Government circles.

In a letter to General Lucas dated October 9, 1947 the Embassy expressed the view that the proposed training program should not be considered on its own merits but rather in the light of our over-all policy toward China. The Embassy pointed out that the choice of Formosa as a training center was inadvisable from a political point of view. While agreeing that the implementation of such a program would provide a temporary morale boost to the Nanking Government, the Embassy felt that the same effect would be better created by limited economic support with much less unfavorable reaction outside official circles. In closing the Embassy stated that merely military measures by themselves would not induce any of the desired changes in the over-all situation (Tab 4).

Recommendation

In the light of the Embassy's comments, and because of the difficulties inherent in supplying China with anything like the desired amount of equipment and ammunition, it is recommended that for the present the Army Advisory Group remain disassociated from the retraining of combat personnel, and that consideration be given instead to the practicability of more active participation by the Army Advisory Group in the rehabilitation of the Chinese Services of Supply.

893.24/10-1547

The Secretary of the Army (Royall) to the Secretary of State

WASHINGTON, 15 October 1947.

DEAR MR. SECRETARY: Reference is made to your letter of 28 July 1947 in which you discuss the matter of Chinese procurement of am-

munition from United States industry. In this regard, the Department of the Army has been approached by an American manufacturer on the question of urgent Chinese requirements of .50 caliber ammunition.

The Chinese requirements on this manufacturer amount to 2,000,000 rounds of assorted .50 caliber ammunition, with an estimated value of \$700,000. The manufacturer has pointed out that owing to the dismantling of production lines as a result of termination of war orders, considerable time will be required to fill the Chinese orders. The Chinese are anxious for the earliest possible delivery. The manufacturer has suggested the possibility of securing from the Department of the Army the quantities required with a view to subsequent replacement.

Investigation reveals that as much as an estimated ten times the quantity involved exists in Army stocks of a classification that could be considered obsolescent or surplus. Existing legislation, specifically Public Law 703,⁷³ could be applied to such an exchange with a value of the exchange to be subject to later contractual negotiations. However, certain types of munitions, .50 caliber ammunition as an example, cannot be produced in private United States industry without utilizing capital equipment, drawings and specifications owned by the United States. In this regard, appropriate leasing arrangements would have to be consummated.

Such arrangements would, of themselves, prove advantageous to the Army in two respects. First, they would provide a means of replacing five-year-old ammunition with the latest types; secondly, it would be advantageous from a procurement standpoint to provide the manufacturer with essential knowledge and experience in the production of standard types of ammunition. These advantages are, of course, proportional to the size of the orders under consideration.

Moreover, as a general observation, it may be stated that it is to the decided advantage of the Army to insure production of standard military types of ammunition by United States industry. Otherwise, United States industry could become engaged in the production of non-standard and foreign types which might be considered as diminishing the military potential of the United States.

Before exploring the problem further along the lines suggested above, it is felt desirable, in light of your letter of 28 July, to ascertain the attitude of the State Department in this matter of involving the United States Government in the proposed arrangements.

Sincerely yours,

KENNETH C. ROYALL

⁷³ Approved July 2, 1940; 54 Stat. 712.

893.24/10-1547

The Acting Secretary of State to the Secretary of the Army (Royall)

WASHINGTON, October 20, 1947.

MY DEAR MR. SECRETARY: The receipt is acknowledged of your letter of October 15, 1947 in which you outline proposed arrangements to expedite delivery to the Chinese Government of 2,000,000 rounds of assorted .50 caliber ammunition to be procured by that Government from commercial sources.

The Department of State perceives no objection to the implementation of arrangements such as those outlined in your letter under acknowledgment.

Sincerely yours,

ROBERT A. LOVETT

740.00119 PW/10-2147

Memorandum of Conversation, by the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] October 21, 1947.

In accordance with the Secretary's instructions, I called on the Chinese Foreign Minister ⁷⁴ at 5:00 p. m. on Saturday, October 18, at Hotel Pierre in New York.

[Here follows paragraph relating to restitution of "Japanese looted property".]

I explained to Dr. Wang the status of the negotiations between General Kiang of Bosey ⁷⁵ and Mr. Luboshez, Foreign Liquidation Commissioner in Shanghai, and I informed him of the Secretary's decision to urge the Foreign Liquidation Commissioner ⁷⁶ in Washington to authorize liberal terms of payment. I also explained that as soon as negotiations were concluded for the 8½ group program property in the Pacific, negotiations could be instituted either in Shanghai, or preferably in Washington, for supplies in the Zone of the Interior. In this case, I pointed out how valuable were the spare parts, the repair equipment in Honolulu, and that it was General McConnell's opinion that at this time the Chinese Air Force was much more in need of these supplies and equipment than of new combat aircraft. In this connection, I indicated that the Secretary did not feel that it was desirable at the moment to authorize the release of the 135 remaining combat aircraft to complete the 8½ group program. Dr. Wang asked whether credit arrangements could be made to cover the purchases under the 8½ group program and I pointed out to him

⁷⁴ Wang Shih-chieh.⁷⁵ Gen. P. Kiang was Director of the Board of Supplies of the Chinese Executive Yuan.⁷⁶ Maj. Gen. Donald H. Connolly.

the undesirability of the Chinese Government delaying action in an attempt to effect such arrangements, and I indicated the decision could not be made unilaterally by the Secretary of State but had to go to the National Advisory Council. Dr. Wang referred to the information which the Secretary had given him regarding the purchase of C-54's and the arrangements with Olin Industries Incorporated. He did so in a way which indicated that he was both summarizing in his own mind what he could tell the Generalissimo he had achieved by way of concessions and, at the same time, was counting their costs in terms of dollar payments. I also mentioned to Dr. Wang that while the Chinese Government was proceeding with these arrangements it was the Secretary's intention that we carefully explore whether there lay in our power a means of providing facilities such as ammunition from the stores in the Pacific Islands. I indicated, however, that this was a complicated legal question and that it would probably prove inadvisable to delay unduly taking advantage of such an arrangement as the Olin one in the hope that a more beneficial one would be worked out while, in the meantime, Chinese divisions with American equipment were being handicapped. Dr. Wang appeared to be in agreement and seemed pleased with the purport of our conversation.

I gave him personal messages from the Secretary and told him that the Secretary wished him to feel free to communicate personally with him in the most confidential manner regarding any matter if he considered it necessary or desirable.

893.24/10-2147

Memorandum of Meeting Held in the Secretary's Office, by Mr. William J. McWilliams, Executive Officer, Office of Departmental Administration

[WASHINGTON,] October 21, 1947.

Present: Secretary Marshall
 Under Secretary Lovett
 Mr. Kennan ⁷⁷
 Mr. Butterworth
 Colonel Byroade ⁷⁸
 Mr. Moseley ⁷⁹
 Mr. McWilliams

The meeting was called by the Secretary to discuss possible means of aid to China. The following programs were discussed:

⁷⁷ George F. Kennan, Director of the Policy Planning Staff.

⁷⁸ Henry A. Byroade, Chief, International Affairs Section, General Staff, U. S. Army.

⁷⁹ Harold W. Moseley, Assistant for State-Army-Navy-Air Force Coordinating Committee.

1. *The 8½ Group Program*

After hearing reports of the status of the program from Mr. Butterworth and Colonel Byroade, the Secretary directed them to proceed with the implementation of the program. Realizing the inavailability of certain types of combat aircraft, the Secretary suggested that surplus C-46s now being held by the WAA be substituted and that Colonel Byroade take action to request that a sufficient number of these to fulfill the program be earmarked for China. The Chinese have also been advised of the availability for purchase of these C-46s and they have been urged to purchase as many as they can use.

2. *The 39 Division Program*

The Secretary inquired of Colonel Byroade the status of this program and stated that he had been informed that the Army considered the program completed. Colonel Byroade read a portion of a memorandum from his file which stated that the Army considered the program completed. The Secretary stated that this was a new position as far as he knew and asked Colonel Byroade to investigate and let him know what previous correspondence or decisions there might be which led to this conclusion.

3. *Ammunition for the Chinese*

Colonel Byroade stated that there are considerable amounts of munitions in the Marianas which are surplus to the Army's needs. He stated that the stocks were varied and that he did not have a breakdown of them. After a discussion of the methods by which some of these stocks could be transferred to the Chinese, the Secretary asked Colonel Byroade to investigate the possibility of the Army declaring the stocks unstable and allowing the Chinese to pick them up in their own vessels.

893.243/10-2247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 22, 1947—10 a. m.

[Received October 21—11:34 p. m.]

2112. Minister of Communications⁸⁰ has made request to Ambassador that spare parts et cetera in 8½ group program be sold by FLC to Ministry at 10 cents on dollar (refEmbtl 1902, September 14 [11], 4 p. m.) Col. Ivy of FLC is informing Washington further regarding his discussions with Ministry.

STUART

⁸⁰ Gen. Yu Ta-wei.

893.24/10-2447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 24, 1947—11 a. m.
 [Received October 24—1:51 a. m.]

2130. I have been informed by Yu Ta-wei that United States has agreed to transfer to China from Manila 50-calibre machine-gun ammunition to be replaced by Chinese purchases in United States. He states that matter is of great urgency and he is concerned about ability of his government to have available \$10 million involved in the transaction.

I am constantly being importuned by Yu Ta-wei and Cheng Kai-ming in connection with ammunition matters. I have been informing them that this was a matter not within my province and should be handled directly by Chinese agents with the concerned authorities of United States Government.

It would be helpful and save me possible embarrassment if the Department could give me information with regard to any decision concerning ammunition which may be made in Washington and specifically whether arrangements actually have been made for transfer of 50-calibre machine-gun ammunition to China from Manila.

STUART

893.20 Missions/10-1447 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 24, 1947—5 p. m.

1302. Army informed Dept. agrees AAG participation work Taiwan training center (Embtel 2070 Oct 14,) subject following conditions: (1) AAG will not participate any other similar training center without prior concurrence Dept; (2) assistance in form materials supplied by US will be limited to training aids; (3) every effort will be made minimize publicity to effect this action constitutes direct US participation in the civil war; (4) arrangements be made that US officers concerned be briefed by Emb on political situation Formosa so that they will conduct themselves to avoid AAG and training center being drawn into controversy which has developed between island inhabitants and authorities Central Govt.

For Emb's info, personality Gen. Sun Li-jen played a part in reaching this decision.

Please communicate to Krentz⁸¹ substance above.

LOVETT

⁸¹ Kenneth C. Krentz, Consul General at Taipei.

893.24/10-3147

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] October 31, 1947.

The Office of the Foreign Liquidation Commissioner telephoned to say that he had received word from the FLC representative in China that agreement had been reached with the Chinese authorities for the sale of the 8½ Group Program matériel located in the Pacific. It is expected that the arrangement will be signed early next week. FLC agreed to instruct its representative in Shanghai to notify the Chinese at that time what steps should be taken which would make for a speedy initiation and conclusion of negotiations for the supplies in the Zone of the Interior.

893.24/11-147

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Under Secretary of State (Lovett)*

[WASHINGTON,] November 1, 1947.

After the meeting this morning, Colonel Byroade sought me out to hand me the attached memorandum which, you will note, contains a suggestion that General Marshall be apprised of its contents before the meeting of the Committee of Two⁸² on Monday, November 3.

W. W[ALTON] B[UTTERWORTH]

[Annex]

*Memorandum by Brigadier General C. V. R. Schuyler,⁸³ of the
Department of the Army, to the Under Secretary of the Army
(Draper)*

[WASHINGTON,] 31 October 1947.

Subject: Transfer of Munitions to the Chinese.

In light of the recent increased concern on the Secretarial level over the problem of the transfer of munitions to the Chinese, it is felt that complete understanding should govern further considerations of the disposition of surplus munitions in the Pacific, including the "dangerous and unstable" factor.

⁸² The Secretary of Defense (Forrestal) was the other member.

⁸³ Plans and Operations Division, General Staff, U. S. Army.

Excluding the Philippines, where current negotiations with that Republic entail disposition of ammunition surpluses therein, there is an estimated potential surplus of over 100,000 long tons of air and ground ammunition in the Pacific. In the Marianas, there exists an estimated surplus of 78,000 tons of bombs ranging in size from 100# to 2000#; an undetermined quantity of 50 cal. ammunition is available with the extent of ground ammunition also unknown. Ammunition surpluses elsewhere in the Pacific and excluding the Philippines would not, in all probability, exceed 50,000 tons. Undoubtedly, these stocks are somewhat unbalanced. Considerable time, funds and personnel would have to be expended to make a complete inventory. Conversely, should transfer of title as a future course of action continue to be precluded, considerable funds and personnel will also be required for the Army to dispose properly of these stocks. Short of disposition by surplus declarations, the most appropriate methods of liquidating these stocks would be by controlled detonation, burning or dumping at sea. As a matter of fact, Pacific overseas commanders are now disposing of ammunition surpluses in this manner on a scale limited only by their meager capabilities.

The disposition of "dangerous and unstable" ammunition is governed by Army Technical Regulations. These provide in general for the appropriate certification by the local commanding officer as to quantity, location and condition, recommended action and, normally, three successive indorsements approving the action. Accompanying the report is a statement by an officer witnessing the destruction which serves as the property voucher completing the transaction. In cases, however, where the stocks are extremely hazardous to life and property, the commander on the spot may order immediate destruction and approve his own action.

Any "abandonment" of "dangerous and unstable" ammunition is without precedent in the Army and, it is feared, might lead to grave repercussions. Moreover, it is felt that declaring ammunition "dangerous and unstable" within range of the Chinese would, in effect, compound an indefensible subterfuge. Army representatives would be required to act against their better judgment and, in fact, their conscience in compliance with the spirit of the requirement. In addition, some densely populated port like Shanghai might become exposed to the risk of a catastrophic explosion with the onus of the responsibility squarely on the United States, and specifically on the Army. The Department of the Army cannot concur in any such arrangements. The issue is not concerned with the condition of the ammunition but rather with the principle of transfer of usable ammunition to the Chinese. No less unsavory, but with air of legality surrounding it,

would be the negotiation by the FLC of a contract with the Chinese providing for demilitarization by the Chinese of all ammunition surpluses transferred to them.

Without additional enabling legislation, there exists no legal means other than the Surplus Property Act by which the Army can transfer ammunition to the Chinese through governmental channels. Under that Act, the most expedient method would be a supplemental agreement to the existing Bulk Sale Contract with China permitting the transfer of munitions. Similar arrangements could be applied to the 8 $\frac{1}{3}$ Group program. FLC could also be legally empowered to write new contracts specifically for the sale of munitions.

Chinese procurement through American industry of a limited amount of 50 cal ammunition has motivated the application by the Army, with the sanction of the Department of State, of Public Law 703 which provides for the exchange with a manufacturer of obsolescent or surplus etc. munitions for other munitions of which there is a shortage. Implementation has not yet reached the determination of time and place of transfer since approval was only granted on 20 October. This method of supply is, of course, limited by the financial capabilities of the Chinese National Government.

The Department of the Army stands ready and willing, within the limits of its capabilities and legal authority, to assist in the implementation of programs of military assistance to the Chinese. It is felt that ammunition transfer considerations at this time, pending development of an overall policy toward China, should only include lifting of restrictions on transfer of military type items as could be accomplished by the FLC and continued facilitating of Chinese procurement through American industry.

P&O Recommends

In view of the continued concern on high levels over the problem of the transfer of munitions to the Chinese and to foster a more complete understanding among the Secretaries that:

a. You present the above considerations to Mr. Lovett today with the request that it be brought to the attention of the Secretary of State prior to the meeting of the Secretaries on 3 November.

b. Unless the Secretary of State has indicated otherwise by 3 November, that the above be presented at the aforementioned meeting of the Secretaries.

Coordination

General Lutes,⁸⁴ SS&P.

C. V. R. S [CHUYLER]

⁸⁴Lt. Gen. LeRoy Lutes, Director of Service, Supply, and Procurement, General Staff, U. S. Army.

893.24/11-147

Memorandum by Brigadier General C. V. R. Schwyler, of the Department of the Army, to the Under Secretary of the Army (Draper)

[WASHINGTON,] 1 November 1947.

Subject: Chinese Thirty-Nine Division Program

1. The 39 Division Program, as a program, ceased on VJ-Day. The term "program," as used herein, is a mechanical means of implementing a commitment. During the war the 39 Division Program was the mechanical means of transferring the moderate amount of equipment (3,000 tons per division) with which it was intended to equip 39 Chinese divisions, and so strengthen the Chinese army. The President, on 11 August 1945, directed the Commanding General, China Theater,⁸⁵ that "military assistance will be continued for the present for the purpose of supporting Chinese military operations essential in the reoccupation by Central Government forces of all areas in the China Theater now held by the Japanese. . . ." ⁸⁶ This directive automatically precludes any assistance except that required to support the reoccupation mission, and therefore does away with any program which, as a program, is designed only to strengthen the Chinese Army. This did not, however, nullify any commitment which might have been made to the Chinese Government, and in view of the President's verbal commitment to Mr. T. V. Soong,⁸⁷ 14 September 1945, "to complete the 39 Division Program," there still existed a requirement to provide the supplies required to satisfy the commitment. Accordingly, to prevent duplication in transfer of equipment, the Commanding General, China Theater, was directed to maintain records of all equipment transferred to support the reoccupation mission (Reoccupation Program) and to apply the equipment so transferred as a credit against the 39 Division commitment. The Reoccupation Program can, therefore, be considered as having satisfied both the support required for the reoccupation mission and also the supplies required for the 39 Division commitment. The total amount of equipment transferred under the Reoccupation Program completed, in terms of equipment required, the commitment to complete the 39 Division Program.

2. At a meeting on 21 October 1947 the Secretary of State questioned the extent to which the Chinese had been notified of the fulfillment of the commitment indicated above. This point was checked with the former China Theater Commander, General Wedemeyer,

⁸⁵ Lt. Gen. Albert C. Wedemeyer.

⁸⁶ Omission indicated in the original memorandum.

⁸⁷ Then President of the Chinese Executive Yuan.

and he stated that he had notified the Chinese of the implications of fulfillment in implementing the Reoccupation Program, and that the Chinese fully understood that the completion of this program satisfied the 39 Division commitment.

C. V. R. SCHUYLER

893.00/11-447

*Mr. Carsun Chang, Chairman of the Chinese Democratic Socialist Party, to the Secretary of State*⁸⁸

SHANGHAI, November 1, 1947.

DEAR MR. MARSHALL: I remember so very well our close association during peace negotiations last year. Mr. Wang Shih-chieh has just returned from his trip to the United States and has assured us that you are as good a friend of China today as you were during your stay in China.

You are now confronted with the most grave problem of deciding American policy towards China. It is because of this, and also because of General Wedemeyer's urging me to join the government that I would like to write to you.

The first thing that I would like to impress upon you is the fact that it is not sufficient to have a coalition government as long as the Kuomintang is not willing to give such a coalition government realistic recognition. The Democratic Socialist Party during the last six months has had the experience of participating in such a coalition government, and I am forced to admit that our record of liberalizing or democratizing the government or the country has not been one of success. While our party is represented in the State Council we found that all major decisions and policies were being made outside of that policy making body. While the government agreed to "provincial, municipal or district councils must be open to the participation of all parties" in March of this year, it certainly has not lived up to this principle. In fact there are many instances where members of the Democratic Socialist Party were dismissed from various government jobs when their party affiliation became known. While the government at various times has promised strict protection of personal freedom, freedom of the press and information, of association and assembly, civil rights today find no protection of any kind.

The recent outlawing of the Democratic League is only one example of this. In other words, it is obvious today that a coalition govern-

⁸⁸ This letter was acknowledged by the Secretary of State on November 17.

ment in which only the Young China Party and the Democratic Socialist Party constitute a weak minority, cannot bring about a democratic government. The solution today only lies either in the willingness of the Kuomintang Party to democratize itself, or in outside pressure coming from America that makes a thorough reform in the field of government and economics essential before any aid can be given. I am confident that my joining the government today will be as fruitless as my party's participation in the government during the last six months has proven to be.

It is indeed unnecessary to say that aid on a large scale without supervision given to the present government with its corrupt and dictatorial framework would prove to be a complete waste of money, material and guidance. There is no doubt that China is in dire need of aid of any kind at present, and if such aid could be given under strict supervision, and at the same time the government could be forced to liberalize itself,—under such circumstances I would welcome American aid. Money is of extreme importance to us right now, however a loan from America should be made under two conditions. First of all a financial budget must be established that can function independently from the issuing of bank notes. And secondly a currency reform must be introduced that results in giving to the people a stable medium of exchange. China today needs machinery, material, as well as money for her economic reconstruction; however if such things were granted to her from the United States without the strictest supervision we could never be sure that such loans are used for the right purposes.

But the liberalization of the government cannot only limit itself to the granting of economic aid on the part of America, and the inclusion of minority parties in the national government, but the word "liberalization" must be realized in its larger aspects, meaning a raising of the standard of living and standard of education. If for example American private contributions could assist Chinese liberal scholars in the opening of, for example, ten institutions of higher learning that could be run outside the control and power of the national government, much could be done in raising the standard of liberal education in the country that in turn would insure the effective control of a democratic government.

I mentioned before two possibilities for governmental reform. It is most unlikely today that the Kuomintang within the realm of its own free will would be willing to liberalize itself. In other words, I am afraid that democracy on a governmental level will not come from within, but will have to be superimposed from without. America today has an effective tool in her hands, in the form of possible loans, to persuade the national government to open its doors for a

constitutional, democratic government to enter. America must be conscious of this tool, and must be willing to use it. You know well that the Chinese liberal today is looking towards America for guidance and for support; we believe that America's support of the Chinese liberal is the only way in which American aid can be used effectively; and is the only way in which China would be willing to adopt a democratic way of life.

I am personally planning to come to America at the beginning of next year, and hope very much that I might have a chance to discuss some of these ideas a little further with you.

Sincerely yours,

CARSUN CHANG

893.24/10-3147

Minutes of the Meeting of the Committee of Two

[WASHINGTON,] 3 November, 1947.

MEMBERS PRESENT

Secretary Marshall
Secretary Forrestal

OTHERS PRESENT

STATE

Mr. Butterworth
Mr. McWilliams

NAVY

Secretary Sullivan
Rear Admiral Wooldridge

ARMY

Under Secretary Draper
Lt. General Lutes
Colonel Byroade

AIR FORCE

Secretary Symington
Assistant Secretary Whitney

OFFICE OF THE SECRETARY OF DEFENSE

Mr. Ohly

Secretary

Mr. Moseley (SANACC)

I. AID TO THE CHINESE

Decisions:

It was agreed:

a. That surplus munitions in the Marianas would be transferred under Surplus Property Act procedure, and that the State Department would approach the FLC to make the appropriate arrangements on a cash transaction basis.

b. That the 39 Division Program should be considered completed.

c. To expedite deliveries of equipment to complete the 8-1/3 Group Program, and that pressure would be put on the War Assets Administration and the Chinese to expedite negotiations and arrangements.

d. To investigate the availability of surplus munitions in the Philippines for possible transfer to the Chinese.

Implementing Action:

a. The State Department to approach the FLC to arrange for the appropriate procedures, including any further necessary agreements with the Chinese for the transfer of surplus munitions in the Marianas. The State Department to arrange for contacts with the Chinese in this connection where necessary.

b. The Army to give instructions to the overseas Commanders that the ammunition be declared surplus.

c. The Army to direct overseas Commanders to provide any necessary assistance in arranging for the transfer of the munitions in the Marianas pursuant to arrangements for transfer by FLC procedure.

d. The State Department to put pressure on WAA and the Chinese to expedite negotiations and delivery for the remaining equipment under the 8½ Group Program. The Army and Air Force to cooperate to make the equipment available.

e. The State Department to ask our Embassy in the Philippines to investigate the availability of surplus munitions for possible transfer to the Chinese.

Discussion:

A. Transfer of Munitions in the Marianas

MR. DRAPER said that it was desirable to clarify some uncertainty which had arisen over the means of transfer of the munitions in the Marianas to the Chinese. He said that the Army had investigated and found that there was a considerable surplus of matériel in the Marianas and that considerable time, funds and personnel will have to be expended to dispose of these stocks by any method. He stated that there was no legal way by which the Army could turn over the ammunition to another nation by declaring it "unstable". He pointed out that the only legal means of transferring this matériel is under the Surplus Property Act procedure. Apparently the most expedient method would be a supplemental agreement to the existing Bulk Sale Contract with China, permitting the transfer of munitions.

MR. BUTTERWORTH said that State Department was agreeable to approaching the FLC to determine the best procedure for handling this transaction, and that he would get in touch with the representatives of that agency immediately.

SECRETARY MARSHALL said it appeared that new contracts with the Chinese to effect this transfer were necessary.

MR. DRAPER said he thought that the Chinese would be able to provide the necessary labor to load the munitions along with the other material which they were picking up in the Islands.

SECRETARY MARSHALL said that besides furnishing the Chinese with some real material aid he believed that this transfer would have real psychological importance in boosting the morale of the Chinese Government. MR. BUTTERWORTH raised the question of whether the transaction should be for credit or cash, pointing out that there would be much less publicity involved in a cash transaction. SECRETARY MARSHALL said that the cash transaction appeared preferable, and arrangements should be made to sell the ammunition at a very low price. He added that we could not avoid some publicity in this connection.

MR. BUTTERWORTH pointed out that as a matter of procedure it will, of course, be necessary for the Army to declare the ammunition surplus, and the FLC will not accept it unless it has evidence of a foreign buyer.

B. The 39 Division Program

SECRETARY MARSHALL read a memorandum⁸⁹ which set forth the view of the Army that the 39 Division Program had been completed.

MR. DRAPER pointed out that General Wedemeyer had also told the Generalissimo that it was considered that The 39 Division Program was now completed.

It was the substance of the discussion that the Army view was acceptable.

C. 8½ Group Program

SECRETARY MARSHALL read a memorandum⁹⁰ prepared by the Air Force on the status of the 8½ Group Program. He recalled that there had been previous agreement to go ahead and complete this program. He pointed out that Mr. Butterworth had already arranged for the War Assets Administration to earmark 50 C-46's for the Chinese. He added that these planes were reported to be in good condition, that the price was low and that we were now urging the Chinese to buy them. He pointed out that the basic need of the Chinese is for transport planes.

MR. BUTTERWORTH said that the State Department was ready to go ahead now to expedite negotiations for the sale of the repair equipment which is now located in Hawaii. He said that the Department would put pressure on the WAA as well as the Chinese in this connection.

MR. SYMINGTON pointed out that even if the 8½ Group Program was completed the amount of planes and spare parts involved would still be far short of what the Chinese want and expect. He said that the Air Force was looking further into this matter. MR. WHITNEY said that the inefficiency of the Chinese Air Force was such that he

⁸⁹ November 1, p. 905.

⁹⁰ Not found in Department files.

thought we might investigate to see whether we could help them by furnishing them additional advisory personnel. Mr. BUTTERWORTH said that the training of the Chinese Air Force was quite efficient, but that their methods of operation were different than ours and that little could be done to help them in this respect. SECRETARY MARSHALL stated that we must accept the fact that they do things differently and less efficiently than ourselves.

Mr. WHITNEY said that we have no fighter aircraft in the Pacific to complete the program and that we will have to find new sources in this country. Mr. BUTTERWORTH pointed out that he was advised that there were available planes of this type now being held in Dayton.

D. Possible Availability of Surplus Munitions Sold to the Philippines

SECRETARY MARSHALL said that it had been called to his attention that this government had recently approved the sale of over 100,000 tons of surplus munitions to the Philippines. He said that the question had been raised of possibly arranging for the re-transfer of some of this to the Chinese.

Mr. BUTTERWORTH said that he would arrange to have our Embassy in the Philippines investigate this matter.

E. Wedemeyer Report

SECRETARY FORRESTAL recalled that at the last meeting discussion on the Wedemeyer report had been deferred. He inquired what action the State Department was taking with respect to the report.

SECRETARY MARSHALL said that the State Department was actively working on the report and that particular attention was being given to the military phase as well as the financial phase. He said that the Department was studying the extent and the form of further assistance to the Chinese, and what controls would be necessary. He summarized by saying that apparently everyone is in agreement that we wish to prevent Soviet domination of China and that we wish to do something to provide for a stable government there, but there is no unanimity on the way in which assistance can be rendered. He said that the immediate problem is to determine what can we do effectively. He said that we must recognize that we have the problem of prolonging the agonies of a corrupt government, and that we probably have reached the point where we will have to accept the fact that this government will have to be retained in spite of our desire to change its character. He said that he was of the opinion that we cannot afford to make the Wedemeyer Report public as to do so would do much more harm than good.

SECRETARY FORRESTAL said that he was concerned that it has never

properly been publicized that the Russians are as committed to support the present Chinese Government as we are. He pointed out that the average person is unaware of this and he thought something should be done about it. SECRETARY MARSHALL said that he was fully conscious of this fact, and that he was considering bringing this point out as a possible maneuver at the forthcoming meeting of the Council of Foreign Ministers.

MR. BUTTERWORTH said that care should be taken not to release information regarding the transfer of munitions to the Chinese during the Council meeting. SECRETARY MARSHALL said that our negotiations with the Chinese should be kept as quiet as possible and that any publicity regarding the transfer of matériel should come after the Council meeting.

MR. DRAPER said that Secretary Royall also wished to have the point made that there should be no publicity about private manufacturers' replacing ammunition which the Army may advance to the Chinese pursuant to a private contract now being negotiated by the Chinese with an American manufacturer.

II. WITHDRAWAL OF AMERICAN FORCES FROM CHINA

Decision:

None

Implementing Action:

The Secretary of Defense to provide information to the Secretary of State regarding the latest figures on the withdrawal of Army, Navy and Marine personnel in China.

Discussion:

SECRETARY MARSHALL referred to his discussions with Mr. Molotov during their meeting in Moscow in March 1947, at which time the latter addressed a letter to Secretary Marshall making inquiry about the number of American Forces to be left in China.⁹¹ SECRETARY MARSHALL said that in his reply⁹² to Mr. Molotov's letter he stated that the United States had announced that upon the termination of hostilities in China our Forces there would be reduced considerably. He said that he had pointed out in this letter that when current reductions were completed (estimated date June 1, 1947) there would remain, at the request of the National Government of the Republic of China, approximately 6,180 military and naval personnel. SECRETARY MARSHALL asked Secretary Forrestal to have a check made on the status of withdrawals to date.

⁹¹ See letter dated March 24, p. 622.

⁹² Dated March 31, p. 622.

893.24/11-447

The Chinese Embassy to the Department of State

MEMORANDUM

(1) The Chinese Government has been in urgent need of certain types of American military equipment and materials. In the past year and a half strenuous efforts were made to procure them in the United States. As it will be recalled, the Thirty-nine Divisions Program for the Ground Forces and the 8½ Group Program for the Air Force had long been agreed upon by the competent authorities of China and the United States, and deliveries in fulfillment of these programs had begun before the termination of hostilities.

(2) Soon after V-J Day, however, there appeared a period of inactivity in which it was not possible to obtain an export license for an ordinary item of ammunition to be shipped to China. Permission to purchase as surplus property by the Chinese Government the remaining portion of the 7.92 mm. cartridges originally "requisitioned" for the Chinese army under Lend-Lease was not granted until the end of May, 1947. Subsequently, the Chinese Government was informed that it might feel free to order ammunition from commercial firms and that there might soon be ready surplus property declarations covering certain items of equipment which would meet the requirements of the 8½ Group Program.

(3) The need of the Chinese ground and air forces for American equipment and materials is indeed pressing. Part of the Chinese ground forces, notably the Alpha Divisions, is equipped with the American type of arms, while the Chinese air force is almost entirely dependent upon the United States for planes and supplies. After two years of continuous service these forces are in urgent need of replenishment and replacement.

(4) The equipment and materials thus needed may be divided into two categories: items to meet immediate requirements; and items needed under long-term programs. In the past the Chinese Government has endeavored, with the assistance of the United States Army Advisory Group in Nanking, to draw up plans covering short-term requirements. A copy of such a plan⁹³ was presented in June 1946 to a responsible United States official in China. A list of ammunition requirements⁹⁴ intended for six months' use was given in April, 1947, to General Alvan Gillem for transmittal to the United States authorities.

⁹³ Not found in Department files.

⁹⁴ Not printed, but see memorandum by Brigadier General Timberman, April 22, p. 821.

(5) Items of equipment urgently required by the Chinese Government are as follows:*

a. 10,000,000 rounds of M-2, .50 calibre cartridges with links for air machine gun. (Procurement of this item is currently under negotiation.)

b. 34,494 pieces of M-30, 100# bomb, general purpose, with components.

c. 15,214 pieces of M-82, 100# bomb, fragmentation, with components.

d. 5,625 pieces of M-26, 53# parachute flares with components.

e. 40,000,000 rounds of .45 calibre machine gun ammunition.

f. 80,000,000 rounds of .30 calibre machine gun ammunition.

g. 1,000,000 rounds of 60 mm. Mortar ammunition.

h. 60,000 rounds of 2.36 inch Rocket ammunition.

In view of the urgent military situation in China, especially the exigency now existing in her North-eastern Provinces, the Chinese Government requests that these items be made available to China immediately.

(6) The Chinese Government understands that military stocks in the islands of the Pacific under the control of the AFPAC have available all the items mentioned above. It sincerely hopes that deliveries could be made from such stocks and that the Supreme Commander for the Allied Powers in Japan will be authorized to ship them directly to such ports in China as will be indicated by the Chinese Government. The procedure thus suggested, no doubt, will save much time and will be of great assistance to the cause of China.

(7) There is enclosed herewith a list⁹⁵ of items of equipment, which are urgently needed by the Chinese Air Force. The list for the Ground Forces will be submitted in a few days when it is ready.

(8) In regard to the long-term plans, the Chinese Government earnestly hopes that the United States Government will find it possible to make arrangements at the earliest possible date for the implementation of the Thirty-nine Divisions Ground Force Program and the 8½ Group Program for the Chinese Air Force. In the view of the Chinese Government these programs are of utmost importance and should be put into effective operation at once as they will form a sound foundation for a modern army, which will be not only of service in the maintenance of law and order internally but also of assistance in enabling China to discharge her international obligations as a stabilizing force in Eastern Asia.

(9) In view of the foregoing the Chinese Government requests that the United States Government reconsider its whole position with re-

*Some of these items are duplicated in the attached list. [Footnote in the original; list not printed.]

⁹⁵Not printed.

gard to this general question of supplying certain types of military equipment and materials to China. It will be highly appreciated if the United States Government would give this matter its favorable consideration. It will be of great assistance to China if the United States Government would supply China with the items of equipment urgently needed and give renewed impetus to the implementation of the two programs mentioned above. It will be especially appreciated if China's present needs may be met from military stocks declared surplus or declassified. As regards the monetary aspect of the transactions, it will be agreeable to the Chinese Government if payments could be made upon such terms as will be mutually agreed.

[WASHINGTON,] November 4, 1947.

711.93/11-647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 6, 1947—1 p. m.

[Received 2:06 p. m.]

2200. Following message for the Secretary was handed to Ambassador by Foreign Minister November 6 with the request for telegraphic transmission:

“Dear General Marshall: Regarding matters discussed between us, a small and urgent portion of our requirements have already been given to our Embassy in Washington since my return to Nanking a week ago for transmission to State Department, and Dr. Stuart has been kept informed. The Generalissimo and Premier Chang Chun appreciate your continued concern and effort in regard to the situation in China.

At this moment you are no doubt preoccupied with problems of the Marshall Plan.⁹⁶ I did not broach the subject in our conversation as China was not included in this connection among nations invited to submit a plan. You will recall however our proposed plan handed to you on May 27⁹⁷ through Ambassador Koo, which was intended for consideration by Congress, as soon as you would find it opportune to present it. The aforesaid plan still represents our position and the minimum requirements which will prevent China from an imminent economic collapse and help her move towards stability.

Concerning the peace conference for Japan, I am contemplating a further and formal approach as soon as the present session of the United Nations Assembly is over to the Soviet Union and the United Kingdom as well as your government by requesting them [to] recon-

⁹⁶ European Recovery Program (ERP). For a statement by the Secretary of State on November 10, explaining the program, see Department of State *Bulletin*, November 23, 1947, pp. 967-972; for documentation, see *Foreign Relations*, 1947, vol. III, pp. 197 ff.

⁹⁷ See memorandum of May 27 from the Chinese Embassy, p. 1126.

sider China's proposal as I stated to you. Unless you personally feel that further consultation between our two governments is necessary, I will proceed accordingly. Wang Shih-chieh."

STUART

893.24/11-847

The Chinese Minister (Tan) to the Director of the Office of Far Eastern Affairs (Butterworth)

WASHINGTON, November 8, 1947.

DEAR MR. MINISTER: Enclosed please find a Memorandum in regard to the request of my government for a certain quantity of M .50 cartridges, the contents of which had been communicated to you by me verbally on the 5th instant.

With personal regards,
Yours sincerely,

SHAO-HWA TAN

[Enclosure]

Memorandum by the Chinese Embassy

(1) The Chinese Government is in urgent need of 10,000,000 rounds of M .50 cartridges. In response to a request made by the Chinese Minister for Foreign Affairs, the Secretary of State was good enough to have informed the former on October 16th that the United States Government would loan to China 10,000,000 rounds of such cartridges to be returned later in kind.

(2) The Chinese Government should appreciate it if the said quantity of ammunition would be turned over to China from the remaining portion of a total of 24,550,000 rounds which the United States Government had agreed to supply to China under the 8 $\frac{1}{3}$ Group Program for the Chinese Air Force. (Of the 24,550,000 rounds of .50 calibre cartridges, 17,280,000 are still pending delivery.)

(3) If such an arrangement really can not be made at present, the Chinese Government would desire to borrow immediately 6,500,000 rounds to be returned with like ammunition, which will be manufactured by Olin Industries, Inc. (Winchester). The .50 cartridges needed by China should consist of the following:

- a. 2,600,000 rounds of Balls
- b. 2,600,000 rounds of Incendiaries
- c. 1,300,000 rounds of Tracers

(4) Winchester has informed Chinese representatives that at present it is unable to produce incendiary cartridges and that an

understanding between Winchester and appropriate United States authorities has been reached according to which Winchester may obtain the necessary incendiary cartridges from the United States Government and will return to the United States Government the type of cartridges it desires subject to the price adjustment.

(5) In case the United States Government may desire a particular type of cartridges for the replacement of the incendiary cartridges to be loaned to China, the Chinese Government would appreciate it if the United States Government would indicate what type it desires.

(6) The United States Government may appoint an officer to witness the signing of the contract to be made between the Chinese Government and Winchester and to inspect the manufacturing. It may indicate also how the ammunition to be returned should be packed.

(7) No matter [how?] the said ammunition is to be turned over to China under the 8½ Group Program or to be loaned to China, the Chinese Government requests that deliveries will be made from stocks in the Pacific, so that it could be made available to the Chinese Government at the earliest possible time. It will be appreciated if the ammunition would be properly linked and packed for export.

[WASHINGTON,] November 7, 1947.

893.00/11-1147

*Memorandum by the Director of the Office of Far Eastern Affairs
(Butterworth) to the Secretary of State*

[WASHINGTON,] November 11, 1947.

Subject: Conversation with Congressman Judd ⁹⁸ November 8, 1947

As requested, I called upon Congressman Judd at his office on Saturday afternoon and explained to him that you were fully engaged with the preparations for Monday's meeting with the Committees of the House and Senate and that you had asked me to see him in your stead.

Congressman Judd began by indicating that, although he did not agree with our past policy toward China, he was now only concerned with the current situation, but he ended by making an hour-and-a-half speech on the situation in China, past, present and future.

In particular, Congressman Judd had wished to impress on you his view that the situation in China required urgent action. He also wished to make the following five points:

1. That the security requirements in Japan and Korea depended on the maintenance of a non-Communist government on the China mainland.

2. That it was sounder "to build on the existing government, bad

⁹⁸ Walter H. Judd (Republican), Minnesota.

though it is," than to have it collapse or to have a new government which would be Communist-dominated.

3. That no economic or financial measures can solve China's situation unless the civil war is terminated or the Communists are contained.

4. The civil war cannot be terminated or the Communists contained without American assistance in the form of

a. Moral assistance, i. e., a statement of support.

b. Ammunition.

c. Training of troops on a large scale.

5. U. S. help to be successful must be all-out.

Congressman Judd had apparently seen the Generalissimo a couple of times. Two statements he made quoting the Generalissimo were of interest. In discussing the instructions under which the U. S. Army Advisory Group operates the Generalissimo had apparently said that he had no desire to have American troops involved in fighting or to encourage the Soviets to retaliate and therefore American military personnel should not go nearer the front than one hundred li. The Generalissimo is said to have inquired why the United States took a different view of Communism in the East than in the West. Why was the United States prepared to help European countries, particularly such countries as Greece and Turkey, and yet would not render similar aid to a hard-pressed country like China? Was it that the United States was not really concerned about Far Eastern developments? Was it that the Chinese Government had not lived up to its undertakings? Or was it a racial matter, that the United States cared for white people but not for yellow?

W. W[ALTON] B[UTTERWORTH]

811.2393/11-1547

The Secretary of Defense (Forrestal) to the Secretary of State

WASHINGTON, 15 November 1947.

MY DEAR MR. SECRETARY: At the Committee of Two meeting of 3 November 1947 you asked me to check on the status of withdrawals of United States Armed Forces in China so that you would have this information available in the event that it is needed during the forthcoming meeting of the Council of Foreign Ministers.

In your letter of 31 March 1947 to Mr. Molotov,⁹⁹ you gave him the estimated figures for United States Armed Forces in China as of 1 June 1947, by which date it was expected that reductions then in progress would be completed. You will see from the following tabu-

⁹⁹ *Ante*, p. 622.

lation, which corresponds to the one in your letter to Mr. Molotov, that the strength of the Armed Forces could not be reduced by 1 June 1947 to the estimated ceiling but that Naval personnel and Marines are now below that ceiling. The reasons for this delay and the difficulty of reducing the Army and Air Force strengths to the estimated ceiling, although they are very close to that figure, are explained below.

	<i>Estimated ceiling for 1 Jun 47</i>	<i>Actual Strength 1 Jun 47</i>	<i>Actual Strength 1 Oct 47</i>		<i>Projected Strength 1 Jan 48</i>
United States Army (All staff & services)					
Advisory Group	750	750	750		750
Office & Property					
Guards	351	444	460		516
Air Transport	160	303	161		187
Graves Registration					
Serv.	94	80	73		39
Miscel. Staff & Services	155	96	87		100
Total Army	1510	1678	1531		1592
				<i>Actual Strength 1 Nov 47</i>	
United States Navy					
Advisory Group	128	142	84	—	
Services in connection with port & weather facilities, Shanghai, Tsingtao, and Tientsin.	1043	1382	1147	—	Not to exceed
Total Navy	1171	1524	1231	1150	1171
				<i>Actual Strength 6 Nov 47</i>	
United States Marines					
Combat type:					
Infantry	1636	2402	1591	—	
Air	499	565	417	—	
	2135	2967	2008	—	
Staff and Service:					
Ground	1154	3890	1379	—	
Air	210	441	383	—	
	1364	4331	1762	—	Not to exceed
Total Marines	3499	7298	3770	3452	3499

You will see from these figures that by 1 June 1947 the strength of United States Army including Air Force personnel had been reduced to the estimated level except in two agencies, Air Transport Service and Office and Property Guards. It is now estimated that it will not be possible to reduce the figures for these two services to the original estimated ceiling. As of 1 January 1948 and for an indefinite period thereafter the Air Transport Service, including attached Airways Communications Service and Air Weather Service units, will require a strength of 187, which is 27 higher than the estimate. Also, because of increased pilferage and other changed local conditions it has become necessary to augment rather than decrease Office and Property Guard personnel so that the projected strength for an indefinite period beginning 1 January 1948 will be 516, which is 150 higher than the original estimate of 351. It is not expected that the ceiling will be exceeded for the other services. Fluctuations in strength of Miscellaneous Staff and Services are caused by the inclusion under that heading of personnel enroute to and from China. The American Graves Registration Service is scheduled for inactivation on 15 December 1947 but will require until 15 February 1948 a residual strength of 39 to close out contracts, dispose of property and arrange for the termination of services. After that date no personnel will be required for this work but in other respects the projected strength of United States Army personnel will continue at the figure given for 1 January 1948. The functions of the Army Advisory Group require the full complement of 750 men and the other activities which are necessary to support the Army Advisory Group will continue to require the full services of the additional agencies listed.

The Navy and Marine Corps strength is now below the established ceiling and it is not expected that the ceiling figure will be subsequently exceeded. The delay in reducing strength to the ceiling figure was due to several reasons, including the following: non-availability of shipping lift; extensive damage by the Chinese Communist Forces to the rail line southwest of Chinwangtao which caused some delay in withdrawal of Executive Headquarters from Peiping to Tsingtao; the need to return or turn over enemy alien, foreign and Chinese property to the proper authorities; completion of the determination, declaration and turnover of surplus property; settlement of all foreign claims; the segregation and shipment control of items to be shipped to the United States and Guam from required stocks to be kept at Tsingtao.

I will be glad to furnish you any additional information should you desire it.

Sincerely yours,

JAMES FORRESTAL

893.248/11-1747

The Chinese Minister (Tan) to the Chief of the Division of Chinese Affairs (Ringwalt)

WASHINGTON, November 17, 1947.

DEAR MR. RINGWALT: As you are aware, an agreement has been signed in China regarding certain items of equipment and material under the 8½ Group Program for the Chinese Air Force by representatives of our two governments. I am directed by the Ambassador to express to you that my government would appreciate it very much if instructions could be sent to the United States representatives in China and the Pacific Zone to expedite delivery of such items and material.

Yours sincerely,

SHAO-HWA TAN

893.24/11-647: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 19, 1947—4 p. m.

1401. Following is Secy's reply for safehandling to FonMin (Your unnumbered [No. 2200] tel Nov 6, 1 p. m.):

"Dear Dr. Wang: Before leaving for London I wish to thank you for the letter which you gave Amb Stuart for transmission to me. No doubt Amb Koo has already reported to you the substance of our conversation on Nov. 13,¹ in the course of which I supplied him with background information in regard to the proposed assistance for China which I set forth in broad outline to the Congressional Committees last week.² I particularly want you to know, as I told Amb Koo, that we are seeking to determine what ammunition suitable for Chinese needs may be available in the Marianas and expect further to communicate with you on the subject as soon as it is possible. Dr. Koo will have informed you, I am sure, of my views as to the undesirability of publicity with respect to this matter."

LOVETT

893.20 Mission/11-2247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 22, 1947—6 p. m.

[Received November 22—12:29 p. m.]

2284. I know so well what is in the Generalissimo's mind that I hesitate to approach him as suggested in your 1405, November 20, 10

¹ See memorandum by the Director of the Office of Far Eastern Affairs, November 13, p. 1214.

² Statement of November 10, Department of State *Bulletin*, November 23, 1947, p. 970.

a. m. [*1 p. m.*],³ without first being certain that nature of need here is realized in Washington. Crux of problem in China is army. Unless it can be reorganized, reduced and its morale improved, inflation cannot be curbed, the budget balanced, nor can there be improvement in local administration. A limited number of well-officered, well-trained, well-equipped and cared for divisions, mobile and imbued with new sense of function to protect people against destructive tactics of Communists while helping toward economic recovery might succeed in confining Communists and curbing if not stopping their disruptive activities in Nationalist territory.

Under existing directives AAG is not authorized nor is it equipped to assist in creating such an army. In my opinion it would not accomplish desired purpose to replace Lucas with Barr unless at the same time AAG directives were changed so as to permit active participation by AAG not only in reorganizing army but also in planning strategy and operations. With such change in AAG directives, Generalissimo would probably accept anyone you recommend for such immediately practical assistance and he would support such an officer in the degree that the officer was able to inspire the Generalissimo's confidence. Drastic reorganization of the army, I am convinced, is impossible without qualified American officer. In fact, Generalissimo has already prepared his general staff for appointment of such a man.

Before discussing possible appointment of General Barr with Generalissimo and Madame Chiang, I should therefore prefer your decision regarding feasibility of new directives to AAG.

STUART

893.248/11-1747

The Acting Chief of the Division of Chinese Affairs (Rice) to the Chinese Minister (Tan)

WASHINGTON, November 25, 1947.

MY DEAR DR. TAN: The receipt is acknowledged of your letter of November 17, 1947 in which, under direction from the Ambassador, you informed me of your Government's request that instructions be sent to the appropriate United States representatives in the Far East to expedite delivery of certain equipment and material for the 8½ Group Program, covered by the agreement between our two Governments recently signed in China.

³ Not printed; the Ambassador in China was instructed to ascertain from Generalissimo Chiang Kai-shek whether the appointment of Maj. Gen. David G. Barr, U. S. Army, as successor to General Lucas as Chief of the Army Advisory Group (AAG) in China would be acceptable (893.20 Mission/11-2047).

The subject matter of your letter has been discussed with the appropriate officials of this Department; they have been requested to take all appropriate steps with a view to expediting the handling of the equipment and material in question.

Sincerely yours,

EDWARD E. RICE

893.20 Mission/11-2247 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 28, 1947—5 p. m.

1436. From Secy of State. You may rest assured (urtel 2284 Nov 22, 6 p. m.) premise is fully accepted here that military expenditures on present war scale are incompatible with balancing of Chinese Govt budget which in turn is prerequisite to controlling of inflation. You may recall it was in anticipation of ultimate consequences for China of such a situation that as long as 2 years ago this Govt attempted to prevent civil war in China. Furthermore it is a moot question whether military expenditures could in fact be cut during a period of civil war if present forces were reduced but remaining numbers given adequate care and equipment; it seems evident that only well led and well trained and cared for divisions imbued with improved spirit would be capable of assuming and holding initiative against Chinese Communist forces.

I am willing that Gen. Barr should make his advice available to Generalissimo on informal and confidential basis and that AAG should supply advice with respect to reorganization of Chinese Army Services of Supply should that be desired. I am however not willing that we should accept responsibility for Chinese strategic plans and operations. I think you will agree that implications of our accepting that responsibility would be very far-reaching and grave and that such responsibility is in logic inseparable from authority to make it effective. Whatever the Generalissimo may feel moved to say with respect to his willingness to delegate necessary powers to Americans, I know from my own experience that advice is always listened to very politely but not infrequently ignored when deemed unpalatable. [Marshall.]

LOVETT

893.24/12-247 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 2, 1947—7 p. m.

1457. Immediately following conclusion of negotiations for sale of 8 $\frac{1}{3}$ Group Program supplies in Pacific Dept notified Chinese Emb

and Capt Lubochez notified Gen Kiang of willingness FLC speedily to conclude sale of supplies in Zone of Interior. This would include very valuable aircraft engine overhaul plant stored at Honolulu crated and ready for shipment.

It was due to Dept's intervention that FLC instructed Capt Lubochez to accept Chinese counteroffer of 12½¢ for Zone of Pacific supplies. Similarly Dept arranged with FLC that it be prepared to accept minimum figure of 17½¢ for Zone of Interior supplies. This price cannot be further reduced because of commitments to other countries for similar surplus. FLC first offer of 30¢ has not elicited reply from Chinese Emb which is now being encouraged by Dept to submit counteroffer in neighborhood of 17½-20¢. Dept desirous of effecting conclusion of sale in near future.

At instance of Dept, Chinese Govt is being offered surplus C-46 aircraft in Zone of Interior at price of about \$5,000 each (procurement cost \$300,000). Chinese originally stated they planned to buy up to 350 but are now talking in terms of 150.

Please make above info available to Chief, Air Division, AAG. Minister-Counselor⁴ should feel free to convey substance of above personally to FonMin.

LOVETT

893.20 Missions/12-347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 3, 1947—11 a. m.
[Received December 3—5:43 a. m.]

2327. I concur in your view (your telegram 1436, Nov 28) that Army reorganization would not immediately improve military or fiscal situation. Also as to unwisdom of American responsibility for combat strategy and field operations. I have explained fully to Generalissimo and he approves invitation to General Barr. I therefore support your suggestion of General Barr to replace General Lucas within terms specified by you. Generalissimo would like to have General Barr's record. I appreciate difficulties in advising Generalissimo as experienced by you and suggest experimental procedure, success at each stage guiding future policy. This might well be tentative or conditional while sufficiently positive to stimulate Chinese leaders to revitalize effort. I shall do my best to help and am not too unhopeful.

STUART

⁴ Lewis Clark.

893.20 Missions/12-547 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 5, 1947—7 p. m.

1476. "From Sec State. Your reference in your 2327 Dec 3, 11 a. m. to 'experimental procedure, success at each stage guiding future policy' is not understood and does not appear to be in consonance with second par of my 1436 Nov 28. Gen Barr's status and responsibilities will be specifically defined and delimited before his departure so that no misunderstanding should occur as to character and extent of his activities. Needless to say I am glad that you are not unhopeful that the Chinese leaders can make a revitalized effort. Biographic sketch Gen Barr will be forwarded for transmission Gimo when action initiated for his appointment." [Marshall.]

LOVETT

893.20 Missions/12-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 8, 1947—6 p. m.

[Received 11:09 p. m.]

2353. Phrasing used my 2327, December 3, 11 a. m. to which exception was taken in your 1476, December 5, 7 p. m. was merely careless drafting. My idea was and is that in each of various fields in which we may anticipate advising Chinese we should proceed with caution adjusting possibly tempo and character of our advice and assistance to changing situation for better or for worse in China; in other words that we should not bind ourselves to too rigid directives. I agree completely that General Barr's status and responsibilities should be specifically defined and delimited before his departure from US.

STUART

893.24 FLC/12-1047

Memorandum of Conversation, by the Chief of the Division of Chinese Affairs (Ringwalt)

[WASHINGTON,] December 10, 1947.

Dr. Tan called this afternoon at my request to discuss the latest developments in the negotiations for the purchase by the Chinese Government of surpluses in the Zone of the Interior destined for the 81½ Group Program.

I informed Dr. Tan that I had just learned from Colonel Kingman of FLC that the Chinese negotiators in Washington had made a counteroffer to the original FLC offer of 30¢ on the dollar for the material now earmarked under this program and that this counteroffer was 17% of procurement cost, 20% in cash and the balance over a period of five to eight years. I said that this surprised us no little, as we confidentially informed them the lowest price we could possibly accept was 17½% all cash. I reminded him that in obtaining this advantageous price we had exerted considerable pressure on FLC and because of commitments to other countries 17½% is the minimum possible. I said that after consultation with Mr. Butterworth I was compelled to make clear to him that the failure of the Chinese Government to act promptly in concluding this advantageous arrangement would inevitably be interpreted as an indication that the Chinese profession of the urgency of their need for military equipment generally had been given too much emphasis and would therefore serve to delay the conclusion of other arrangements for supplying war material to the Chinese Government.

Dr. Tan professed considerable surprise that we should feel so strongly on this subject and said that he could not understand why any alleged dilatoriness on the part of the Chinese in this connection might in any way hinder the speedy transfer to China of surplus munitions in the Pacific.

I replied that the 8½ Group Program had been worked out only after long and tedious discussions with the various Government agencies concerned and that we were most anxious to conclude the deal on the terms indicated as soon as possible. I added that we were anxious to take up the various programs seriatim and that on the conclusion of this program we would then be more free to act promptly on other contemplated programs. I reminded him that Secretary Marshall had been much interested in this particular program and had directed us to expedite the transfer of the material as much as possible.

I took the opportunity of Dr. Tan's presence to point out to him that such little information as we had received through Army Department channels would indicate that the supply of surplus ammunition in the Pacific would prove to be disappointingly meager. I added that, judging from what I learned from offices in the Department of the Army, it might take several weeks yet before we had sufficient information on which to base a contract for sale through Surplus Property channels. I indicated that from what I could gather from friends in the Department of the Army who are working on this problem the supply of ammunition suitable for Chinese use might not exceed 10,000 tons. I said that Mr. Butterworth had asked me

to inform him that he, with much regret, would like to suggest to the Chinese that they reopen the negotiations with Olin Industries, taking advantage of the arrangement previously outlined and recommended by Mr. Butterworth to the Chinese Foreign Minister during the course of their conversation last October 21.⁵

A[RTHUR] R. R[INGWALT]

893.24/12-247 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 11, 1947—6 p. m.

1501. Chinese reps in Washington have made FLC counter-offer of 17¢ for Zone of Interior supplies for 8 $\frac{1}{3}$ Group Program (Deptel 1457 Dec 2) 20 percent cash with balance payable 5 to 8 years.

Dept has reiterated to Chinese Emb that because of commitments to other countries 17 $\frac{1}{2}$ ¢ all cash is minimum acceptable to FLC. It also felt compelled to point out to Chinese Emb that failure of Chinese Govt to act promptly in this matter will inevitably be interpreted as indicating that Chinese professions of urgency of need for military equipment generally have been overemphasized and will therefore serve to delay other matters.

Pls pass above info to Chief, Air Division, AAG, and in discretion of Minister-Counselor personally to Dr. Wang.

LOVETT

893.20 Mission/12-1347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 13, 1947—5 p. m.
[Received December 13—8:39 a. m.]

2394. Generalissimo has requested advice and assistance of AAG in organization of replacement training centers at Nanking, Peiping, Sian and possibly Hankow (Deptel 1302, October 24, 5 p.m.). At instance AAG there have already been established at strategic localities in China 20 odd centers for basic recruit training. It is contemplated that these strategically-located recruit training centers will serve as a constant source of personnel which would flow into the replacement training centers where they would be trained for active guerrilla warfare either as separate units or as replacements for divi-

⁵ See memorandum by the Director of the Office of Far Eastern Affairs, October 21, p. 898.

sions recalled from the front. AAG has in mind a table of organization for divisions more suited to meet needs of actual military situation and hopes to accomplish this by withdrawal from the front and reorganization of divisions at replacement training centers.

Original concept of training center on Taiwan was along these lines according to AAG but for political reasons was changed in its initial stages to complete training of Youth Corps Division. Generalissimo expects that division to be ready for service by March by which time AAG contemplates letting it go to the front even though it will be inadequately trained. Meanwhile, AAG plans immediately commencement of replacement training at Taiwan along lines outlined above.

It has been increasingly borne in upon us of late that the AAG and through AAG US Government is being blamed for the lack of success of recent Chinese military efforts. There is no general public realization of the limitation of AAG's authority. We believe strongly therefore that any step we can take offering prospect of success would redound to our advantage and prestige. Accordingly, we strongly recommend that we be authorized to approve action of AAG along lines requested by Generalissimo.

STUART

893.20 Missions/12-1347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 13, 1947—7 p. m.

[Received December 13—8: 14 a. m.]

2395. We are perturbed to notice from War Dept press release that Barr will not take over from Lucas until March 1. Military situation is most critical and new regime in AAG should, we believe, be inaugurated with least feasible delay (my 2353, December 8, 6 p. m.)

STUART

893.24/12-1547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 15, 1947—6 p. m.

[Received December 15—12: 56 p. m.]

2401. Minister-Counselor discussed with Dr. Wang today Deptels 1457, December 2, 7 p. m. and 1501, December 11, 6 p. m. Dr. Wang, while not professing too intimate knowledge of details, said he thought principal Chinese preoccupation was with obtaining delivery and as-

surances of adequate spare parts. He promised investigate matter and inform us.

Later, Vice Minister George Yeh called Minister-Counselor to Foreign Office. Yeh since mid-November has under Dr. Wang's direction had centered in his office all matters dealing with acquisition military supplies and equipment. Yeh says this move was to provide proper governmental channel for acquisition of supplies and equipment and to expedite needed acquisitions. He hoped we would see continued improvement as his grasp of problem improved.

He explained that reason Chinese now sought only 150 C-46 aircraft was that Chinese technicians in United States had reported available only 150 which were serviceable without cannibalization. Chinese Embassy, Washington, has reported order definitely placed for 150 and Yeh assured us funds for cash payment are available United States and payment would be made on demand.

Difficulty regarding supplies in Zone of Interior arose he said out of report from Dr. Koo that original cost aircraft engine overhaul plants stored Honolulu is 17,800,000 rather than less than 2 million as Chinese had hitherto been led to believe by Mr. Marshall and by AAG here. Yeh says Chinese desperately want plants in question but must know sums involved before instructions Embassy, Washington, conclude purchase. In asking for credit terms in connection purchase supplies from Zone of Interior, Chinese were acting he said on precedent established by Soong-McCabe agreement August 1946. Cash was on hand in the United States however, and Embassy would be instructed pay $17\frac{1}{2}\%$ without quibbling immediately question original cost Honolulu plants clarified.

Yeh said it would be helpful if he could be advised (1) overall original cost supplies and equipment investigated $8\frac{1}{3}\%$ group program, including (2) breakdown of costs between elements of program located in United States and those located in Hawaii.

Yeh then endeavored turn conversation to question ammunition, saying Chinese had placed order December 9 with Winchester Arms for 6 million rounds 50 calibre which would not be delivered until late spring. He inquired when Chinese might expect action on Mr. Marshall's promise to endeavor to advance this type ammunition from stocks Pacific Theater. He also mentioned memorandum which Dr. Koo left in State Department November 5, listing immediate army needs for ammunition again expressing hope we could obtain information. On both these questions we told Yeh he should seek information through Chinese Embassy, Washington, that being channel preferred by Department for such requests.

George Yeh gave every indication of being perturbed by reaction

in Department of Chinese procrastination as mentioned Deptel 1501, and of a sincere desire to improve the situation, now that he has authority in Foreign Office.

STUART

800.48 FAA/12-1647

Memorandum of Conversation, by the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] December 16, 1947.

Participants: Mr. Norman Armour, Assistant Secretary
Dr. V. K. Wellington Koo, Chinese Ambassador
Mr. W. Walton Butterworth, FE

The Chinese Ambassador called at his request on Mr. Armour this morning and stayed for almost an hour and a half. The principal purpose of his visit was to ascertain whether the Department was prepared to take the initiative for an appropriation, on the basis of the Congress' action in including China in the enabling legislation for interim aid to Italy, France and Austria, and to obtain a commitment from the Department so to do. The Department's position was fully explained to him by Mr. Armour.

Ambassador Koo also discussed at great length the question of military aid in general and ammunition in particular but he added nothing to the known Chinese attitude as previously expressed in conversations held recently and *aide-mémoires* presented. However, Mr. Armour took this occasion to notify Dr. Koo that the Department of the Army was now authorized to proceed with arrangements with a view to the sale by FLC on very reasonable terms of the ammunition remaining in the Marianas suitable for Chinese use and the Department of the Air Force would act similarly with respect to the completion of the 8 $\frac{1}{3}$ Group Program, including combat planes in so far as the material was available and surplus to US needs.

Among other things, Ambassador Koo stated that the Chinese authorities had signed a contract with Olin Industries for the production of ammunition and the procedure was reiterated to him whereby the Department of the Army, at the request of the manufacturing company, would advance to that company, for subsequent replacement, supplies from Army depots at home or, if it could be arranged, abroad. It was evident from a number of remarks which Dr. Koo made that the Chinese authorities, as sometimes is their wont, fluctuated, on the one hand, between a desire to take speedy action to fulfill their urgent and real needs and, on the other, to delay and bar-

gain in the hope of obtaining facilities on favorable or gratis terms. In this connection he was urged to use his authority to the end that the 8½ Group contract for the Zone of the Interior supplies be speedily concluded as a result of the meeting which would take place this afternoon in the Office of the Foreign Liquidation Commissioner, at which the Chief of the Division of Chinese Affairs and the Minister of the Chinese Embassy would be present.

[Here follows a paragraph regarding convoking of a Japanese peace conference.]

893.24/12-1647

The Acting Secretary of State to the Secretary of the Army (Royall)

WASHINGTON, December 16, 1947.

MY DEAR MR. SECRETARY: With reference to our telephone conversation of yesterday regarding contracts placed or to be placed by the Chinese Government with American manufacturers for the supply of ammunition, I wish to confirm that this Department concurs in the action contemplated by the Department of the Army in turning over, in accordance with existing legislation, to the manufacturers concerned for subsequent replacement, stocks held in Army depots abroad as well as at home. We understand that this, of course, does not apply to the stocks in the Marianas which, as you know, are subject to another arrangement which is in the process of implementation.

Sincerely yours,

LOVETT

893.24/12-1647

The Director of the Office of Far Eastern Affairs (Butterworth) to the Assistant Secretary of the Air Force (Whitney)

WASHINGTON, December 16, 1947.

MY DEAR MR. WHITNEY: You will recall that at the Committee of Two meeting on November 3, 1947, at which you were present, certain decisions were reached with regard to assisting the Chinese Government in the acquisition of military supplies; it was agreed, *inter alia* (page 1, paragraph 1, sub-paragraph *c* of the minutes), to "expedite deliveries of equipment to complete the 8½ Group Program."

The Secretary of State has authorized this Department to inform the Department of the Air Force that, as the London meeting of the Council of Foreign Ministers has terminated, the decisions reached at the Committee of Two meeting referred to above can be put into effect forthwith. The Foreign Liquidation Commissioner is also being advised in the above sense. Would you be so kind as to ensure

that the concerned officials of the Department of the Air Force are also apprised of this information.

A similar communication is being sent to the Department of the Army⁶ with respect to the decision of the Committee of Two referred to in sub-paragraph *a*, paragraph 1, page 1 of the minutes of the meeting on November 3, 1947.

Sincerely yours,

W. WALTON BUTTERWORTH

893.24/12-1547: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 18, 1947—7 p. m.

1534. Total procurement cost equipment in Zone of Interior declared surplus for sale to China under 81 $\frac{1}{3}$ Group Program approximately \$26,500,000. That portion of above located in Hawaii, including engine overhaul plant, approximately \$1,500,000 (Embtel 2401 Dec 15 para 4). Chinese will be expected to pay cash at rate of 17 $\frac{1}{2}$ percent procurement cost or about \$4,637,500, and deposit 15 percent procurement cost to cover packing, handling and transportation to port of shipment. Chinese negotiators so informed.

Chinese Ambassador informed Dec 16 we are now prepared to negotiate sale of surplus ammo in Marianas as well as combat aircraft to complete 81 $\frac{1}{3}$ Program in so far as available. As aircraft are specifically excluded from transaction described above, negotiation for their sale will be made basis of separate contract. Negotiations for sale of surplus ammo will of course be conducted at Shanghai, but it is now understood from Dept of Army that amount involved will not prove to be very large.

LOVETT

810.20 Defense/11-147

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] December 19, 1947.

Bills to provide military advice and assistance to the Republic of China were introduced in the 79th Congress as S 2337⁷ and HR 6795.⁸ Not being acted upon, these bills died with the termination of the 79th Congress. In November 1946 General Marshall, then in China, re-

⁶ Missing from Department files.

⁷ June 13, 1946, *Congressional Record*, vol. 92, p. 6773.

⁸ June 14, 1946, *ibid.*, p. 6979.

quested that similar legislation be prepared but concurred with the Department's recommendation that its introduction into the 80th Congress be withheld until the time should be propitious to submit it. The bill was not introduced into the first session of the 80th Congress.

Mr. Forrestal in his letter of November 1, 1947⁹ suggested that, if this Department considered it desirable to submit the proposed legislation, the National Military Establishment be afforded an opportunity to propose certain minor revisions in the wording of the bill as now drafted. The Department in its reply⁹ indicated that many of the provisions of this bill were substantially covered by other legislation which would be introduced, and suggested therefore that we await Congressional reaction to these other bills before requesting legislation specifically providing for military assistance to China.

It has now been learned from recent conversations between officers of the Army and of this Department that the Army feels it is the responsibility of the State Department to take the initiative in determining the appropriate time for the introduction of the China bill.

It would appear politically unwise in view of the pressure for aid to China for this Department to give the appearance of desiring to delay action on the bill, although as noted above there is in actuality little difference between the activities which would be authorized by this bill and the activities which would be authorized by legislation which the Department is already sponsoring. If you agree, it is suggested that we inform the Department of the Army that it might undertake a preliminary review of the draft bill so that should the Secretary wish to reintroduce the bill, the spade work on it will be done.

It is recommended that, although the Department of State take the initiative in the introduction of the bill, the Department of the Army be primarily responsible for the justification of its detailed provisions.

A[RTHUR] R. R[INGWALT]

893.24/12-2347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 23, 1947—3 p. m.

[Received 3:54 p. m.]

2444. George Yeh was grateful for information contained Deptel 1534, December 18, 7 p. m. re 81½ Group Program and hopes expedite action complete purchase.

⁹ Not printed.

Again he stressed dire need Chinese for .50 calibre ammunition. For fear the information might leak, he had not dared even tell Chinese Ambassador, Washington, real situation. China had only 2 million rounds of .50 calibre ammunition remaining and all 6 arsenals in Szechwan were idle because of lack of powder. With the situation in Mukden he said 2 million rounds wouldn't last long. We mentioned Clark's failure when in northeast to find anyone, including General Chen Cheng, who would admit to ammunition shortage and Yeh replied that Generalissimo had hitherto refused to permit commanders in field to be informed of real shortage ammunition for fear of effect on morale. Only last week, he said, Gimo had been persuaded to advise field commanders of situation. Although Yeh is again instructing Koo to press matter in Washington, he asked us to pass on the above.

There appears no way of ascertaining with accuracy what actual ammunition situation in China may be. We doubt whether the Chinese themselves know actual situation. Nevertheless military situation continues to deteriorate and it is entirely possible situation is as portrayed by Yeh.

STUART

893.20 Mission/12-1747 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 23, 1947—4 p. m.

1559. Dept has been advised reurtels 2395 Dec 13 and 2412 Dec 17¹¹ that following message has been transmitted by Dept of Army to Chief AAG Nanking:

"The Departments of State and Army are preparing a new directive for Chief Army Advisory Group and in order to take advantage of your knowledge in the premises it is desired that you depart by air at such time as will insure your arrival in Washington not later than January 15th. You are authorized to bring your dependents by same mode of travel if you so desire. Temporary command will be assumed by next senior officer."

LOVETT

893.24/12-2347

The Chinese Embassy to the Department of State

MEMORANDUM

(1) In the Memorandum of the Chinese Embassy to the Department of State dated November 4, 1947, it was stated among other things that

¹¹Latter not printed.

the Chinese Government was in great need of certain items of military equipment and supplies and that it would be highly appreciated if the United States Government could supply China with such items by declaring them surplus or declassified and to effect deliveries from available stocks in the Pacific depots.

(2) As it will be recalled, there was attached to the said Memorandum a List of Items of Equipment¹² which were urgently required by the Chinese Air Force. It was indicated therein that a list for the ground forces would be submitted as soon as it was ready.

(3) There is enclosed herewith the List of Equipment and Supplies¹² urgently required by the Ground Forces of China. This list is substantially identical with that which was compiled with the assistance of the United States Army Advisory Group in Nanking, a copy of which was given to General Alvan Gillem in April 1947 for transmittal to the United States authorities.

(4) It will be noticed that there are many items which are vitally needed to meet immediate requirements, which are enumerated as follows:

a. Ammunition and Weapons:

- | | | |
|-------|---|-------------|
| i. | Cartridges Cal. 30, ball, in clips and bandoleers | (Table I-U) |
| ii. | Cartridges Cal. 30, ball in carton | (" ") |
| iii. | Cartridges Cal. 45, ball | (" ") |
| iv. | Shells 60 mm. (for mortar) | (" ") |
| v. | Shells 75 mm. | (" ") |
| vi. | Rockets 2.36-shells— | (" ") |
| vii. | Grenades & rifles | (" ") |
| viii. | Launcher grenades | (" 1-B) |
| ix. | Mortars, 60 mm. | (" 1-F) |
| x. | Howitzer Packs 75 mm. | (" 1-I) |
| xi. | Fire Control Equipment | (" 1-Q) |

b. Vehicles, Tire and Tool Replacements:

- i. Model CCKW 353 6 x 6 2½ ton trucks (without winch)
- ii. Model CCKW 352 6 x 6 2½ ton trucks (with winch)
- iii. Model WC51 4 x 4 ¾ ton weapon carriers (with winch)
- iv. 7.50 x 20, 8 plies with tubes
- v. 6.00 x 16, 6 plies with tubes and TR 15 valves
- vi. General Mechanic's equipment (whole set)
- vii. First Echelon Maintenance tools (to go with trucks)

(5) The Chinese Government desires to take this opportunity to invite the attention of the United States Government that the following items, which appear in the List for the Air Force attached to the

¹² Not printed.

Memorandum of November 4th, are pressingly needed due to short supply in China :

- a. Engine Assembly
 - i. P-51 V-1650-7 (-3-9) 165 sets
 - ii. B-25 R-2600 (-13) 71 sets
 - iii. C-47 R-1830-92 (90c.) 80 sets
- b. Tires and Tubes for Landing Gears
 - i. P-51 400 sets
 - ii. C-46 400 sets
 - iii. B-25 200 sets
 - iv. C-47 200 sets
- c. Tires and Tubes for Tail Wheels
 - i. P-51 500 sets
 - ii. C-46 500 sets
 - iii. C-47 200 sets

(6) On account of the military exigency in China and for reasons expressed in the Memorandum of November 4th, the Chinese Government earnestly hopes that the United States Government will see its way to making arrangements to supply China with these items of equipment and supplies at its earliest convenience.

[WASHINGTON,] December 23, 1947.

893.24 FLC/12-3047 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

NANKING, December 30, 1947—7 p. m.

1585. On Dec 29 OFLC authorized its Shanghai rep by cable (1) to transfer under Nov 6 contract with ChiGovt nondemilitarized combat material declared by owning agency specifically for 8½ Group Program, and (2) to sell to China ammunition and explosives (whether allocated under 8½ Program or otherwise) declared surplus by owning agency at nominal charge of one percent of procurement cost. On completion contract arrangements Chinese will be free to take delivery via any transportation facilities available to them.

Minister-Counselor should inform FonMin in sense of above, indicating that contract can be concluded before end of year.

LOVETT

893.24/12-3047

The Secretary of the Army (Royall) to the Secretary of State

WASHINGTON, December 30, 1947.

DEAR MR. SECRETARY: State Department letter, signed by Mr. Lovett, on the subject of transfers of ammunition between the De-

partment of the Army, American manufacturers, and the Republic of China was received by the Department of the Army on 16 December 1947. The Department of the Army did not consider that this letter provided sufficient authority to permit it to proceed in this matter. Consequently, a representative of this Department, Major General Arnold, called upon Mr. Butterworth and requested him to include in the letter statements to the effect that the contemplated transactions are "in the National interest" and that "the Department of State requests the Department of the Army to proceed in this matter". The subject letter was returned to the Department of the Army on 24 December, but the requested revisions were not made.

It is the belief of the Department of the Army that the contemplated transfer of ammunition to China, as well as other similar matters pertaining to military assistance to a foreign government, are matters of foreign policy and, as such, should be clearly enunciated by the Department of State. The Department of the Army feels that it must look to the Department of State for adequate instructions before acting in matters of this nature since they constitute implementations of approved United States governmental policies.

In view of the indefinite phraseology of existing legislation, the Department of the Army would suggest inclusion in State Department instructions in matters of this nature a statement to the effect that the action under consideration is "in the National interest" so that the Secretary of the Army can make the requisite certifications. It is further suggested that the Department of State specifically request this Department to take the actions desired and give as definitely as possible the scope of assistance desired.

The letter in question is being returned herewith, in the hope that a revised letter will be issued which will permit the Department of the Army to proceed promptly in this matter.

Sincerely yours,

KENNETH C. ROYALL

S93.24 FLC/12-3147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 31, 1947—4 p. m.

[Received December 31—8:20 a. m.]

2473. Department's 1585, December 30, 7 p. m. regarding transfer military materials to China was received 1 p. m. today and we were able see Foreign Minister 3 p. m. Dr. Wang was grateful and promised pass information on immediately to interested Chinese agencies and expressed sincere hope no administrative hitches would arise on Chinese side.

STUART

893.24/12-3047

The Acting Secretary of State to the Secretary of the Army (Royall)

WASHINGTON, December 31, 1947.

DEAR MR. SECRETARY: I have received your letter of December 30 indicating that "in view of the indefinite phraseology of existing legislation" the Department of the Army required a statement from the Department of State that action under consideration was in the national interest "so that the Secretary of the Army can make the requisite certifications". The Department of State's letter of December 16, as amended, was an effort to assist in a speedy settlement of this matter by indicating that "this Department concurs in the action contemplated by the Department of the Army . . ." The letter, as amended, read in full as follows:

"With reference to our telephone conversation of yesterday regarding contracts placed or to be placed by the Chinese Government with American manufacturers for the supply of ammunition, I wish to confirm that this Department concurs in the action contemplated by the Department of the Army in turning over, in accordance with existing legislation, to the manufacturers concerned for subsequent replacement, stocks held in Army depots abroad as well as at home. We understand that this, of course, does not apply to the stocks in the Marianas which, as you know, are subject to another arrangement which is in the process of implementation."

The specific arrangement to which this correspondence referred arose out of a contract which, it is understood, the Chinese Government signed with Olin Industries, Inc., under date of December 8, for some 6,500,000 rounds of .50 ammunition. I can confirm that, provided it would not jeopardize the military security of the United States, it is in the national interest that the arrangement which you discussed with me on the telephone and indicated was both legal and feasible should be concluded forthwith whereby the requisite ammunition would be advanced by the Department of the Army to the American manufacturer who, in return, would replace it from the supplies produced under its contract with the Chinese Government.

We are glad to learn from the telephone conversation referred to above that General MacArthur is prepared to cooperate in this matter.

Sincerely yours,

ROBERT A. LOVETT

893.24/12-2347

The Acting Secretary of State to the Secretary of the Army (Royall)

[WASHINGTON,] December 31, 1947.

MY DEAR MR. SECRETARY: Reference is made to a memorandum, dated November 4, 1947, from the Chinese Embassy at Washington, a

copy of which was transmitted informally to the Department of the Army on November 13, 1947, enclosing a list of equipment said to be urgently required by the Chinese Air Force.

There is now transmitted herewith a copy of a memorandum, dated December 23, 1947, from the Chinese Embassy, enclosing a list of equipment and supplies said to be urgently required by the Chinese ground forces.

In order that I may be able to take appropriate action in regard to the above memoranda, I should appreciate it if you would inform me to what extent these Chinese requirements can be met from material surplus to the needs of the United States armed forces and where any such surplus material is located. It would also be very helpful if you could tell me to what extent the Chinese Army could be supplied other types of war material surplus to the needs of the United States armed forces which would be in keeping with and supplement the war material already supplied the Chinese Government under the 39 Division Program and in which areas such material is now located.

Sincerely yours,

ROBERT A. LOVETT

893.24/12-3147: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 31, 1947—8 p. m.

1596. During hearings Senate Appropriations Committee Dec 17¹³ charges made US Govt had failed fulfill commitments ChiGovt. Aside from Yalta¹⁴ and Cairo declarations¹⁵ included in charges as US commitments, only specific case cited was OFLC automotive spare parts contract Dec 1946. Dept representatives at hearings therefore informed Committee not thoroughly conversant with matter but pointed out this contract subject *ad referendum* Washington and assumed ChiGovt payment \$1,800,000 returned when found impossible fulfill contract.

Following hearings OFLC prepared memorandum for submission Committee gist of which follows:

OFLC Field Commissioner Shanghai at request AAG and on understanding material would be made available as declared surplus Army

¹³ *Third Supplemental Appropriation Bill for 1948*: Hearings before the Senate Appropriations Committee, 80th Cong., 1st Sess. (Washington, Government Printing Office, 1947), pp. 126 ff. and 179 ff.

¹⁴ For agreement signed at Yalta by the heads of Government of the United States, Soviet Union, and United Kingdom, February 11, 1945, see *Foreign Relations, The Conferences at Malta and Yalta, 1945*, p. 984.

¹⁵ For Cairo declaration by the heads of Government of the United States, United Kingdom, and China, issued December 1, 1943, see Department of State *Bulletin*, December 4, 1943, p. 393, or *Foreign Relations, The Conferences at Cairo and Tehran, 1943*, p. 448.

stocks signed contract ChiGovt Dec 23, 1946 for automotive spare parts and received ChiGovt payment \$1,800,000. After reference Washington items found not available. SecWar therefore informed SecState Apr 30, 1947¹⁷ War Dept. could not deliver property as Army could not meet own requirements these items and requested ChiGovt be so advised. State Dept. informed OFLC May 16, 1947¹⁷ of foregoing and pointed out no recourse but notify Chinese cancellation contract. Further OFLC efforts find spare parts from Army failing, Central Field Commissioner Pacific and China OFLC notified Commissioner June 23, 1947¹⁸ he had informed Gen Kiang, Bosey, of cancellation contract but that latter objected and refused return [of the] money. Field Commissioner OFLC Shanghai again advised OFLC Oct 25, 1947¹⁹ ChiGovt refused accept cancellation and money not refunded and same date OFLC Shanghai reported AAG had been informed by Dept. [of] Army inability fulfill contract and ChiGovt so advised. ChiGovt said by OFLC Washington still to be unwilling accept cancellation and Field Commissioner continuing efforts return money.

Please discuss matter with FonMin and ask prompt action be taken to bring to conclusion this undesirable impasse by arranging with OFLC Shanghai return ChiGovt payment \$1,800,000. Prior to approaching FonMin, inform Field Commissioner Shanghai contents this tel and contemplated action. Report results.

LOVETT

711.93/12-3147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 31, 1947—8 p. m.

[Received January 1, 1948—8:02 a. m.]

2480. Ministry of National Defense is pressing Foreign Office to conclude AAG agreement between U. S. and China. Ministry of National Defense holds that it is already carrying out terms of draft agreement submitted by U. S. to Foreign Office and that, for budgetary purposes, formal agreement should be concluded as soon as possible.

We have pointed out to Foreign Office that enabling legislation for Military Advisory Group China has not been passed although there is reason to believe that it will be considered in next session Congress.

¹⁷ Not printed.

¹⁸ Telegram No. 1509, not printed.

¹⁹ Telegram No. 1972, not printed.

Chinese appear anxious to sign draft agreement as amended, including article XXIX, and agreed minutes and, although we perceive no basic objection thereto, we feel that because of long-period inactivity these negotiations Department may have in mind additional changes or amendments in light of changed situation.

It occurs to us that at least certain minor changes of phraseology will be required because of reorganization United States Armed Forces and that other more significant changes may be envisaged by Department because of proposed new directive for AAG which General Lucas will carry with him to Washington for discussion early January. We have informed Foreign Office question is being referred to Washington and we would appreciate Department's instructions as soon as possible.²⁰

STUART

²⁰ The Secretary of State in telegram No. 53, January 13, 1948, 2 p. m., asked the Embassy to inform the Chinese Foreign Office that reorganization of U. S. Armed Forces had necessitated changes in the agreement and added it was seeking favorable action at the present session of Congress as to enabling legislation which it "considers more satisfactory basis Milit and Naval Mission than President's wartime powers and believes conclusion AAG agreement under those powers at present time might embarrass passage legislation."

UNITED STATES NAVAL AID TO CHINA: CONTINUED
WITHDRAWAL OF UNITED STATES MARINES AND
TURNOVER OF ABANDONED AMMUNITION TO CHI-
NESE GOVERNMENT; INCIDENTS AFFECTING AMERI-
CAN PERSONNEL; NEGOTIATIONS OF AGREEMENT
FOR TRANSFER OF NAVAL VESSELS TO CHINA

711.93/1-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 7, 1947—5 p. m.

[Received January 7—7:25 a. m.]

36. In connection with over-all question of growth of anti-American feeling in China, there is repeated below Tientsin's telegram No. 1 of January 1 to Embassy :

“Local Marine headquarters announce Marine dependents authorized proceed Tientsin. It is my considered opinion sending Marine dependents Tientsin at this time inadvisable and would intensify growing local Chinese dissatisfaction over continued presence Marines. There seems no doubt that apart from some Chinese officials and some wealthy Chinese and merchants who like assurance afforded by Marines, large majority local Chinese of all classes desire early departure Marines and arrival welcome extended Marines has worn very thin and natural resentment presence foreign forces increased by exaggeration resulting from friction and incidents. General desire for withdrawal Marines steadily increased recent months and can no longer be brushed aside merely as Communist propaganda and which is local Chinese official line.

As long as no dependents here, local Chinese feel Marines stay temporary but arrival dependents would given impression Marines here indefinitely and increase Chinese feeling of resentment and frustration. I therefore respectfully recommend decision send Marine dependents here at this time be reconsidered. I realize fully natural desire Marines for dependents but believe arrival dependents would merely serve to increase growing anti-American feeling among local populace. Smyth.”¹

Embassy concurs in views expressed by Smyth but the arrival of dependents is but a part of over-all problem of presence of U. S.

¹ Robert L. Smyth, Consul General at Tientsin.

Armed Forces in China which has been subject of continuing U. S. discussions between Embassy and General Marshall.²

STUART

711.93/1-747 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 15, 1947—4 p. m.

60. Matter discussed informally with Navy which states necessary processing in field applications by Marine personnel will consume considerable amount time and therefore no departure dependents contemplated immediate future. (Embtel 36, Jan 7) Problem will be presented General Marshall his arrival Washington.

BYRNES

893.34/1-3047

The Secretary of the Navy (Forrestal) to the Secretary of State

WASHINGTON, 30 January 1947.

MY DEAR MR. SECRETARY: With your letter of 20 December 1946 there was transmitted for review by the Navy Department a draft Executive Order³ to implement Public Law 512—79th Congress, an Act "To Provide Assistance to the Republic of China in Augmenting and Maintaining a Naval Establishment, and for Other Purposes."⁴

It is noted that the terms of the proposed Executive Order are restricted to matters concerning the transfer of vessels and craft and the transfer of material for the operation and maintenance of such vessels and craft. The Navy prefers that the terms be broadened to include other matters specified in Public Law 512. Also while deferring to State Department's wishes that transfers of vessels and craft should be on the basis of a gift, it is necessary in order to protect naval appropriations that the cost of rehabilitation of such vessels and the cost of material for maintenance and operation be borne by the Republic of China. A suggested Executive Order including these points is appended.⁵

Your letter indicates that an appropriate time for issuance of the proposed Executive Order may not arrive until sometime in the future.

³ General of the Army George C. Marshall, Special Representative of President Truman in China, December 1945–January 1947; he became Secretary of State, January 21, 1947.

⁴ Neither printed.

⁵ Approved July 16, 1946; 60 Stat. 539.

⁶ Not printed.

In order that orderly planning and arrangements to implement Public Law 512 may be made, the Navy Department should appreciate early advice as to when, in the opinion of the State Department, the proposed Executive Order can be issued.

Sincerely yours,

JAMES FORRESTAL

811.3393/2-347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 3, 1947—7 p. m.

[Received February 4—12:20 a. m.]

193. During course of Admiral Cooke's⁶ visit here yesterday, two matters arose on which you may care to act:

1. Admiral Cooke tentatively plans to increase Marine strength at Tsingtao, now some 1900, to between 4300 and 4800 in connection with evacuation of Marines from Peiping-Tientsin area. Embassy considers such a step as most undesirable politically. It is to be expected that when Marines in Peiping-Tientsin areas are no longer available as target for criticism, Marines and 7th Fleet at Tsingtao and Army Advisory Group, Nanking will become the recipients. Such a large number of Marines at Tsingtao will give an appearance of validity to the charge, which will no doubt be leveled, that U. S. is building up a base on Chinese soil. Furthermore, no such number can be justified as required by the Navy training program. Contrariwise, from a psychological and political point of view, Embassy would advocate reduction in number of Marines below 1900 and substitution of sailors in policing and guarding supply, and training installations at Tsingtao.

2. Admiral Cooke expressed the opinion that since American mediation was over, he could "turn the spotlight on the U. S. Naval training project". Admiral Cooke said that you had previously objected to publicity because of its possible effect on your negotiations, and he therefore conceived that only impediment has now been removed. He indicated that he was interested in having the Generalissimo⁷ inspect the training center program and in every suitable way make the Chinese aware that a Navy was being built up in order to raise the morale of Chinese cadets. Similarly, General Lucas,⁸ prompted by U. S. press correspondents, has raised with Embassy the question of publicity of the activities of Army Advisory Group but has readily agreed not to take any action in that direction without Embassy's prior concurrence.

Embassy regards as undesirable publicity for the activities of AAG and NAG⁹ which operate on a limited, informal and tenuous basis.

⁶ Adm. Charles M. Cooke, Jr., Commander, U. S. Naval Forces, Western Pacific (ComNavWesPac).

⁷ Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.

⁸ Maj. Gen. John P. Lucas, Chief of the U. S. Army Advisory Group in China.

⁹ Army Advisory Group and Naval Advisory Group, respectively.

In any case, an increase in number of Marines at Tsingtao and publicity are hardly compatible. It would be helpful to have your views in the premises.

STUART

811.3396/2-347 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 5, 1947—3 p. m.

141. I fully concur in views expressed your 193 Feb 3, 7 p. m. and am taking up matter with Secretary Forrestal.

MARSHALL

811.3393/2-547

Memorandum by the Secretary of State to the Secretary of the Navy (Forrestal)

WASHINGTON, February 5, 1947.

The American Ambassador to China has reported to me in regard to two matters which arose during Admiral Cooke's recent visit to Nanking.

(1) Admiral Cooke is considering an increase in the number of Marines at Tsingtao from the present strength of 1,900 to a minimum of 4,300 and a maximum of 4,800.

(2) Admiral Cooke expressed the view that he could now "turn the spotlight on the U. S. naval training project," because the previous objection to publicity based on the possible effect on mediation negotiations was now removed by the cessation of the mediation effort. He expressed a desire to have the Generalissimo inspect the training center at Tsingtao and to make the Chinese aware through publicity that a Chinese navy is being created. He wished to do this in order to raise the morale of the Chinese cadets.

In the absence of evidence of compelling military necessity for increasing the strength of the Marines at Tsingtao, I cannot see that any useful purpose would be served by such a move. I believe that our political policy in China would be embarrassed rather than furthered by such action, and am quite certain that the psychological effect on the Chinese would be bad. Furthermore, the American public has been led to believe that, with the exception of a small detachment at Tsingtao, we are withdrawing our Marines from China. I feel that any substantial increase in the Marine strength at Tsingtao would be ill received by a large section of the American public. But what is more important, I do not see that any useful purpose would be served by the increase of the Marine garrison strength at Tsingtao.

With regard to publicity for the Naval Advisory Group, it appears to be an inopportune time to launch such a program. The Naval Advisory Group is in Tsingtao, is functioning in accordance with its program, and is not, in so far as I can see, handicapped by the absence of publicity. I confess myself at a loss to understand what good it would do to "turn the spotlight" on the project. On the other hand, I can readily anticipate probable adverse reaction. It would supply those extensive elements in China and America which have been critical of our maintenance of military forces in China with ammunition for attack without any compensatory advantage. Sound public relations policy in this matter would seem to be that, while answering questions of fact precisely and clearly, we should avoid publicity in so far as possible and certainly not seek it.

I hope that you can agree with the views expressed above and will direct that orders be sent to Admiral Cooke to drop both the projects he has in mind. At some convenient time I should welcome an opportunity to discuss with you the matter of Marine strength at Tsingtao in its relation to the Naval Advisory Group and to our policy toward China. I am taking this to you direct rather than through a meeting of the three Secretaries.

G. C. MARSHALL

893.30 Mission/2-2047

*Minutes of Conference Concerning China*¹⁰

[WASHINGTON,] February 20, 1947.

Participants:

State

The Secretary
Mr. Vincent
Mr. Ringwalt

Navy

Secretary Forrestal
Admiral Nimitz¹¹
Admiral Cooke
Admiral Sherman¹²
Captain Dennison¹³

Responsive to the Navy Department's letter of February 8, 1947¹⁴ suggesting a conference concerning China, a conference was held in

¹⁰ Drafted by Arthur R. Ringwalt, Chief of the Division of Chinese Affairs; initialed by the Secretary of State.

¹¹ Fleet Adm. Chester W. Nimitz, Chief of Naval Operations.

¹² Vice Adm. F. P. Sherman, Deputy Chief of Naval Operations.

¹³ Capt. R. L. Dennison, Assistant Chief of Naval Operations.

¹⁴ Not found in Department files.

the Secretary's office on February 20, 1947 with the above-mentioned officials present. The conference began at 2:40 p. m. and lasted until 4:20 p. m.

Mr. Forrestal opened the conference by reading the attached prepared memorandum¹⁵ which calls for a redetermination of United States objectives in China in order that diminishing naval resources may be most effectively utilized. Thereafter the various items on the agenda were discussed seriatim, with results as indicated hereunder.

A. Naval Assistance to China

1. *To what extent should the Naval Advisory Group authorized by Public Law 512 of the 79th Congress now carry on its intended purpose?*

It was agreed that the Naval Advisory Group should carry out its full program as specified in, and within the limits of, Public Law 512.

Secretary Forrestal raised the question of a separate agreement for the establishment of a Naval Advisory Group in China. Secretary Marshall stated that this was a matter which he felt should be worked out between the War and Navy Departments and that for his part he had no objection to a separate agreement for the Naval Group. He added that any decision in this regard should be reached in consultation with the War Department.

2. *To what extent should naval vessels and material be transferred to China under Lend-Lease?*

It was agreed that no further transfers of naval vessels and material to China would be made under Lend-Lease.

3. *To what extent should naval vessels be transferred to China under the authority of Public Law 512?*

The Secretary said that he was agreeable to the issuance at this time of an executive order to implement Public Law 512. In this connection he stated that, whereas political considerations and adverse publicity must be given due weight, nevertheless he felt that in this instance, as in other instances not related to hostilities, we should proceed with our program of naval assistance to China.

Mr. Forrestal and Admiral Nimitz agreed to the insertion in the draft executive order of a clause which had been proposed by the State Department as follows: "If at any time it appears to the Secretary of State that the transfer of such vessels and craft and material is not in the public interest, such transfers shall be discontinued." The Secretary pointed out that this clause was similar to that contained in other agreements with China and was largely for Chinese consumption.

¹⁵ Not printed.

B. *Fleet Operations in Chinese Waters*

1. *Is there need for Marines at Tsingtao to protect American nationals other than those associated with the naval service?*

The Secretary stated that in deliberating on this question consideration should be given to our position in relation to the integrity of our international position. He said that the reactionary Chinese clique now in the saddle would desire nothing more than to involve us in difficulties with the Soviet Government and that the Chinese military would also be pleased to be relieved of most of their responsibility for guarding Tsingtao against the Chinese Communists. He expressed the opinion that a few thousand Marines more or less would have little bearing on the general military position in the Far East, and he recommended that the number of Marines be kept to the minimum required to protect the Naval Advisory Group and the Navy's shore installations. He expressed the view that with the passing of extraterritoriality the whole concept of stationing American armed forces in China to protect Americans and their interests was outmoded.

Admiral Cooke stated that the Navy desired to maintain two Marine battalions (and supporting units) at Tsingtao to protect American civilians, the naval installations and the air field. He estimated the strength at between 4,300 to 4,800.

While there might be emergencies when the Marines would be called upon to give protection to Americans and other civilians at Tsingtao, it was agreed that this was not their purpose in being there. Secretary Marshall, following prolonged discussion, asked that the Navy make 3,500 men their target for reduction of Marines in China and suggested that six months from now the matter might be reviewed with the idea of making a further downward revision. Secretary Forrestal indicated that the Navy would try to meet General Marshall's request.

2. *Should a naval base be maintained on shore at Tsingtao?*

Mr. Forrestal recommended and the Secretary concurred that a naval base not be maintained at Tsingtao.

3. *If the answer to 1 or 2 is affirmative, what is the minimum strength which will suffice?*

This item is discussed in B-1 above.

4. *What fleet deployment in Chinese waters is desirable, taking into account our relations with China, the situation in Korea, and the general international situation in the Far East?*

It was agreed that it would be desirable to maintain in Far Eastern waters fleet deployment comprising two heavy cruisers and twelve destroyers plus the equivalent in amphibious lift of one combat team

which would be available either to General McArthur¹⁶ or Admiral Cooke.

C. Advice to and Support of the Ambassador to China

1. *Is it desired that a flag officer be ordered to relieve the present Naval Attaché¹⁷ in order to provide adequate naval staff assistance to the Ambassador?*

The Secretary stated that it was for the Navy Department to decide whether a flag officer should be ordered to Nanking to relieve the present Naval Attaché. He said that it was his desire to establish under the supervisory authority of the Ambassador an Executive Office to coordinate the various United States Government agencies in China.¹⁸ He stated that his former headquarters at Nanking had performed such a function and that he had hoped that it could serve as a nucleus for an agency of this type. The Secretary expressed the view that it would be preferable to divorce the activities of the Executive Office from the normal intelligence functions of the Military and Naval Attachés.¹⁹

Admiral Nimitz said that it had long been his understanding that the Ambassador had supervisory authority over all American activities in the country to which he was accredited.

It was mutually agreed that such an agency as that mentioned by the Secretary would have coordinating authority only and that major policy decisions would necessarily be referred to Washington.

Disposition of Unserviceable Ammunition Now Stored in China

Admiral Cooke requested that the above additional problem, not included in the agenda, be given consideration at the meeting. He stated that with the impending withdrawal of Marines from north China decision would have been reached in the near future as to the ultimate disposition of over 3,000 tons of unserviceable ammunition in the hands of the Marines and 1,000 tons of ammunition which the United States Army forces desire to turn over to the Marines on their withdrawal from north China. He said that the Navy Department could not undertake to return the ammunition to the United States and that the Navy would have to dump it into the sea, blow it up, or turn it over to the Chinese Nationalist forces who are anxious to get it. While it was generally agreed that it would be inconsistent with our present policy to turn the ammunition over to the Chinese Government and that such action might result in much unfavorable

¹⁶ General of the Army Douglas A. MacArthur, Supreme Commander for the Allied Powers, Japan.

¹⁷ Capt. W. T. Kenny.

¹⁸ For correspondence on the establishment of an Executive Office, see pp. 1428 ff.

¹⁹ Brig. Gen. Robert H. Soule was Military Attaché.

publicity, it was informally suggested by the Secretary that the ammunition could be left on the spot, that the Nationalist forces be told of such action immediately prior to the departure of the remaining Marines, and that it be indicated that the ammunition was being abandoned only because of the necessity for arranging for departure of our armed forces at a date earlier than had previously been anticipated.

893.00/3-947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 9, 1947—10 a. m.
[Received March 8—10: 30 p. m.]

493. Commander 7th Fleet,²⁰ as Dept is aware, has recently returned to Tsingtao from consultation in Washington and plans to come to Nanking Thursday, March 13, to discuss a number of matters with the Embassy. Embassy understands from 7th Fleet liaison officer stationed Nanking that discussions will, among other things, be concerned with the following matters on which decisions have been reached in consultation with the Dept during Admiral Cooke's stay in Washington:

1. Activation of the NAG.
2. Lend-lease and Public Law 512 ships.
3. Evacuation of Marines.

Embassy urgently requests requisite info well before Thursday.

STUART

893.00/3-947 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 10, 1947—6 p. m.

292. Copy of minutes of conference held Feb 20 between SecWar [SecState] and SecNavy forwarded air pouch Feb 28²¹ (Embtel 493 Mar 9).

Following is summary of pertinent decisions reached at conference:

1. NAG should carry out full program specified Public Law 512. SecState raised no objection to separate agreement for NAG but pointed out decision should be reached only after consultation with War.

²⁰ Admiral Cooke's command during 1946.

²¹ Under cover of a transmittal slip dated February 25.

2. No further transfers should be made through Lend-Lease procedures.

3. SecState assented to issuance at this time of executive order implementing PL 512 (copy of draft executive order which has received informal approval by State and Navy being forwarded air pouch).

4. On recommendation SecState, SecNavy concurred in reduction of Marines in China to 3,500 subject to review in 6 mos with view to further downward revision.

5. SecState indicated it was for Navy to decide whether flag officer should relieve present Naval Attaché Nanking.

ACHESON

893.00/3-947 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 13, 1947—noon.

300. In order to correct possible ambiguity in Deptel 292 Mar 10, executive order mentioned paragraph 3 does not touch upon activities of NAG but deals solely with transfer of ships.

ACHESON

893.00/3-1347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 13, 1947—3 p. m.

[Received March 14—3 a. m.]

554. Embassy appreciated receiving reply contained in Deptel 292, March 10, 6 p. m. Only two matters worthy of comment transpired from meeting with Admirals Cooke, Boone²² and Murray:²³

1. Admiral Cooke apparently had the impression that it had been fully agreed that Naval Advisory Group agreement should be proceeded with forthwith and he was prepared so to notify Gimo²⁴ with whom he has an appointment at 4 p. m. today. He did not recall General Marshall's proviso that War Department be consulted. He was made aware of the contents of 93704²⁵ indicating that a decision to proceed with a separate agreement should be reached only after consultation with War Department and that in War Department's view negotiations for separate contract should not be under-

²² Rear Adm. Walter F. Boone, Chief of Staff to Admiral Cooke.

²³ Rear Adm. S. S. Murray, Senior Member, U. S. Naval Advisory Survey Board. the prospective Naval Advisory Group in China.

²⁴ Generalissimo Chiang Kai-shek.

²⁵ Dated March 11; not printed.

taken unless it should be clear that Congress would not pass the military missions bill and that to date Navy Department had not approached War Department. Admiral Cooke is therefore communicating with Navy Department and both Departments will no doubt consult with you. Admiral Cooke will also refrain from informing Gimo that Washington has reached specific decision in these matters until it is clear to all concerned what the decision is that has been reached.

2. Admiral Cooke indicated that D-day for Marines would probably be on or about April 28 and that no publicity would be given to this movement until shortly before it is instituted, though it will be necessary to make certain preliminary arrangements in Tsingtao for the housing of the authorized increased personnel to be stationed there. On the question of the destination of initial units to be withdrawn, Admiral Cooke indicated that unresolved administration matters did not yet permit him to make a definite commitment that initial units would not be to Tsingtao but out of China. He also made mention of the possibility—though he did not consider it likely—that the present military situation in Shantung might require a precautionary increase in strength in Tsingtao. Embassy emphasized the political and propaganda disadvantages of assignment of initial units to Tsingtao. Admiral Cooke expressed hope that he would be able to move initial units to Guam.

Embassy does not regard an emergency movement to Tsingtao as a possibility that need be seriously considered and it does not regard it in the national interest that administration problems should be permitted to interfere with what is obviously the proper course of Marine withdrawal, namely sending initial units out of China.

STUART

893.00/3-1347: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 21, 1947—2 p. m.

334. Navy Dept has instructed CinCPacFlt ²⁶ (UrTel 554 Mar 13, 3 p. m.) that for policy reasons it is necessary that initial significant movement in withdrawal Marines comprise transport out of China and that it can be publicized as such.

ACHESON

²⁶ Commander in Chief of the Pacific Fleet (Adm. Louis E. Denfeld).

893.30 Mission/4-147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 1, 1947—9 p. m.

[Received April 2—5:50 a. m.]

712. Admiral Cooke, accompanied by Admiral Boone and other members of his immediate staff, came of his own initiative to Nanking this morning. Apparently he had been unable to obtain satisfaction with respect to the proviso of General Marshall in the matter of the activation of the Naval Advisory Group. In this connection, it will be recalled, that as reported in my 554, March 13, 3 p. m., on his previous visit to Nanking, he at first said that he was unaware that such a proviso had been made in the meeting and later expressed surprise that clearing with War Department had not been taken care of by the Navy Department in routine fashion. On this occasion it was his purpose to obtain from the Embassy, by dint of insistent questioning and pressure, a recommendation that the Embassy would either make direct to the Department or as an oral statement that he would use in communication to the Navy Department to the effect that in the Embassy's opinion immediate activation of the naval group was called for. Needless to say, both Butterworth²⁷ and I maintained the attitude that the decision regarding the activation of the Naval Advisory Group had been made by the Secretary of State in conference with the Secretary of Navy and that its fulfilment must take place in Washington; the Embassy's role at this time was to await instructions which it would energetically attempt to implement upon arrival.

In this connection Admiral Cooke sought to ferret out personal opinions or possible prejudices but without success and in the end accommodated himself to the fact that he was requesting unsuccessfully that the Embassy act in an improper fashion. No action of the Department is required now in connection with the foregoing.

Admiral Cooke made available the press release which the Navy Department had instructed him to issue verbatim today and the one to be issued tomorrow with the contents of which he was given some latitude. Embassy suggested the removal of certain references to turning over surplus property to the Chinese by the Marines, which he accepted.

Other matters that were brought up for discussion will be reported separately.

STUART

²⁷ W. Walton Butterworth, Minister-Counselor of Embassy in China.

893.30 Mission/4-347

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] April 3, 1947.

Subject: Nanking's 712, April 1.

You will recall that in the conference between Secretary Marshall and Secretary Forrestal on February 20, 1947 the Secretary stated that he had no objection to the establishment of a separate naval advisory group, but that this was a matter which should be worked out between War and Navy Departments.

It is Navy's position that by virtue of Public Law 512, approved July 16, 1946, it has the necessary authority to proceed with the formal establishment of the naval advisory group. Accordingly, Navy has drafted an agreement²⁸ between the United States and Chinese Governments which would formalize the activities of the naval advisory group. Navy's draft agreement is based on a combined draft military and naval advisory group agreement²⁹ which State, War and Navy have already tentatively agreed to, but of course omits any reference to a military advisory group. This draft agreement has been forwarded by Navy to General Lincoln³⁰ in the War Department for his comment. Captain Fenno who is directly concerned in Navy with the naval advisory group tells me that his office has not come to any decision as to procedure in the event (which is entirely possible) that War Department objects strenuously to a separate naval advisory group agreement.

A[RTHUR] R. R[INGWALT]

893.00/4-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 5, 1947.

[Received April 5—4: 45 a. m.]

747. Following is Tientsin's 57, April 5 to Embassy:

"Following press release issued by Marine Headquarters this morning:

Tientsin, China. At 0115 on the morning of the 5th a dissident force of unknown numbers attacked the First Marine Division ammunition supply point near Tangku. By 0530 this force was being pursued northward by Marine forces. Five Marines were killed and 16 wounded in fighting off the attack.

²⁸ Not found in Department files.

²⁹ *Foreign Relations*, 1946, vol. x, p. 830.

³⁰ Brig. Gen. George A. Lincoln, General Staff, U. S. Army.

Names of those killed and wounded are withheld pending the notification to the next kin.

Further developments will be reported.
Sent to Nanking, repeated to Peiping."

STUART

893.00/4-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, [April 5, 1947.]
[Received April 5—7:20 a. m.]

Following from Tientsin:

59, April 5. Remytel 47 [57], April 5. Following press release issued this afternoon by Marine Headquarters:

It has been definitely established that a Communist organization attacked the Marine ammunition point near Tangku at 0115 on the morning of the 5th of April. Papers found on dead Chinese soldiers in the area verified the fact. It appears that this attack was made for the purpose of securing ammunition, but little if any was obtained.

Sent to Nanking as 59; repeated to Peiping. Smyth.

STUART

893.30 Mission/4-847

*Memorandum by the Chief of the Division of Chinese Affairs
(Ringwalt) to the Director of the Office of Far Eastern Affairs
(Vincent)*

[WASHINGTON,] April 8, 1947.

Subject: Naval Advisory Group.

Reference my memorandum of April 3³¹ on the above subject, copy attached.

Captain Fenno called this morning and brought with him Navy's draft of an agreement³² to be negotiated with the Chinese Government for the establishment of a naval advisory group. I am now studying his draft in connection with the combined War and Navy draft agreement³³ which was tentatively approved on a working level by the three Departments concerned last autumn.³⁴

In brief, the position of War and Navy in regard to a separate agreement is as follows:

1. *War position*

a. War would prefer the immediate negotiation of a joint agreement under the authority of the President's emergency powers.

³¹ *Ante*, p. 954.

³² Not found in Department files.

³³ *Foreign Relations*, 1946, vol. x, p. 830.

³⁴ For Department's instructions, see telegram No. 768, September 19, 1946, 8 p. m., to the Ambassador in China, *ibid.*, p. 845, and subsequent correspondence.

b. If State is not prepared to recommend such a joint agreement at this time War would prefer to operate as at present without an agreement for the time being and await Congressional reaction to the Military and Naval Missions Bill. If it appears that the Bill will not pass during the present session then War would sponsor a joint agreement under the emergency powers.

c. However, if State Department desires that a naval advisory group be formalized immediately War will consider State's position as overriding War's objection to a separate Navy agreement.

2. *Navy position*

a. Navy of course prefers a separate agreement which has legal basis in Public Law 512 and which authorizes not only an advisory group but also the transfer of ships and material to China. A joint agreement based on a Military and Naval Missions Bill could only deal with training missions and could not touch joint transfer of material as the Military and Naval Missions Bill does not authorize such transfers. The only benefit which Navy hopes to obtain from the passage of the Military and Naval Missions Bill is the clause authorizing Navy personnel to accept additional emoluments from the foreign government concerned.

b. It is now Navy's position that the submission to the Chinese Government of a separate agreement for a naval advisory group awaits only

- (1) approval by State of a separate agreement;
- (2) approval by State of Navy's draft, and
- (3) issuance by the President of the Executive Order implementing Public Law 512.

A[RTHUR] R. R[INGWALT]

893.00/4-847 : Telegram

The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State

Moscow, April 8, 1947—midnight.

[Received April 8—5:56 p. m.]

1261. KOSMOS 24. For Acheson³⁵ personal from Marshall.³⁶ USIS³⁷ news survey of 7 April quoted herewith in full:

“Tientsin—Five Marines are killed, 16 wounded, as Chinese Communists loot U. S. Marine ammunition dump near Tangku. The bat-

³⁵ Dean Acheson, Acting Secretary of State.

³⁶ The Secretary of State was attending the Meeting of the Council of Foreign Ministers at Moscow.

³⁷ United States Information Service.

tle lasts over 4 hours. A Marine statement says identification papers on the Chinese bodies identify them as Communists.”

If it is fact that assailants are identified as Chinese Communists, please consider immediate action to have the guarding of the ammunition dump turned over to the National Government forces with a view later to giving them the ammunition by process of abandonment. To be effective, this must be done without delay. Marines should be withdrawn from area and ammunition dropped on the books as abandoned. The abandonment for purely practical reasons was considered an eventual necessity when considering this matter with Cooke while I was in China. [Marshall]

SMITH

893.00/4-847

*The Acting Secretary of State to the Secretary of the Navy
(Forrestal)*

[WASHINGTON,] April 9, 1947.

DEAR JIM: In accordance with Secretary Marshall's request and my conversation with you this morning, the State Department is requesting that the guarding of the ammunition dump at Tientsin be turned over to Chinese National Government forces and the United States Marines be withdrawn from that area.

Attached is a copy of KOSMOS 24⁸⁸ from Secretary Marshall in Moscow which gives a complete statement of his views.

Sincerely yours,

[DEAN ACHESON]

893.00/4-847: Telegram

*The Acting Secretary of State to the Ambassador in the Soviet Union
(Smith)*

WASHINGTON, April 10, 1947—7 p. m.

880. MOSKCO 50. For the Secretary. Ascertained that assailants were unquestionably Chinese Communists. Letter sent yesterday to SecNavy requesting action called for in second paragraph of KOSMOS 24 be taken promptly.

Navy has repeated to Cooke pertinent portions of KOSMOS 24 and our letter and has instructed him to comply as expeditiously as practicable and to keep the Ambassador and Navy Dept informed.

ACHESON

⁸⁸ *Supra.*

893.00/4-1547 : Telegram

The Ambassador in China (Stuart) to the Acting Secretary of State

NANKING, April 15, 1947—2 p. m.

[Received April 15—6 a. m.]

810. From Naval telegraphic interchanges between ComNavWes-Pac³⁹ and Commanding General First Marine Division regarding ammunition operation referred to Embassy's 804, April 14, noon,⁴⁰ Embassy has impression that full intent of action and speed with which General Marshall desired it to be executed has not been fully grasped and that undue emphasis is being placed on salvaging ammunition.

In Embassy's opinion intent expressed by General Marshall and was amplified by CNO⁴¹ in his 121726Z to CinCPacFlt was to the effect that (a) purpose is to terminate promptly the risk of further combat between Marines and Communists, and (b) it is acceptable to abandon excess serviceable ammunition if such action will achieve that purpose more promptly.

Dept's attention is therefore urgently drawn to this situation for which we bear a measure of responsibility both because of General Marshall's initiative in the matter and also in the light of Presidential directive (Deptel 326, March 20, noon⁴²). Since the Naval representative in the Executive Office has not yet arrived, Embassy is without means of offering technical advice but is of the opinion that situation warrants immediate consultation between Dept and Navy Dept.

Sent to Dept 810, April 15, 2 p. m. Please repeat to Moscow as 14 for personal attention of General Marshall.

STUART

893.00/4-1547 : Telegram

The Acting Secretary of State to the Ambassador in the Soviet Union (Smith)

WASHINGTON, April 15, 1947—11 a. m.

927. Moskco 62. Urgent for the Secretary. The information upon which Nanking based its 810, Apr 15, repeated to you as no. 14, is no longer correct. Cooke originally fixed time unsatisfactory to Navy and us. On basis of Navy instructions turnover is now taking place and will be completed by Apr 21. Operation will also include withdrawal from Peiping.

Repeated to Nanking as Dept's 431.

ACHESON

³⁹ Commander, Naval Forces, Western Pacific (Admiral Cooke).

⁴⁰ Not printed.

⁴¹ Chief of Naval Operations (Fleet Adm. Chester W. Nimitz).

⁴² *Post*, p. 1430.

893.00/4-1447 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 15, 1947—8 p. m.

434. Neither Dept nor Navy considers it advisable to initiate publicity with regard to subject matter of your 804 Apr 14.⁴³ In response to inquiries that may be made, Navy will state that operation is in accordance with decision reached to withdraw from participation in Executive Headquarters. In case inquiries are made re dumps reply will be that the munitions are unserviceable, that it is unpracticable to effect removal and that they are therefore being abandoned. Reply to inquiries with regard to disposition will be that the dumps will fall into the hands of the military authority in control of the area which is the Chinese National Army.

In as much as this is viewed as a military matter State will refer inquirers to the Navy Dept or, if necessary, make replies similar to those made by the Navy. Emb should follow a similar procedure in relation to inquiries and Admiral Cooke.

ACHESON

893.00/4-1647

The Secretary of the Navy (Forrestal) to the Acting Secretary of State

WASHINGTON, April 16, 1947.

MY DEAR MR. SECRETARY: Referring to your letter of April 9, I have been informed by Commander Naval Forces, Western Pacific, that Nationalist authorities were to be notified on April 14 of our intentions to abandon the ammunition dumps at HsinHo and at airfield Peiping. He estimated that the Nationalist troops could assume responsibilities for guarding this ammunition by April 21.

Sincerely yours,

FORRESTAL

893.00/4-1647 : Telegram

*The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State*Moscow, April 16, 1947—11 p. m.
[Received April 16—10:38 p. m.]

1408. Kosmos 43. From Marshall. Reference Stuart's message April 15 transmitted as 810 and relayed here as 14, my desire for immediacy of action regarding turnover of ammunition dump at Tangku was to seize occasion to demonstrate to Communists that their hostile action merely resulted in release of ammunition to Na-

⁴³ Not printed; it dealt with publicity for ammunition dumps of American forces in China.

tional Government without giving grounds for their usual attack on United States for supporting civil war in China. Also, of course, was relief of Marines from guarding this detached and vulnerable dump, further concentration of Marines, termination of embarrassment regarding disposal or removal of this ammunition, etc.

The value of my intent will be almost totally lost unless the turnover is done at once.

Since writing the above I have seen Moskco 63, which is repeat of Nanking's 804,⁴⁴ and your reply⁴⁵ with which I am not in full accord.

It would appear preferable to flatly state that Marines' strength in China is being reduced in accordance with our decision to withdraw from participation in Executive Headquarters, and that unwarranted and premeditated attacks on United States personnel by Communists has left no recourse but to turn over the ammunition to the National Government, since it is impractical to remove or destroy it and considerations of safety for our personnel does not justify long procedure of inventory and sale. [Marshall.]

SMITH

893.00/4-1647: Telegram

The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State

Moscow, April 16, 1947—midnight.

[Received April 17—2: 15 a. m.]

1411. Kosmos 47. From Marshall: My Kosmos 43⁴⁶ on abandonment of ammunition refers. Change last paragraph as follows:

(a) Insert after fourth word the phrase "if inquiry is made" and
(b) delete all words after "national government".

I do not want a press release and believe our reply in event question arises should be forceful and direct. [Marshall]

SMITH

893.00/4-1647: Telegram

The Acting Secretary of State to the Ambassador in the Soviet Union (Smith)

WASHINGTON, April 17, 1947—1 p. m.

959. Moskco 65 For the Secretary. We will be guided by Kosmos 43 as amended by Kosmos 47⁴⁷ substance of which is being repeated to Nanking.⁴⁸

ACHESON

⁴⁴ Not printed.

⁴⁵ Telegram No. 434, April 15, 8 p. m., to the Ambassador in China, p. 959.

⁴⁶ *Supra.*

⁴⁷ *Supra.*

⁴⁸ Substance repeated in Department's telegram No. 441, April 17, 1 p. m.

893.00/4-1947: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 19, 1947.

[Received April 19—4:46 a. m.]

850. Following message received from American Consul [at] Changchun:

"149, April 18. Harbin radio news broadcast yesterday 1045 hours carried item essentially as follows (English translation):

'In the Tientsin area the American Army is assisting Chiang's army to construct a huge airfield. At Tangku and other places moreover there are stored large quantities of munitions in preparation for launching an attack on the liberation army in the eastern Hopei military area. Our army to get the jump on the other on a certain day this month moved with a task force and attacked a munitions dump of a certain Chiang army whereupon American troops opened fire with rifles. After several hours of intense fighting there arrived a large number of tanks dispatched by the American Army from Tientsin in reinforcement. Our troops gallantly fought back. The result was that 1 munitions dump was destroyed and 6 American Army tanks blown up. With mission accomplished the Communist force "returned to base".'

STUART

893.20 Missions/4-2447

The Secretary of War (Patterson) to the Acting Secretary of State

WASHINGTON, 24 April 1947.

DEAR MR. SECRETARY: There is enclosed a copy of the letter which I have this date sent to the Secretary of the Navy. I propose for your consideration that the best action we can take at the present time in connection with formalizing our missions to China is to set up the joint mission approved by the President.

Sincerely yours,

ROBERT P. PATTERSON

[Enclosure]

The Secretary of War (Patterson) to the Secretary of the Navy (Forrestal)

WASHINGTON, 24 April 1947.

DEAR MR. SECRETARY: Reference your letter of 15 April 1947 concerning an Advisory Group to China, I suggest it would be most desirable from the standpoint of the services that we set up the Joint Military Advisory Group envisaged in SWNCC 83/17⁴⁹ and approved

⁴⁹ Dated February 13, 1946, *Foreign Relations*, 1946, vol. x, p. 817.

by the President on 26 February 1946. I am informed that a draft governmental agreement has been produced after consultation with the Chinese and that it has been concurred in by the War Department, and, I understand, by the Navy Department.

At present the Army and Army Air Forces portions of the Joint Advisory Group are operating under the war powers of the President, as are our missions to Iraq, and I understand the Navy portion of the Chinese Advisory Group. These war powers appear for the time being to be adequate for the operation of such missions. The missions bill now before Congress, if enacted into law, will provide permanent peacetime authority for the operation of the joint group envisaged by SWNCC 83/17.

In light of the foregoing, I believe that we should now proceed with the establishment of the joint mission already approved by the President. If the State Department does not desire to implement at this time the decision of the President concerning the joint mission but wishes to await the action of the present Congress on the missions bill, I believe we should continue the *status quo* until the nature of Congressional action is determined.

Sincerely yours,

ROBERT P. PATTERSON

893.24/4-2847

Memorandum by the Assistant Chief of Naval Operations for Politico-Military Affairs (Wooldridge) to the Director of the Office of Far Eastern Affairs (Vincent)

WASHINGTON, 28 April 1947.

Subject: Abandonment of Ammunition at Tsingtao.

1. There is attached hereto a dispatch⁵⁰ from Admiral Cooke setting forth categories and amounts of ammunition prospectively unserviceable.

355 Tons Mortar Shells—unserviceable
 1300 Tons High Explosives—suitable now for
 training but will be unserviceable
 31 December
 200 Tons Small Arms—suitable for training
 but not for return shipment to the
 United States.

The ammunition dumps at Tsingtao immediately adjacent to the city are different from Hsin Ho in that they are not subject to attacks by CCF units.

⁵⁰ Not printed.

2. Admiral Cooke states his desire to reduce :

- a. Danger to own personnel in ultimately moving unstable explosives.
- b. Possibility of sabotage.
- c. Danger to local inhabitants.
- d. Danger to guards.

He recommends abandoning increments from time to time in a safe area after arrangements with Chinese National Forces.

3. Navy concurs provided this meets State Department's approval in the light of China policy. Please inform me of your decision in the matter.

E. T. WOOLDRIDGE
Rear Admiral, U. S. N.

893.24/4-2847

Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Assistant Chief of Naval Operations for Politico-Military Affairs (Wooldridge)

[WASHINGTON,] May 2, 1947.

Subject: Abandonment of Ammunition at Tsingtao

With reference to your memorandum of April 28 on the above subject, I am authorized by the Secretary of State to inform you that this Department has no objection to the disposition of the ammunition as recommended by Admiral Cooke, such disposition to be made in a manner least likely to attract public attention.

JOHN CARTER VINCENT

124.93/5-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 8, 1947—11 a. m.

[Received May 8—4:30 a. m.]

991. Embassy grateful for Department's telegram 523, May 2, 5 p. m.⁵¹ As regards ship program, Embassy's idea is that following arrival of Naval Representative, Executive Office should consider military aspects this program and, in conjunction with appropriate officers of Embassy, the financial implications of this program as well as those of advisory groups. There are many aspects to this situation as for example:

1. It seems important that U. S. should know what its actions will

⁵¹ *Post*, p. 1436.

entail, at any rate in U. S. dollar cost to Chinese Government. If Chinese Government unwilling or unable to make available requisite exchange during 5-year period, U. S. Navy will have assumed responsibility for training crews to operate vessels and through lack of essential facilities be unable to carry out its task in a suitable fashion. Question would arise as to whether it would not be desirable to protect our own reputation as well as to assist Chinese to earmark Export-Import Bank facilities to ensure sufficient supply of spare parts, etc.

2. It is quite likely that Chinese authorities during past year and a half of restricted operations of Army and Naval Advisory Group have evolved other ideas about the character, makeup and activities of the groups which they might put forward when question of activation arises. Furthermore, it is entirely likely that cost to Chinese Government has been greater than they first anticipated and of course China's economic and financial situation has undoubtedly deteriorated beyond their expectations. No doubt in case of Army Advisory Group Chinese have felt that it should have been acting as the pre-war German Military Mission did in actively assisting in strategic and tactical field operations. If this be so in whole or in part, it behooves us to have more information about impact of our activities than we apparently have now.

3. As regards the ship program, Embassy's information is that 271 ships were to be turned over of which 140 have been or are being handed to Maritime Customs, leaving 131 for Chinese Navy plus 8 minesweeper types which were to be turned over to Maritime Customs but are now to go to Chinese Navy. Chinese Navy to date has received 97 ships, and it is planned will obtain under the slow-down program from 4 to 6 sub chasers during remainder of year. On the other hand SCAP⁵² has notified Chinese Government that it is ready to hand over 57 Japanese ships for which there are no guns and no spare parts. These ships are to be taken to designated ports by Japanese crews and to Japan. The problem of obtaining Chinese crews and spare parts *et al.* is evident.

4. Following is estimated cost to Chinese in 1947 of programs associated with Military and Naval Advisory Groups:

a. CN⁵³ dollar costs. MAG⁵⁴ \$50 billion. NAG \$15-20 billion. About half of the CN dollar expenditures for MAG is for construction purposes which therefore is not an ultimate loss to Chinese Government. These estimates subject upward revision because of inflation but indicate order of magnitude involved.

b. U. S. dollar costs. Training program with which NAG asso-

⁵² Supreme Commander for the Allied Powers (Gen. Douglas A. MacArthur).

⁵³ Chinese national currency.

⁵⁴ Military Advisory Group.

ciated will run to \$6,700,000 chiefly in the form of supplies, equipment, including spare parts for 1947 and for amphibious and small combat vessels, etc., and training of Chinese cadets in America. MAG here has no data on U. S. dollar expenditures incurred by China in connection with group's program; it indicates that chief items of such expenditure would be training of Chinese aviation cadets in U. S. and purchase of noncombat supplies by Chinese Supply Mission in Washington. Embassy would appreciate Department's requesting War Department for its information on this point. It would, of course, be glad to receive any other pertinent information available to Department.

STUART

811.3393/5-2147

Memorandum by the Assistant Chief of Naval Operations for Politico-Military Affairs (Wooldridge) to the Director of the Office of Far Eastern Affairs (Vincent)

WASHINGTON, 21 May 1947.

The Marines in North China who participated in operations there in connection with maintenance of the Executive Headquarters, Peiping, are being withdrawn. In connection with that withdrawal a large amount of equipment and property will have to be returned to Guam or the United States, and in the case of non-military surpluses will be turned over to OFLC⁵⁵ for disposition under the Surplus Property Treaty with China.⁵⁶ The rapidity of this withdrawal will be determined by:

- a. Necessity of turn over of alien or Chinese property to the proper authorities;
- b. Completion of inventory, segregation and shipment of items to be returned for further use by the Marines in Guam or the United States.
- c. Availability of shipping for lift of material and personnel.
- d. Requirement that surplus property be guarded for a period of 60 days or during the period required for disposal if less than that time.

The quartermaster work in connection with property accounting, withdrawal, and disposal will require the 7th Service Regiment, and also the presence of the 1st Battalion to provide security. A total of 1766 Marines will be required at Tientsin for the foregoing purposes until approximately 1 September.

Commander Naval Forces, West Pacific, has been instructed to

⁵⁵ Office of Foreign Liquidation Commissioner.

⁵⁶ Signed at Shanghai, August 30, 1946; Department of State, *Report to Congress on Foreign Surplus Disposal*, October 1946, p. 40. For documentation see *Foreign Relations*, 1946, vol. x, pp. 1033 ff.

avoid any publicity in connection with forces required for the evacuation and disposal of the subject property. He has further been instructed that weapons and ammunition are not to be included in the property declared as surplus for disposal by OFLC.

E. T. WOOLDRIDGE
Rear Admiral U. S. N.

893.34/5-2647

The Secretary of the Navy (Forrestal) to the Secretary of State

WASHINGTON, 26 May 1947.

MY DEAR MR. SECRETARY: The Republic of China has requested the United States to transfer certain specified naval vessels, craft, and floating drydocks, and to furnish certain technical advice and assistance in connection with the organization and maintenance of a Naval establishment.

Executive Order 9843, signed on April 25, 1947,⁵⁷ delegates the authority granted the President in Public Law 512, 79th Congress, to the Secretary of the Navy subject to concurrence by the Secretary of State. It provides that subject to the conditions and limitations contained in Public Law 512 the Secretary of the Navy is authorized:

a. To transfer certain vessels, craft, and floating drydocks to the Republic of China without compensation.

b. To repair, outfit and equip the said vessels, craft and floating drydocks which are to be so transferred and to transfer material deemed by the Secretary of the Navy to be necessary for their operation and maintenance, all on the basis of cash reimbursement by the Republic of China.

c. To furnish to the Republic of China such plans, blueprints, documents and other information in connection with such vessels, craft and floating drydocks, and certain technical information and advice in connection with the organization and maintenance of a Naval establishment by the Republic of China as the Secretary of the Navy may deem proper.

d. To train personnel for the operation of such vessels, craft, and floating drydocks, and for such other Naval purposes as the Secretary of the Navy may deem proper.

e. To detail not more than 100 officers and 200 enlisted men of the United States Navy or Marine Corps to assist the Republic of China in Naval matters under such conditions and subject to such rules and regulations as the Secretary of the Navy may prescribe.

⁵⁷ Department of State *Bulletin*, May 4, 1947, p. 821, or 12 *Federal Register* 2763.

The Order further states that if at any time the Secretary of State shall determine that the transfer of further vessels and craft or material would not be in the public interest, such transfers shall be discontinued.

The Navy Department has considered the request of the Chinese Government and plans to furnish the following Naval assistance:

a. Transfer to the Republic of China without compensation 137 vessels, craft and floating drydocks (listed below by type and number).

<i>Type</i>	<i>Number</i>
DE—Destroyer Escort	6
PCE—Patrol Vessel Escort (180')	2
AM—Mine Sweeper	12
LST—Landing Ship Tank	10
LSM—Landing Ship Medium	8
LCI(L)—Landing Craft Infantry (Large)	8
AG—Miscellaneous Auxiliary	1
LCM—Landing Craft, Mechanized	25
LCVP—Landing Craft, Vehicle and Personnel	25
LCT—Landing Craft Tank	8
YMS—Motor Mine Sweeper	4
PC—Submarine Chaser (173')	6
PGM—Motor Gunboat	6
SC—Submarine Chaser (110')	10
AGS—Surveying Ship	1
AOG—Gasoline Tanker	2
AFDL—Auxiliary Floating Drydock Light	2
ARL—Repair Ship Landing Craft	1
	<hr/>
Total	137

b. Furnish to the Republic of China such plans, blueprints, documents and other information in connection with the vessels listed above and other technical information as is necessary and proper in connection with the organization and maintenance of a Naval establishment.

c. Train personnel for the operation of these vessels and such other Naval purposes as the Secretary of the Navy may deem proper.

d. Establish a U. S. Naval Advisory Group to assist the Republic of China in Naval matters under such conditions and subject to such rules and regulations as the Secretary of the Navy may prescribe.

e. The cost of any repairs, outfit and equipment to the said vessels and the transfer of any material will be on the basis of cash reimbursement by the Republic of China.

Ninety-three of the above-listed vessels are now under lend lease to the Chinese Government. These vessels will be recaptured under the terms of the Naval Lease Agreement Charter and retransferred under Public Law 512.

Your concurrence is requested in the plan for providing the Naval assistance outlined above.

Sincerely yours,

FORRESTAL

893.34/5-2647

The Secretary of State to the Secretary of the Navy (Forrestal)

WASHINGTON, June 10, 1947.

MY DEAR MR. SECRETARY: The receipt is acknowledged of your letter of May 26, 1947 in which you outline the Navy Department's program for technical advice and assistance to China, under the authority of Executive Order 9843, signed on April 25, 1947. You request the State Department's concurrence in this program.

This Department concurs in the program outlined in the Navy Department's letter under acknowledgment, subject however to the understanding that any negotiations with the Chinese authorities for a formal establishment of the naval advisory group, referred to in paragraph three, sub-paragraph *d*, and the terms and conditions under which the group shall function, shall be conducted by the Department of State.

Sincerely yours,

G. C. MARSHALL

811.3393/6-2047

Memorandum by the Secretary of the Navy (Forrestal) to the Secretary of State

WASHINGTON, 20 June 1947.

Subject: Naval Activities Affecting China.

1. Information has been received that there has recently been discussion among Embassy personnel in Nanking concerning withdrawing naval forces, activities and agencies from China in the near future.

2. The Nationalist position in China is deteriorating, with increased momentum, in the political, economic, financial and military fields. The withdrawal of naval forces, other than those at Tientsin already scheduled for evacuation as soon as material and equipment can be shipped or disposed of, might well have the following consequences:

(a) Premature withdrawal would contribute materially to the precipitation of an even more adverse situation in China.

(b) If such a situation did develop and involved mob action against foreign nationals, such action might be made the occasion for the entry of Russian pacification and protection forces to such points as Peiping, Tientsin, Tsingtao and Shanghai. Such a Russian entry could be justified by the U. S. S. R., in the absence of U. S. forces, because of the large number of Russian nationals in China requiring protection—

particularly if Russian nationals were the main object of such hostile demonstration.

(c) Such a Russian entry into North China would enhance the Russian position in East Asia and would facilitate permanent occupation or domination of selected positions in Korea, Manchuria and other provinces of China.

(d) If U. S. forces were withdrawn and such withdrawal seriously weakened the position of the Nationalist Government, the lives and property of U. S. citizens in China might be jeopardized. In this connection the British have indicated concern over possible civil disturbances in China which may endanger lives and property of British nationals, and have inquired as to what plan the U. S. Government had under consideration for protection of U. S. nationals in similar circumstances and whether such plan included mutual assistance to British.

(e) It does not appear at this time likely that the Communists can overthrow the Nationalist Government and assume central national authority. Nevertheless, further withdrawal on our part may facilitate breakdown of the Nationalist Government into two or more regional governments. This could result in the passing of Manchuria and additional areas in North China to Communistic control. In such an eventuality the final control of the Shantung province might well depend on the mere presence or absence of the U. S. naval forces in Tsingtao.

(f) Our forces in China are numerically inadequate for extensive operations. However, their presence has a far-reaching effect. Their withdrawal would lend encouragement to Russian expansion and even more seriously would be interpreted by other nations as willingness to capitulate in the face of Communist penetration. Further, it would indicate to China that our long standing friendship and support was in process of being terminated.

3. The mere discussion or creation of uncertainty concerning continuance of naval activities in China tends to weaken our support of China.

4. It is recommended that the following points be agreed upon as a firm basis for further planning :

(a) Delivery of vessels to China under Public Law 512 to be completed as heretofore planned.

(b) A joint Military Advisory Group to be formed when legislation permits. Meanwhile, naval personnel sent to China to form the Naval Advisory Group to continue training Chinese crews for ships to be delivered under Public Law 512, and under ComNavWesPac to facilitate delivery and activation of those ships.

(c) Naval activities at Tsingtao to be continued for service in connection with (a) and (b) and in support of forces afloat. This includes a Marine security unit of about 3500.

(d) The naval forces in the Western Pacific to be maintained at the strength considered necessary by the Chief of Naval Operations. They now consist of one cruiser division, one and one-half squadrons

of destroyers, and supporting auxiliary ships, augmented at times by visits of carriers and support ships. Their normal base is Tsingtao.

(e) Naval logistic and administrative units to be maintained at Shanghai. They include port facilities, mail supplies, communications, weather central and minor associated services.

(f) Naval activities in Nanking to continue to include the Naval Attaché, the Embassy executive office, and a small number of naval advisory group personnel.

(g) Dependents of naval personnel to be permitted to remain in China for the present.

5. It is further recommended that decision be reached on the training of Chinese Marines. Admiral Cooke has been informed that the Generalissimo has directed the formation of a Chinese Marine Corps with a strength of two regiments. It is expected that the Navy will be asked to provide Marine Corps instructors at Tsingtao. This would require a number of instructors (initially about six officers and twenty-five enlisted). The proposal might, if acceded to, lead to further requests involving increased numbers, and might also lead to requests for equipment. However, such a training task can be assumed if it is desired to give support to the Nationalist Government in that manner.

FORRESTAL

811.3393/6-2047

The Secretary of State to the Secretary of the Navy (Forrestal)

[WASHINGTON,] July 23, 1947.

DEAR MR. SECRETARY: The receipt is acknowledged of your memorandum of June 20, 1947 on the subject, "Naval Activities Affecting China".

At our conference on February 20, 1947 we reached general agreement as to the desired strength, subject to review after six months, of the United States Marine forces in China. General agreement was also reached as to the desirable extent of fleet deployment in Chinese waters.

The various points raised in numbered paragraph 4 of your memorandum are agreed, except as sub-paragraphs (c), (d) and (e) are modified by comment herein.

The State Department feels that it would be unwise at this time for the Chinese Government to divert any of its depleted financial or military resources to developing a new military arm in the form of a Marine Corps. For this reason, and in view of the considerations

mentioned in paragraph 5 of your memorandum, it is recommended that this Government refuse training or other support for the proposed Chinese Marine Corps in the immediate future. When conditions in China become more stable, the organization of a Chinese Marine Corps under the Naval Advisory Group, or the amphibious training of some Army units, would appear to be a normal activity tending toward establishment of a balanced Chinese military force.

The discussion which you mention as having taken place among Embassy personnel in Nanking concerning future activities of the Navy in China was, in all probability, a discussion in the Embassy Executive Office as a result of a request from this Department for comment on a list of properties which the Navy Department had requested the Department of State to acquire for the use of the West Pacific Fleet. In the opinion of this Department, it is desirable from a political point of view that the number of United States armed forces ashore in China should be maintained at the minimum compatible with United States interests, and that every effort be made to avoid the appearance of maintaining permanent United States military garrisons in that country. With these considerations in mind it is felt that it would be desirable for the Navy Department to review the shore activities at Shanghai mentioned in paragraph 4(e) of your memorandum, as well as similar activities at Tsingtao, with a view to transferring them so far as practicable to floating units.

With the passing of extraterritoriality, it does not appear appropriate or desirable that United States armed forces be maintained ashore in China on a permanent basis for the avowed purpose of protecting American interests there. This Government must look to the Chinese authorities to assume this responsibility. Our naval forces afloat in Chinese waters should be able to deal with emergency situations imperiling Americans residing at seaports. It would be manifestly impractical to maintain armed forces at inland points for the protection of American lives. When danger threatens, those Americans should, as in the past, be advised to withdraw from interior points to seaports.

While the situation in China is getting rapidly no better, it appears too unstable at this time to warrant final decisions on the major points you raise. Before considering the above views as a firm basis for future planning, I suggest we await General Wedemeyer's report,⁵⁸ expected about September 15.

Faithfully yours,

G. C. MARSHALL

⁵⁸ Dated September 19, Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 764.

893.34/7-2447

The Secretary of the Navy (Forrestal) to the Secretary of State

WASHINGTON, July 24, 1947.

MY DEAR MR. SECRETARY: The transfer of vessels and material and the furnishing of assistance to the Republic of China under the provisions of Public Law 512, 79th Congress, 2nd Session and Executive Order No. 9843 dated April 25, 1947 requires your concurrence, and must be implemented by an understanding or an agreement between this Government and that of the Republic of China as to (1) the time of transfer of vessels and floating drydocks (2) removal of such vessels and floating drydocks and (3) reimbursement of the cost of repairing, reconditioning and outfitting of vessels and floating drydocks and of the cost of furnishing necessary operation and maintenance items.

Accordingly, it is proposed that Navy Department representatives negotiate an agreement with representatives of the Chinese Navy, covering the transfer and removal of vessels and providing for reimbursement to the Navy Department of the cost of materials and services; the agreement to be substantially in the form of the draft submitted herewith.⁵⁹ Your concurrence, pursuant to Section 2 of Executive Order No. 9843, is requested.

Sincerely yours,

FORRESTAL

893.34/7-2447

*The Acting Secretary of State to the Secretary of the Navy
(Forrestal)*

[WASHINGTON,] August 25, 1947.

MY DEAR MR. SECRETARY: The receipt is acknowledged of the Navy Department's letter of July 24, 1947 enclosing a draft⁶⁰ of an "Agreement Between the Government of the United States of America and the Government of the Republic of China Concerning the Transfer of Naval Vessels and Equipment Pursuant to United States Public Law 512—79th Congress of the United States of America".

The Department of State is agreeable to the negotiation of an agreement substantially in the form of the draft forwarded with the Navy Department's letter under acknowledgment. As the conduct of the foreign relations of this Government is placed in the Department of State by law and by custom, it is believed appropriate that

⁵⁹ Not printed.

⁶⁰ Enclosure not printed.

the agreement should be negotiated and signed by representatives of the Department of State. Accordingly, a copy of the draft is being forwarded to the American Embassy at Nanking for negotiation with the Chinese Government. In the conduct of the negotiations, the Embassy is being instructed ⁶¹ to avail itself of the advice and assistance of the senior United States naval officer in China.

Sincerely yours,

ROBERT A. LOVETT

811.3393/8-3147 : Telegram

The Consul General at Tsingtao (Spiker) to the Secretary of State

TSINGTAO, August 31, 1947—5 p. m.

[Received September 1—4:34 p. m.]

70. COMNAVWESPAC stated no results his efforts contact by radio Communists holding Marine aviator who landed out of gas on coast August 27. Admiral states Embassy informed of developments through ALUSNA ⁶² and has sought advice reference best means contacting Communists, that leaflets have been dropped and radio from Shanghai broadcast request to Communists for return of captive.

In answer my inquiries regarding Naval landing on August 28 and fight with Communist troops, Admiral stated purpose landing party was rescue pilot whose plane visible on beach also secure information regarding second pilot then missing but since returned. Landing party fired on and returned fire. One Communist seen to fall but not found although shirt with bullet holes found at spot. Villagers fled but four questioned without result. Admiral states Communists in surprising strength and very hostile. Had placed bomb in plane and were interrupted in wiring it. Landing party destroyed plane and returned to ship without casualty. Admiral states destroyer 5 miles and cruiser 10 miles off shore standing by in belief contact may be established that point. Admiral states efforts will be made negotiate by landing party with interpreter. I pointed out that this might be expected serve no good purpose in light known hostility of Communists there and of their realization of value of captive if still held for ransom; that further armed clash only likely make bad situation worse and endanger life pilot if still alive, that he probably far inland now and negotiations only method secure release.

Admiral stated decision land party to rescue pilot had to be made in hurry and gave me impression that he feels mistake probably made in such decision.

⁶¹ Instruction No. 414, August 25, to the Ambassador in China, not printed.

⁶² Code name for office of the Naval Attaché in China.

From other sources an informed reconnaissance planes were fired on prior to landing and hostility Communist forces evident. Reconnaissance planes ascertained plane's wing covered with matting or sand. This suggests little likelihood pilot would be found in vicinity on day following forced landing.

I have strongly pointed out inadvisability and futility further landing negotiators unless arranged with hostile Communists. In view rapid radio communications with Embassy and since matter of policy involved, do not understand why Embassy not notified by Admiral prior first landing in known Communist territory. As it stands, negotiations suffer great disadvantage of Communist "defeat" of landing party which inflicted casualties also gave Communists propaganda material claim our partisan support of Nationalists.

Since negotiation and not force required, Vice Consul Service⁶³ has volunteered proceed Chefoo by Navy plane, if Department approves and after full arrangements made with Communists, to negotiate for return of pilot if evidence he still alive. Service personally met Communist military and administrative heads in district concerned during visit to Chefoo last year; also knows well Chinese formerly employed by American Consulate [at] Chefoo and now head of Communist foreign affairs department there. I believe latter would be helpful. Admiral states will be glad Service's assistance but matter of communicating with Communists to arrange matter still problem to be overcome due risk to plane dropping proposals.

Admiral informed am referring matter to Department which may consult with Navy. Consulate's plan envisages letter from this office to be dropped stating Service desires consult reference missing pilot; requests signals be displayed beach Chefoo or airfield laid out indicating Communist agreement that plane will not be interfered with; similar signals to be displayed for unmolested reconnaissance planes to visit at specified hours each day to read Service's pre-arranged signals or land to pick up messages and eventually Service at exodus say one week. Possible that Communists will demand ransom in form of compensation for casualties and will seek munitions rather than cash. Negotiations of course originally for release without compensation.

Plan to be kept absolutely secret. Admiral requests decision soonest as time factor believed important.

Sent as 97 to Nanking, 70 to Department.

SPIKER

⁶³ Richard M. Service.

893.00/9-247 : Telegram

The Consul General at Tsingtao (Spiker) to the Secretary of State

TSINGTAO, September 2, 1947—3 p. m.

[Received September 2—8: 22 a. m.]

72. Navy yesterday made friendly contact with Communist troops near Goose Point (on coast 90 air miles northeast of here) and has been informed pilot is safe and uninjured at point about 70 miles from there. Desires to attempt negotiation on spot with Communist officers, who have requested party of three unarmed Americans to proceed to field headquarters (where pilot is held) to negotiate for his release. Adm. Cooke is hopeful that pilot may be brought by Communists to beach where negotiations can be undertaken.

Dept's position in reference suggested Service mission (refmytel 70 to Department, 98 to Embassy August 31) should however be notified this office since indications are that, if Navy's direct negotiations rail [*fail?*], Navy may desire resort to Consulate's suggested plan. Further developments will be reported.

Repeated 99 to Embassy.

SPIKER

811.3393/9-347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 3, 1947—4 p. m.

[Received September 3—8: 12 a. m.]

1851. Embassy agrees that further landings at this time not advisable. Initial efforts by this means having failed, Embassy considers that further negotiations should be conducted by and in name of Con-Gen⁶⁴ Tsingtao with *de facto* local authorities holding pilot.

You are, therefore, authorized to take such steps as you deem necessary immediately to implement plan outlined in your 97 to Embassy, sent Department as 70.⁶⁵ Close cooperation should be effected with ComNavWesPac.

Embassy suggests that inasmuch as negotiations, if opened, may involve discussions with senior Communist military commanders you give consideration to having Service accompanied by Col. David D. Barrett, Assistant Military Attaché, who will be made available for this mission at your request.

Sent Tsingtao 74, repeated Dept.

STUART

⁶⁴ Consul General.

⁶⁵ Dated August 31, 5 p. m., p. 973.

893.00/9-447 : Telegram

The Consul General at Tsingtao (Spiker) to the Secretary of State

TSINGTAO, September 4, 1947—9 a. m.

[Received 1:28 p. m.]

75. Reference Embassy telegram 74, repeated Dept 1851, September 3, 4 p. m., which indicates Embassy may not have received my messages 98 and 99 (71⁶⁶ and 72 to Dept) dated September 21 [2], 1 [11] a. m., and 3 p. m., respectively, reporting Navy in friendly contact with Communists near Goose Point. Negotiations have been continuing and ComNavWesPac today proceeding there by flying boat obtain firsthand information. He desired Service accompany him and, in view present contact established, desirability for close cooperation with Admiral, and for our firsthand information assist in possible further negotiations by Consulate with Communists, have sent Service to act in purely consultative capacity and not to enter negotiations. He will return with Admiral today and report will be made Embassy and sent Dept.

Sent 100 to Embassy, repeated 75 to Dept.

SPIKER

811.3393/8-3147 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, September 4, 1947—1 p. m.

1104. Believe Embassy in consultation with Tsingtao and Navy is in best position to handle situation (Tsingtao's 97, Aug 31, sent Nanking repeated Dept as 70). Suggest (1) Navy exert utmost care in avoiding further armed clashes with Communists (2) any trip by Service to Chefoo or elsewhere deep in Communist territory (Sent Nanking as 1104 repeated Tsingtao as 66) be delayed for time being pending outcome of negotiations between Navy and Communists now understood to be under way.

LOVETT

123 Service, Richard M. : Telegram

The Consul General at Tsingtao (Spiker) to the Secretary of State

TSINGTAO, September 5, 1947—10 a. m.

[Received September 5—1:28 a. m.]

76. Service returned yesterday evening reporting continuing negotiations by Navy at Goose Point. Details will be sent later message following receipt today's report from negotiators.

⁶⁶ Telegram No. 71 not printed.

Sent Embassy 101; repeated Department 76.

SPIKER

893.00/9-547: Telegram

The Consul General at Tsingtao (Spiker) to the Secretary of State

TSINGTAO, September 5, 1947—5 p. m.

[Received September 5—8:44 a. m.]

77. Ref my 102 Embassy, 76 Dept, September 5, 10 a. m. Admiral received through UNRRA⁶⁷ channels message from Communist General Hsu Shih-yu suggesting negotiations Chefoo. Admiral has sent following to his Shanghai representative.

“Deliver following UNRRA for transmission by quickest method to Chefoo for delivery to General Hsu Shih-yu, Commanding General, Chiaotung military zone. ‘I am ready and willing to send a representative by ship to Chefoo and will do so as soon as reply is received indicating arrangements have been completed for receiving the ship and my representative at Chefoo. In the meantime, it is requested that in order to expedite negotiations a direct channel for communications be set up between us by either voice or cw radio using frequencies and at times to be recommended by you. Please use voice or Morse call NSVZ for me and request you furnish me the calls you will desire to use. Signed C M Cooke Junior Admiral US Navy[’].”

In view above developments am refraining from action suggested Embtel 74 Tsingtao, 1851 Dept, September 3, 4 p. m.

SPIKER

893.00/9-1147: Telegram

The Consul General at Tsingtao (Spiker) to the Secretary of State

TSINGTAO, September 11, 1947—9 a. m.

[Received September 10—11:35 p. m.]

82. Refer mytel 103 to Embassy, 77 to Department Sept. 5. ComNavWesPac informs me pilot returned to Navy yesterday eve result of negotiations at Goose Point. Assume Embassy has kept Department advised of interim ComNavWesPac reports September 6 and 9 through ALUSNA, Nanking. Details will be reported when available.

Sent Nanking as 108, repeated Department as 82.

SPIKER

⁶⁷ United Nations Relief and Rehabilitation Administration.

893.34/10-1547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 15, 1947—noon.
[Received October 15—4:54 a. m.]

2076. Embassy on September 9 transmitted copy of draft agreement for transfer naval vessels (Deptel 1239, October 8⁶⁸) to Foreign Office for study and comment. Foreign Office referred the draft to Minister National Defense⁶⁹ where it is presently under study in consultation with US Navy Advisory Group Survey Board. Minister National Defense has informed Foreign Office study should be completed within 1 or 2 weeks. Department will be informed of further developments.

STUART

893.34/10-1547

*Memorandum by the Chief of the Division of Chinese Affairs
(Ringwalt) to the Director of the Office of Far Eastern Affairs
(Butterworth)*

[WASHINGTON,] October 17, 1947.

You will recall that on August 25, 1947 the Department forwarded to the Embassy at Nanking a draft of an "Agreement Between the Government of the United States of America and the Government of the Republic of China Concerning the Transfer of Naval Vessels and Equipment Pursuant to United States Public Law 512—79th Congress of the United States of America".⁷⁰ In its telegram no. 2076, October 15, the Embassy reported that the draft is now under study in the Ministry of National Defense in consultation with the U. S. Navy Advisory Group Survey Board.

This morning Captain Hummer, of the Office of the Chief of Naval Operations, called to inform me that the Chinese Government had indicated in the course of the negotiations that it would be prepared to accept these naval vessels only on condition that this Government give the Chinese access to naval ammunition to equip these vessels.

It is my understanding that naval ammunition of the type required by the Chinese Government cannot be procured commercially but can only be obtained from naval ordnance. Captain Hummer tells me that Navy has no surplus ammunition which can be transferred to China and that in order to satisfy Chinese requirements the necessary

⁶⁸ Not printed (893.34/10-847) ; it asked for the status of negotiations referred to in letter of August 25 to the Secretary of the Navy, p. 972.

⁶⁹ Gen. Pai Chung-hsi.

⁷⁰ Not printed.

shells and other explosives would have to be manufactured by the Navy to meet Chinese specifications.

In view of our present directive which precludes transfer of munitions on a government level, this case would seem to require special consideration. In a previous instance when it was understood that the naval vessels transferred under Public Law 512 would be for the use of the Chinese Maritime Customs Preventive Service, the Secretary authorized the transfer of ammunition as well. This case, however, is somewhat different as there is no indication that the vessels now subject to transfer are to be used in the Customs Service. Navy has no strong views in the matter other than a desire to be relieved of the responsibility of maintaining these vessels.

It is recommended that the Navy Department be informed that this Department has no objection to the sale to China of the ammunition in question. We could justify our position on the ground that there is little likelihood at this time of the Chinese Navy participating in the civil war on any substantial scale.⁷¹

893.34/10-1547

Memorandum by the Assistant Chief of the Division of Chinese Affairs (Rice) to the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] October 21, 1947.

Subject: Transfer of Naval Vessels to China Under Public Law 512

Reference Mr. Ringwalt's memorandum to you of October 17, 1947 on the above subject and notations which you placed thereon with respect to action to be taken in the premises.

As previous communication on this subject between Mr. Ringwalt and Captain Hummer, of the Office of the CNO, had been by telephone, I today telephoned him and stated that the Department of State has no objection to the sale to China of ammunition for equipping United States naval vessels being transferred under Public Law 512.

Captain Hummer thanked me for supplying this information and stated that a telegraphic instruction had been sent on October 20 to the Commander of Naval Forces, West Pacific, directing that he inform the Chinese that requests for ammunition for vessels to be transferred would be processed and filled as soon as possible but that we could not guarantee to deliver ammunition at the same time the

⁷¹ Marginal notation by Mr. Butterworth on October 19: "I passed on this recommendation to the Secretary today who gave his agreement."

ships are delivered. The instruction contained the further statement that the agreement with respect to the ammunition should be separate from that for transfer of the ships because of the fact that the Secretary of State may at any time, under Section Two of Executive Order 9843, withdraw his concurrence to the program.

It will be noted that the Navy would appear to have anticipated our concurrence in the transfer of ammunition for these vessels. I pointed this out to Captain Hummer who stated that the telegraphic instruction in question had been drafted in the light of the fact that transfer of naval vessels already accomplished under Public Law 512 had been accompanied by transfer of ammunition made with the authorization of the Secretary of State.

I assume that a written communication to the Navy confirming my oral statement to Captain Hummer is not required. Should you feel otherwise please so indicate.⁷²

E[DWARD] R[ICE]

893.34/10-3047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 30, 1947—1 p. m.

[Received October 30—8:39 a. m.]

2164. Chinese have completed study of draft agreement re transfer of naval vessels (Deptinstr 414, August 25⁷³) and suggest following changes:

1. Article 3 (c) to read “. . .⁷⁴ when requested by the Government of the Republic of China will (1) furnish plans, blueprints and documents without reimbursement; (2) furnish technical information and advice without reimbursement and (3) participate in and sign a conducted joint inventory of each vessel at time of delivery with⁷⁵ reimbursement.” Chinese naval authorities consider the joint inventory highly desirable in order that they may have as exact knowledge as possible of equipment received by their representative.

2. Chinese desire to have included with each vessel without reimbursement normal on board supply of ammunition. Admiral Murray, representing Admiral Cooke during discussions, has informed them that agreement contemplates transfer of vessels “as is”, that Subic Bay vessels are decommissioned and hence have no ammunition on board. Embassy and Admiral Murray consider that supplying ammunition should not be especially mentioned in agreement and that it is adequately covered in article 3 (b).

⁷² No comment indicated.

⁷³ Not printed.

⁷⁴ Omission indicated in the original telegram.

⁷⁵ Marginal notation: “Copy received by Navy read ‘without’—though code room indicates State copy was received as printed here. Navy states that it is their understanding that ‘without’ is correct reading.”

3. Chinese desire to have 3-inch guns on 4 DE's at Green Cove Springs replaced with 5-inch guns. They are willing to pay for cost of change but may have to limit change to 2 vessels if cost high. If change is possible they desire approximate cost. If not possible to change guns they wish to have substituted for listed DE's similar vessels of *Rudderow* class with 5-inch guns. Request apparently arises from fact that during recent northern operations Communist field artillery has been able to outrange 3-inch naval guns.

4. The Chinese state and Admiral Murray concurs that it will be impossible to train crews and remove 4 DE's at Green Cove Springs within time set in agreement. Chinese therefore request final date for transfer these 4 vessels by December 31, 1948. Chinese contemplate towing Subic Bay vessels to Chinese ports. To insure compliance July 1 deadline Embassy and Admiral Murray consider highly desirable that individual dates for transfer of these vessels before July 1, 1948 be included in schedule A. Believe Chinese will agree.

5. Chinese expressed apprehension re part of article 2 beginning "from and after the delivery of said vessels" and have requested letter from Embassy confirming that claims, demands, losses, etc., are limited to those arising out of or connected with the transfer of the property in the use and operation thereof by Chinese from and after delivery of vessels. Also request letter include statement that possible Bofors claim is only claim of similar nature of which we are aware. Letter will be submitted to Executive Yuan by Foreign Office at time agreement submitted for approval. Chinese also desire any information re possible Bofors claim.

Copy this telegram sent to Admiral Cooke who will comment directly to Navy Department regarding technical aspects foregoing.

Chinese attitude indicates they will accept agreement as is but desire as favorable consideration as possible of points raised above. Department's instructions will be appreciated.

STUART

811.3393/10-3047

The Secretary of the Navy (Sullivan) to the Secretary of State

WASHINGTON, October 30, 1947.

DEAR MR. SECRETARY: Your letter of July 23, 1947 expressed views with respect to the major points raised in my memorandum of June 20, 1947, on the subject "Naval Activities Affecting China," but suggested that these views not be considered as a firm basis for future planning until General Wedemeyer's report had been received and considered.

If conditions in China and your study of the Wedemeyer Report now admit an expression of views which can be used as a firm basis for future planning, such expression would be appreciated.

Sincerely yours,

JOHN L. SULLIVAN

893.34/10-3047 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 14, 1947—6 p. m.

1387. Following are Navy Dept's views in which State concurs regarding suggested changes draft agreement re transfer naval vessels (Urtel 2164 Oct 30). Numbered paragraphs correspond with those Reftel.

1. No objection.
2. Ammunition cannot be included at time of transfer. Ammunition considered maintenance item under provisions Article 3 (b) of agreement.
3. Navy states technically impracticable replace 3 inch with 5 inch guns. No ships *Rudderow* class available.
4. Navy agreeable to delaying transfer DE's at Green Cove Springs until Dec 31, 1948. Re final sentence, Navy agreeable any plan provided final transfer completed within specified time limit.
5. No objection perceived Emb issuing letter sense first sentence and that possible Bofors claim only claim similar nature of which Navy aware. Navy feels hardly likely Bofors will pursue matter further.

MARSHALL

893.34/11-2647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 26, 1947—3 p. m.

[Received November 26—8:12 a. m.]

2298. Foreign Office states Foreign Minister now authorized sign agreement re transfer naval vessels. Tentative date December 8, 4 p. m.

Following minor changes in draft have been made :

1. Addition to article 3c submitted to Dept in numbered paragraph 1 of Embtel 2164, October 30 and approved by Deptel 1387, November 14.

2. Final sentence of agreement to read “. . .⁷⁶ have signed this agreement in the English and Chinese languages, both in duplicate, at Nanking, China, this eighth day of December 1947, corresponding to the eighth day of the twelfth month of the thirty-sixth year of the Republic of China.[”] Chinese have insisted that agreement be signed in English and Chinese but have agreed to omit phrase that English and Chinese texts equally authentic. Embassy of opinion that inasmuch as draft agreement present in English and negotiations conducted in English, English text of agreement would be controlling in case differences develop subsequently between English and Chinese texts. Alternate to be used in title, body, date and signature.

⁷⁶ Omission indicated in the original telegram.

3. Numbered paragraph 3 of schedule A modified in accordance refDeptel to read: "Limiting date for transfer: (a) vessels at Green Cove Springs, 31 December 1948; (b) other vessels, 1 July 1948".

Final sentence numbered paragraph 4 schedule A to read, "all vessels to be transferred prior to limiting dates stated in 3 above."

Exchange of letters to be signed at same time as agreement as outlined in paragraph 5, Embtel 2164.

Substance numbered paragraph 2 Deptel conveyed to Chinese who are reconciled to not receiving "on board" supply ammunition with vessels but profess apprehension that they may not be permitted purchase ammunition. They point out that, although vessels transferred without compensation, Chinese Government must invest substantial sums in bringing vessels to China and in reconditioning; that this investment nullified unless they permitted purchase ammunition. Foreign Office states that, while no intention delay signing agreement because of this point, Foreign Minister considers it highly desirable that letter to be signed at same time as agreement include maximum assurance possible Chinese Government will be permitted to purchase ammunition and suggests minimum assurance would be statement ammunition considered maintenance item under provisions article 3b. Statement this nature might be construed as limiting freedom of action of U. S. Government by committing it in advance to proposition that ammunition deemed by U. S. Government proper item for operation and maintenance of vessels.

Text proposed press release will be transmitted to Department shortly. Meanwhile please inform Embassy urgently whether Ambassador authorized sign agreement with modifications outlined above and of Department's wishes in connection requested assurances regarding purchase of ammunition.

STUART

893.30/11-2947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 29, 1947—1 p. m.

[Received November 29—8:54 a. m.]

2317. Foreign Minister now asks that proposed exchange of letters to be signed at time of signing agreement re transfer of naval vessels on December 8, 1947 be in the form of exchange of formal notes attached to agreement. Draft text of Embassy's note approved by Foreign Office follows:

"I have the honor to refer to the 'agreement between the Government of the U. S. of America and the Government of the Republic of China concerning the transfer of naval vessels and equipment pur-

suant to U. S. Public Law 512—Seventy-ninth Congress of the U. S. of America' signed today and, in particular, to that sentence in article 2 of the agreement which reads 'from and after the delivery of said vessels, the Government of the Republic of China shall hold harmless and indemnify the Government of the United States of America, its officers, agents, servants and employees, against any and all claims, demands, losses, damages, expenses, and costs, regardless of the nature thereof, of every kind and character, whether arising out of contract or in tort, arising out of or connected with the transfer of such property or the use and operation thereof by the Government of the Republic of China.['] It is understood that the claims, demands, losses, damages, expenses, and costs, regardless of the nature thereof, of every kind and character, whether arising out of contract or in tort for which the Chinese Government assumes full responsibility, are limited to those which arise from and after the delivery of the vessels and out of or connected with the transfer of the property of [*or*] the use and operation of it by the Republic of China.

With reference to the concluding sentence of article 2 of the agreement, I am authorized to inform you that the possible claim of the Aktiebolaget Bofors which may arise out of the transfer to the Government of the Republic of China of Bofors guns is the only claim of this nature of which the United States Navy Department is aware.

Please accept, Excellency, the renewed assurances of my highest consideration."

Text of draft reply of Foreign Office will be transmitted by telegram as soon as received for inclusion in Department press release. Please inform Embassy urgently by telegram whether foregoing arrangement has Department's approval.

If Department decides accede Foreign Ministry request that assurances be given re purchase ammunition, (Embtel 2298, November 26), Embassy suggests Department draft additional paragraph above quoted note and transmit text to Embassy by urgent telegram.

STUART

893.34/11-2647 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 3, 1947—noon.

1459. Modifications described Embtel 2298, Nov. 26, agreeable to Dept. Please endeavor obtain Chinese concurrence in following additional modifications:

In Art 9 change "execution" to "Upon the coming into effect" and add Art 10 "This Agreement shall come into effect on the date of its signature".

Amb authorized sign agreement with above modifications as well as accompanying exchange of notes (Embtel 2317, Nov. 29). In order to

avoid possible misunderstanding Emb should of course carefully check Chinese text.

Mention cannot be made in the text of the agreement or exchange of notes of any commitment to furnish ammo. However, Emb may informally assure FonOff that Navy will undertake to fill reasonable Chinese ammo requirements on cost basis as maintenance item under provisions Art 3 B.

LOVETT

893.34/12-347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 3, 1947.

[Received December 3—11:51 p. m.]

2331. Unless otherwise instructed Embassy proposes issue following press release December 8, 4 p. m. Nanking time (0800 December 8 GMT) at time signing agreement regarding transfer naval vessels.

“An agreement between the Government of the United States of America and the Government of the Republic of China concerning the transfer of naval vessels and equipment pursuant to United States Public Law 512—79th Congress of the United States of America was signed today 8:00 p. m. in the Ministry for Foreign Affairs. His Excellency, Dr. Wang Shih-chieh, Minister for Foreign Affairs, signed the agreement for the Government of the Republic of China and the Honorable J. Leighton Stuart, Ambassador of the United States of America at Nanking, signed for the Government of the United States of America.

The agreement implements Public Law 512 passed by the 79th Congress of the United States on July 16, 1947 by providing for the transfer to the Government of the Republic of China without reimbursement of certain naval vessels, craft and floating dry docks which have been found to be in excess of the naval needs of the United States. Part of the vessels covered by the agreement have already been turned over to the Chinese Navy under the provisions of Lend-Lease while the remainder are to be transferred during the coming year.

The vessels, of which no combat ship exceeds a destroyer escort in size, have been transferred to China to assist the Chinese Government in policing its coastal and inland waters and protecting and improving the safety of navigation in its waters.

Provision is also made in the agreement for the reconditioning of the vessels, for the obtaining by the Chinese Navy of material for the operation and maintenance of them and for the furnishing of technical information and advice in connection with the organization and maintenance of a naval establishment by the Republic of China.

The text of the agreement and the texts of an exchange of notes signed at the time of the agreement are as follows: [”]

STUART

893.34/12-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 5, 1947—3 p. m.

[Received 3:43 p. m.]

2339. ReEmbtel 2331, December 3, transmitting text proposed press release in connection signing agreement regarding transfer naval vessels please change "have been transferred" to "are being transferred" in paragraph 3 of release. Also in paragraph 2 change July 16, 1947 to July 16, 1946.

Re penultimate paragraph Embtel 2317, November 29, Embassy quotes below text of draft reply of Foreign Office to Embassy quoted in ref tel:

"Excellency: I have the honor to acknowledge the receipt of your note of today's date which reads as follows: (Insert here text Embassy note given in ref tel).

I take pleasure in confirming that the understanding expressed in the above-quoted note is agreeable to the Chinese Government.

I avail myself of this opportunity to renew to your Excellency the assurances of my highest consideration."

STUART

893.34/12-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 5, 1947—4 p. m.

[Received December 5—2:24 p. m.]

2340. Re agreement for transfer naval vessels, Chinese concur in modifications outlined paragraph 2 Deptel 1459, December 3.

STUART

893.34/12-347 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 5, 1947—7 p. m.

1479. Issuance press release as drafted Urtel 2331 Dec 3 approved with following modifications:

1. Phrase in first sentence third paragraph "passed by the 79th Congress of the United States on July 16, 1947" should be changed to read "passed by the 79th Congress of the United States and approved by the President on July 16, 1946."

2. Sentence in third paragraph beginning "Part of the vessels . . ." ⁷⁷ should read "A substantial part of the vessels covered by

⁷⁷ Omission indicated in the original telegram.

this agreement has already been turned over to the Chinese Navy under the provisions of lend-lease. These vessels are now being recaptured on paper and transferred to China under the terms of this agreement.”

3. That portion of paragraph 4 beginning “for the reconditioning” and ending “maintenance of them and” should be omitted.

4. Final paragraph as well as text of agreement and exchange of notes should be omitted as Navy wishes to avoid unnecessary publicity to possible claim by Bofors. You should request Chinese cooperation in this regard.

LOVETT

893.34/12-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 7, 1947—4 p. m.

[Received December 7—9:33 a. m.]

2346. Chinese concur in modifications press release (Deptel 1479, December 5) re signing agreement transfer naval vessels. Texts of agreement and exchange of notes will not be released.

We anticipate that omission of texts will cause widespread speculation as to nature of agreement and possible secret terms particularly inasmuch as press releases in connection with signing Fulbright and post-UNRRA agreements included texts.⁷⁸

We assume that agreement will be registered with UN^{78a} and would judge from last sentence Deptel 1387, November 14 that action by Bofors unlikely. In view foregoing we of opinion that speculation which will inevitably result from failure to release text may do more harm than would publication of clause re Bofors claim and urge Department explore matter further with Navy with view to releasing text.

STUART

893.34/12-747 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 8, 1947—11 a. m.

1483. In light Urtel 2346 December 7 Navy agreeable to release text of agreement and exchange of notes.

LOVETT

⁷⁸ For correspondence on these subjects, see pp. 1263 ff. and pp. 1293 ff., respectively.

^{78a} United Nations.

893.34/12-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 8, 1947.

[Received December 8—7:32 p. m.]

2350. Agreement concerning transfer naval vessels signed today,
4 p. m.⁷⁹

STUART

893.34/12-947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 9, 1947—7 p. m.

[Received December 9—7:35 a. m.]

2362. Reference last paragraph Deptel 1459, December 3. Embassy officer orally conveyed assurances [to] Director, American Department, Foreign Office, that Navy will undertake fill reasonable Chinese ammo requirements on cost basis as maintenance item under provisions article 3 (b) of agreement regarding transfer naval vessels.

Officer who conveyed these oral assurances is now in receipt of personal letter from Director, American Department, referring to discussion and stating as follows:

“During the discussion I understood that you had informally assured me that the U.S. Navy would undertake to fill reasonable Chinese ammo requirements on cost basis as maintenance item under provisions article 3 (b) of the above-mentioned agreement. I should be grateful if you could confirm that the foregoing understanding is correct.”

Although agreement has already been signed, Foreign Office still desires reply to letter. We would appreciate being informed whether Department would have any objection to concerned officer confirming oral conversation by means of a personal letter over his signature to Director, American Department.

STUART

893.34/12-947 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 15, 1947—9 p. m.

1513. Neither Emb nor any member Emb staff should confirm in writing informal and oral assurances (Urtel 2362, Dec 9) already supplied ChiGovt re supply of Naval ammo.

LOVETT

⁷⁹ For text, see Department of State Treaties and Other International Acts Series No. 1691, or 61 Stat. (pt. 4) 3618.

PROBLEMS RESPECTING REPATRIATION OF JAPANESE
STILL REMAINING IN CHINA, PARTICULARLY IN
MANCHURIA ¹

893.60 Manchuria/2-647

*Memorandum by Mr. Philip D. Sprouse of the Division of Chinese
Affairs to the Director of the Office of Far Eastern Affairs
(Vincent)*

[WASHINGTON,] February 6, 1947.

It is believed advisable to initiate action at an early date to obtain the repatriation of the sizable Japanese armed forces, reported by Major Rigg, Assistant Military Attaché at Changchun,² to be still in northeast Manchuria, for the following reasons: (1) The withdrawal of the United States branch of the Executive Headquarters and the plans for the withdrawal of the U. S. Marines from the Peiping-Tientsin area will remove a symbol of American force and authority which might be helpful in obtaining Chinese Government action for the repatriation of these Japanese forces and will serve also to remove a certain restraint on the National Government; (2) the possibility of the open use of these Japanese forces by one or the other of the two Chinese sides in the civil war constitutes an added threat to peace and stability in Manchuria and participation by Japanese forces in the civil war would afford a possible excuse for the entry of Soviet troops into Manchuria.

The question of the repatriation of these Japanese forces gives rise to several problems: (1) the disposal of their arms; (2) the port or ports through which they would be repatriated; (3) the possibility of the movement of the Japanese troops overland during the winter months into National Government territory for evacuation through a Chinese-controlled port; and (4) the possibility of clashes between the Chinese Communists and the Japanese troops if the latter, still in possession of their arms, began a movement toward National Government territory in Manchuria.

While the Chinese Government has failed to live up to its agreements for the repatriation of Japanese troops, the Chinese Commu-

¹ For previous correspondence on the subject of repatriation of Japanese from China, see *Foreign Relations*, 1946, vol. x, pp. 888 ff.

² Maj. Robert B. Rigg.

nists apparently have some ulterior motive in not publicizing the presence of these Japanese forces in Manchuria, probably connected with the disposal of the Japanese arms. If the Japanese were evacuated through a Soviet port, the arms would likely come into Chinese Communist possession. Such a procedure would also require negotiation with the Soviet authorities by SCAP³ and there is no certainty that an agreement for the repatriation of these Japanese through Soviet or Soviet-controlled territory could be reached at an early date. Repatriation of these Japanese through a Chinese-controlled port would probably require them to move from their present locations under arm into areas in Manchuria occupied by the National Government and would probably result in clashes with the Chinese Communist forces. The latter procedure would, however, seem to offer the speediest action in this matter and by allowing for American participation therein would provide greater assurance of the effective completion of the repatriation of the Japanese forces involved.

In view of the presence of Major Rigg in Changchun and of his statement that a complete surrender of these Japanese units can be obtained in an estimated period of three months if the United States participated to ensure the fulfillment of the surrender terms, it is recommended that a telegram be sent to the Embassy, setting forth the Department's views of the necessity for early action and of the desirability of repatriation through a Chinese-controlled port and asking for comments by the Embassy and the MA,⁴ including observations by Major Rigg, in the light of his previous statement. There may be factors involved in the movement of the Japanese forces which are unknown to us. A draft of such a telegram is attached.⁵

740.00114 P W/2-1847 : Telegram

*The Secretary of State to the Supreme Commander for the Allied Powers in Japan (MacArthur)*⁶

WASHINGTON, February 18, 1947—11 a. m.

51. For Political Adviser.⁷ In connection with 91820⁸ Dept believes early action on repatriation armed Jap forces reported by Rigg to be in Manchuria is advisable and that these forces should be repatriated through Chinese-controlled port since (1) area where Japs located not under Soviet control and Dec. Tokyo repatriation agree-

³ Supreme Commander, Allied Powers in Japan.

⁴ Military Attaché, Brig. Gen. Robert H. Soule.

⁵ Draft telegram not attached to file copy.

⁶ Repeated to the Ambassador in China as Department's No. 196.

⁷ George Atcheson, Jr.

⁸ February 12 to General of the Army Douglas MacArthur (SCAP), not printed.

ment provided for return Japs only from Soviet and Soviet-controlled territory and (2) long delay might result in effort to obtain Soviet agreement to cooperate in repatriation these Japs. SCAP recommendations requested.

Nanking please inform Dept info Tokyo on (1) evidence which can be furnished Chinese Govt of presence these Jap forces; (2) logistic feasibility these Japs moving overland into National Govt territory; (3) practicability of ordering such move and (4) nature and extent American assistance or participation which might be practicable in connection with repatriation.

Sent Tokyo repeated Nanking. Embassy pass copy to Underwood.⁹

MARSHALL

740.00114 Pacific War/2-2247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 22, 1947—2 p. m.

[Received 3:06 p. m.]

340. 1. Information requested in second paragraph of Deptel 196, Feb 18, 11 a. m.¹⁰ follows:

a. Evidence which can be furnished Chinese Govt of presence of Japanese forces:

In order to minimize embarrassment to the Chinese Govt, it should simply be informed (1) that the U. S. Govt understands there are sizeable Japanese holdout troops in Manchuria located generally in the Changpai Mountain, Chingpo Hu area, Mutankiang area and the Hsingan Mountains; (2) that the U. S. Govt would appreciate being informed of any plans of the Chinese Govt for repatriation of these Japanese forces; and (3) that, if desired, the U. S. Govt will determine extent to which SCAP shipping can be made available.

b. Logistical feasibility of these Japanese moving overland into National Govt territory:

The report on Japanese holdout troops states that it is feasible logistically for the Japanese troops in the Changpai Mountain region to move overland to Tunghua into National Govt territory, and for the Japanese troops in the Chingpo Hu area to move overland to Lafa and into Nationalist territory. There are some Communists in the area which these Japanese troops would have to traverse; but the report alleges that the Japanese are capable of protecting themselves during the trek. The other Japanese troops are behind the Communist lines, at such a distance and in such inaccessible areas that it is considered logistically impracticable as well as dangerous for these forces under present conditions to attempt an overland movement to territory now under control of the National Govt. From a purely logistical stand-

⁹ Col. George V. Underwood, in charge of the Embassy Liaison Office which was the successor to General Marshall's office in China.

¹⁰ See footnote 6, p. 990.

point the only practicable method open now would be for these troops to be repatriated over the Chinese Eastern Railroad to Soviet Russia, thence via the trans-Siberian railroad to Vladivostok, provided suitable arrangements could be made with the Russian Govt.

c. Practicability of ordering such a move :

An order for the movement of the two groups to Tunghua and Lafa probably should be issued by SCAP, should make reference to the Emperor's desire for their repatriation, should state that the Chinese Govt will act as SCAP's agent, and should contain appropriate assurances from the Chinese Govt and SCAP as to proper treatment and prompt repatriation. . . .

d. Nature and extent of American assistance or participation which might be practicable in connection with repatriation :

American assistance and participation should, in Embassy's opinion, be limited to provision of shipping by SCAP to transport the troops from Hulutao to Japan.

2. It is not clear to the Embassy whether first paragraph of Deptel 196 is intended to mean that Dept does not wish to take cognizance of political implications in presence of the forces and wishes to reduce the problem to mechanics of accomplishing repatriation.

3. If Dept does not wish to approach Russians on the matter, although most accessible ports are under Russian control, Embassy considers it premature to approach Chinese Govt at this time, since none of the Japanese forces is in Chinese Govt-controlled areas and approach to the Chinese Govt on the matter could be interpreted as indirect American approval of military operations by Chinese Govt to uncover the four areas. The Chinese can be expected to claim that it is logistically infeasible for any of the four groups of Japanese troops to reach Govt-controlled areas. If, as our information indicates, the Chinese are attempting to use the Changpai and Chingpo Hu forces to their advantage against the Communists, they will possibly claim that it will be necessary to launch a campaign against the Communists to insure the safety of the Japanese holdout forces and also request American logistical support in the campaign.

4. It is considered desirable to remain silent until either Chinese Govt has overrun the four areas or has significantly increased its capabilities of removing these Japanese without American assistance other than shipping. Present indications are that Japanese will cooperate fully in surrender and repatriation only if U. S. provides observers as guarantee of reasonably fair treatment, food, shelter and prompt repatriation after surrender. The presence of U. S. personnel in forward areas of Manchuria at a time when public attention is focused on American withdrawal from China would provide the Chinese Communists and Russians with effective propaganda ammunition.

Sent Department 340. Please repeat to Tokyo as 11.

740.00114 PW/2-2647 : Telegram

The Political Adviser in Japan (Atcheson) to the Secretary of State

TOKYO, February 26, 1947.

[Received February 26—10:05 a. m.]

42. Reference State Department radio #51, February 18, 11 a. m., and relay of Nanking's 340, February 22, 2 p. m., to Department.

Recommend American assistance and participation be limited to provision of SCAP-controlled shipping required in excess of Chinese capabilities to transport the Japanese holdout troops from Hulutao to Japan.

No further immediate action contemplated by SCAP pending receipt request from China for assistance in repatriation subject Japanese.

[File copy not signed.]

740.00114 Pacific War/3-347 : Telegram

The Secretary of State to the Supreme Commander for the Allied Powers in Japan (MacArthur)

WASHINGTON, March 3, 1947—7 p. m.

74. For Political Adviser. In light of Nanking's 340 (repeated Tokyo Feb 22) Dept feels inadvisable U. S. initiate action at this time toward repatriation Jap holdout forces Manchuria.

Sent Tokyo repeated Nanking. Embassy pass copy to Underwood.

MARSHALL

740.00119 Control (Japan)/4-1047 : Telegram

The Political Adviser in Japan (Atcheson) to the Secretary of State

TOKYO, April 10, 1947.

[Received April 13—7:27 a. m.]

78. Communication received from Japanese Government dated April 1, 1947, stating approximately 8000 Japanese nationals remain in China proper, 4000 in Formosa, 35,000 in Manchuria under Nationalist Government control, and about 40,000 in areas controlled by Chinese Communists. It is stated majority these Japanese are technical experts commandeered by Chinese authorities. Approximately 1000 are detained as war criminal suspects.

Japanese Government states that commandeered Japanese receive some remuneration but because of extraordinary rise cost of living, insufficient communication with families in Japan, lack of ability send remittances, et cetera, majority these persons desire early repatria-

tion. Anxiety is also expressed over health and nutrition of Japanese detained as war criminal suspects.

SCAP is requested use good offices with Chinese Government to accomplish following:

- a. Speedy repatriation of Japanese commandeered persons who desire return to Japan.
- b. Assurances for livelihood to Japanese remaining in China and possibility for remittances to families such person.
- c. Improvement of conditions detained war criminals and suspects.
- d. Measures by Chinese Government for release and repatriation of Japanese now detained in territories under control Chinese Communist forces.

Copy of reference communication has been forwarded local Chinese Mission with request this headquarters be advised of any steps taken pursuant to request of Japanese Government. Department may desire instruct Embassy, Nanking, approach Chinese Government in view of humanitarian considerations involved.

ATCHESON

740.00119 Control (Korea) /4-1047 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 24, 1947—8 p. m.

480. Following tel received from Tokyo. Dept suggests that in your discretion you approach Chinese Govt as indicated in final paragraph.

[Here follows text of telegram No. 78, April 10, printed *supra*.]

ACHESON

740.00115 PW/5-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 20 [10] 1947—4 [6] p. m.

[Received May 20—2:20 p. m.]

1016. Following is repeat of message sent by Army to Tokyo reported missing by Washington:

Following is Mukden's 92, May 2 (delayed in transmission to Embassy):

"Chinese authorities have told local Japs that Jap repatriation will be resumed shortly and will involve repatriation of half (15,000) of the 30,000 Japanese (technicians and 20,000 dependents thereof) still in National Govt areas Manchuria (including 10,000 Mukden and 6,000 Changchun).

"A high type Jap, who is a leader of local Jap community and prominent technical advisor, informs us that Japs fear Chinese lack facilities (ships, etc.) and concrete plans needed for fulfillment this offer, and that without American aid there will be uncertainties and delays

which will entail great difficulties and expense for Japs who must make preparations for repatriation. Jap community anxious to know when first ship will arrive Hulutao, whether American help will be provided, and what type ship will be used.

"Above transmitted for information Embassy, and any American organ assisting Jap repatriation. Ward."¹¹

Executive Office of Embassy investigating.

STUART

740.00115 P.W./5-1947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 19, 1947—5 p. m.
[Received May 20—12: 46 p. m.]

1087. Note just received from FonOff in response to Embassy's note of December 2, 1946¹² (which expressed American Government's hope that Chinese Government would not withhold large numbers of Japanese technicians from repatriation) throws some light on subject of Deptel 480, April 24 (quoting Tokyo's 78, April 10). Chinese note quotes Generalissimo's¹³ NE Provincial Hqs substantially as follows:

According to figures Ministry of National Defense, number Japanese technical personnel retained for service by National Government in northeast approximately 11,300 excluding families. (Number dependents previously estimated by Chinese 31,000.) Plans for repatriation vessels still pending but expected further group will be repatriated this year. NE HQ states separate orders being issued to organs retaining Japanese to make fresh review of matter and where work of Japanese can be done by Chinese to substitute latter.

Sent Department 1087; repeated Tokyo 25; Mukden 47, May 19, 5 p. m.

STUART

740.00115 P. W./5-2647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 26, 1947—4 p. m.
[Received May 27—7 a. m.]

1145. FonOff, in reply to a recent Embassy note concerning Jap nationals remaining in China, replied substantially as follows:

a. The desire[s] of the Jap technical personnel retained by the Chinese Govt have been considered and an effort has been made from the beginning to repatriate those who so desire to Japan.

¹¹ Angus Ward, Consul General at Mukden.

¹² *Foreign Relations*, 1946, vol. x, p. 909.

¹³ Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.

b. A subsistence allowance is received by all retained Japanese technical personnel. The matter of remittances to their families has been given attention by the Chinese Govt, and SCAP has been asked to help in resolving this question. The Chinese delegation in Japan and SC¹⁴ are, at the moment, negotiating measures for payment.

c. The proper treatment of war criminals and suspects has been given every attention by the Chinese Govt.

d. The Chinese Govt is making arrangements in advance for the safety and repatriation to Japan of Japs in districts now under Communist control and which may later be recovered by the Govt.

Sent Mukden 53, repeated Dept, Tokyo 29, 26 May, 4 p. m.

STUART

740.00115 PW/9-2347

The Ambassador in China (Stuart) to the Secretary of State

No. 1017

NANKING, September 23, 1947.

[Received October 3.]

The Ambassador has the honor to enclose for the information of the Department a copy of a self-explanatory tabulation prepared by the Army Advisory Group which shows the number of Japanese and certain miscellaneous persons repatriated from China since V-J Day.

[Enclosure]

Memorandum by the Army Advisory Group in China

REPATRIATION ACTIVITIES

24 February 1947 to 15 September 1947

1. STATUS OF REPATRIATION 24 FEBRUARY 1947

Prior to the assumption by AAG of the residual repatriation mission from Executive Headquarters, the following number of persons had been repatriated from China under this program.

Japanese

<i>Area of Origin</i>	<i>Military</i>	<i>Civilian</i>	<i>Total</i>
South China	112, 681	13, 985	126, 666
Indo-China	29, 352	1, 690	31, 042
Formosa	157, 330	317, 623	474, 953
Central China	685, 286	127, 718	813, 004
North China	239, 286	313, 612	552, 898
Manchuria	17, 361	1, 001, 651	1, 019, 012
Total	1, 241, 296	1, 776, 279	3, 017, 575

¹⁴ South China.

Miscellaneous Persons

Areas as listed above

Indonesians :	95
Koreans :	61, 371
Formosans :	12, 493
Filipino :	29
Okinawans :	15, 407

Total	89, 395
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Grand Total	3, 106, 970
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2. REPATRIATION ACTIVITY UNDER THE ARMY ADVISORY GROUP

The following persons have been repatriated with the advice and assistance of the Army Advisory Group, 24 February 1947 to 15 September 1947.

Japanese

<i>Area of Origin</i>	<i>Military</i>	<i>Civilian</i>	<i>Total</i>
Formosa (2 shipments)	4	3, 206	3, 210
Central China (3 shipments)	165	405	570
North China (4 shipments)	3	91	94
Manchuria (9 shipments)		18, 520	18, 520
Total	172	22, 222	22, 394

Miscellaneous

Okinawans (1 shipment)		359	
Koreans (1 shipment)		413	
Total		772	
Grand Total			23, 166

3. AGGREGATE TOTAL REPATRIATED TO SEPTEMBER 15, 1947

Japanese

	<i>Military</i>	<i>Civilian</i>	<i>Total</i>
South China	112, 681	13, 985	126, 666
Indo-China	29, 352	1, 690	31, 042
Formosa	157, 334	320, 829	478, 163
Central China	685, 451	128, 123	813, 574
North China	239, 289	313, 703	552, 992
Manchuria	17, 361	1, 020, 171	1, 037, 532
Total	1, 241, 468	1, 798, 501	3, 039, 969

Miscellaneous Persons

	Indonesians :	95
	Koreans :	61, 784
	Formosans :	12, 493
	Filipino :	29
	Okinawans :	15, 766
		<hr/>
Total		90, 167
		<hr/>
Grand Total		3, 130, 136

4. JAPANESE REMAINING TO BE REPATRIATED

Based on information available to Executive Headquarters, at the time the residual repatriation mission was passed to the Army Advisory Group, the following are the number of Japanese now remaining in China.

South China	396
Indo-China	37
Formosa	637
Central China	1, 774
North China (1)	5, 267
Manchuria: (2)	
National Government Area (3)	18, 000
Communist Area	50, 000

NOTES:

(1) 1,000 scheduled for movement 5 October 1947.

(2) Data on Manchuria is highly questionable. These figures are purely estimates based upon such miscellaneous information as was available.

(3) 10,000 scheduled for movement 27-30 September 1947.

DISCUSSIONS REGARDING PROPOSED SINO-AMERICAN COOPERATIVE MAPPING AGREEMENT ¹

893.014/1-2047 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 6, 1947—6 p. m.

281. Implementation air mapping program envisaged Embtel 1737 Oct 25, 1946 ² and subject Deptel 979 Nov 1 ³ considered politically inexpedient. Dept informed China deleted from War Dept mapping program. Request Chinese Govt be notified no further action contemplated reference above program. War Dept forwarding through military channels alternate proposal of limited scope to which State Dept interposes no objection.

ACHESON

893.014/10-647 : Airgram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 6, 1947.

[Received October 14—8:46 a. m.]

A-199. 1. Sino-American Cooperative Mapping Agreement is subject. On 19 November 1946, War Department informed General MacArthur ⁴ that China had been deleted from post-hostilities mapping plans for Pacific and Asiatic areas. Following month, War Department advised that Formosa was retained in mapping program.

2. Deptel 281, March 6, 1947 confirmed foregoing, but added that State Department had no objections to an alternate program of limited scope which was being forwarded by War Department. Various proposals and counter-proposals were made during ensuing months by Chinese and American officials.

3. On July 1, 1947, FonOff proposed following four measures:

a. United States to provide small number of mainland survey, geographical survey, aerial survey and map making advisers to assist Chinese trainees and to make technical suggestions.

b. On basis of Sino-American Cooperative Mapping Agreement

¹ Continued from *Foreign Relations*, 1946, vol. x, pp. 1261-1267.

² *Ibid.*, p. 1265.

³ *Ibid.*, p. 1266.

⁴ General of the Army Douglas A. MacArthur, Supreme Commander, Allied Powers, Japan (SCAP), and Commander in Chief, Far East (CinCFE).

signed at Chungking October 19, 1944,⁵ China requests duplicates of work already carried out under that Agreement.

c. China agrees to continuation and completion of aerial photograph in Formosa; China to assign personnel to participate in whole task from aerial photograph to completion of maps.

d. Chinese Government is contemplating completion of maps of various northwestern provinces. Due to lack of aircraft, aerial survey instruments and technical equipment, U.S. is asked to help by supplying these, work to be done by Chinese Air Force.

4. These proposals have been the subject of a considerable exchange of communications among agencies involved. FonOff has requested Embassy to obtain U. S. agreement to the four above-mentioned measures.

5. Aerial photography of Formosa is now being accomplished and it is reported that Chinese officers are participating in photo flights. CinCFE now advises:

a. Basic agreement (presumably that of October 19, 1944) permits Chinese participation in flights.

b. Duplicate negatives, one set contact prints, and one set mission plots will be furnished Chinese.

c. Compilation and publication of maps will not be done in theater. War Department has agreed Chinese will be advised when such operations are undertaken and permitted to assist if desired.

d. Color pulls and maps, as specified by basic agreement will be furnished.

e. No ground control operations are contemplated.

6. CinCFE has further indicated it is either without the means or the authority to implement remaining portions of Chinese proposals, and that further action awaits Chinese application through diplomatic channels.

7. This matter has become involved and long drawn out by reason of the number of agencies involved. It is requested that matter be taken up with War Department, and that CinCFE and Embassy be informed of decision as soon as practicable to end that early agreement with Chinese Government may be reached.

8. Above information received from CinCFE has been communicated to FonOff.

STUART

893.014/11-2147

The Secretary of Army (Royall) to the Secretary of State

WASHINGTON, 21 November 1947.

DEAR MR. SECRETARY: Reference is made to your letter, file reference CA, dated 22 October 1947,⁶ and inclosure, Airgram A-199 of

⁵ A military agreement signed by Maj. Gen. C. C. Wang and Brig. Gen. Malcolm F. Lindsay.

⁶ Not printed.

6 October 1947⁷ from Nanking, outlining proposals made by the Chinese Government for United States assistance in the aerial mapping of certain Chinese provinces.

The Department of the Army has the following comments and recommendations reference the proposals contained in the subparagraphs of paragraph 3, Airgram A-199 from the American Embassy, Nanking, China.

Subparagraph *a*.

Availability of competent civilian technicians in this field who would accept an offer from the Chinese Government is severely limited. None of those solicited would accept the offer at this time. Minimum salaries were determined to range from \$12,000 to \$20,000 per year. An alternative would be to assign qualified Army and Air Force personnel to the Army Advisory Group, Nanking, and designate them to assist the Chinese project. This alternative will be investigated if such a course is considered necessary. It is estimated that not more than five such technicians would be required. They could perform their duties either in civilian clothes or military uniform, whichever is appropriate. It is pointed out that the number of military personnel assigned to this project will increase the total U. S. personnel in China by a corresponding number.

Subparagraph *b*.

Approved without change.

Subparagraph *c*.

Approved providing all expenses other than training and actual participation be paid by the Chinese Government.

Subparagraph *d*.

The Chinese Government can be furnished five B-25 aircraft stripped of armament. An effort will be made to replace aircraft rendered ineffective by attrition; however, replacement will depend upon the availability of surplus aircraft of this type and replacement parts.

Because of meager amount of terrain information now available of interior provinces and the limited scope of the project envisioned by the Chinese Government, it is considered that procurement of trimetrogon photography will be far more beneficial than single lens vertical photography. Trimetrogon photography will permit production of adequate charts at a scale of 1:250,000. Accordingly, it is requested that the Chinese Government give consideration to the use of this equipment which can be furnished for installation in the B-25 aircraft. In addition, sufficient film and use of Pacific theater laboratory facilities can be provided for processing exposed film.

Priorities for accomplishing the aerial survey, as expressed by the

⁷ *Supra*.

Chinese Government, are acceptable to the Department of the Army and are as follows: Sinkiang, Kansu, Ningsia, Suiyuan, and Chahar.

Sincerely yours,

KENNETH C. ROYALL

893.014/11-2147

The Acting Secretary of State to the Secretary of the Army (Royall)

WASHINGTON, December 11, 1947.

DEAR MR. SECRETARY: The receipt is acknowledged of your letter of November 21, 1947, containing your comments and recommendations in regard to proposals made by the Chinese Government for United States assistance in the aerial mapping of certain Chinese provinces.

In general, I am inclined to concur in your comments and recommendations. It is noted, however, that the Department of the Army finds acceptable the priorities advanced by the Chinese Government for accomplishing the proposed aerial survey, as follows: Sinkiang, Kansu, Ningsia, Suiyuan, and Chahar. Without entering at this time into a discussion as to the advisability from a political point of view to the air mapping of China's frontier provinces, especially Sinkiang, this Department has the impression that logistically such a program would be entirely impracticable with the limited funds and facilities available.

Before reaching a decision in regard to this program, I should like to obtain the benefit of the views of Secretary Symington.⁸ I am therefore forwarding to him for comment copies of (1) the Department of State's letter of October 22, 1947,⁹ (2) your letter in reply,¹⁰ and (3) present communication.

Sincerely yours,

ROBERT A. LOVETT

893.014/12-2647

The Secretary of the Air Force (Symington) to the Secretary of State

WASHINGTON, December 26, 1947

DEAR MR. SECRETARY: Reference is made to your letter of 11 December 1947 (CA 893.014/11-2147)⁹ concerning proposals made by the Chinese Government for the aerial mapping of certain Chinese Provinces.

Please be advised that the letter of 21 November from the Depart-

⁸ W. Stuart Symington, Secretary of the Air Force.

⁹ Not printed.

¹⁰ *Supra.*

ment of the Army had previously been coordinated with and does express the views of the Department of the Air Force.

Sincerely yours,

W. STUART SYMINGTON

893.014/12-3147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 31, 1947—noon.

[Received December 31—8:27 a. m.]

2471. Certain proposals of Chinese FonOff regarding Sino-American cooperative mapping agreement were forwarded to Dept by airgram A-199, October 6, 1947. It was requested that this matter be taken up with Army and CinCFE and Embassy be informed of decision as soon as practicable to end that early agreement with Chinese Govt may be reached. In order that Chinese FonOff may be kept advised of current status of this project, it is requested that Embassy be informed as to action taken by Army on Chinese proposals submitted.

STUART

[In instruction No. 95, May 24, 1948 (893.014/4-348), the Ambassador in China was informed that the Department of State had accepted the Department of the Army's recommendations contained in the letter of November 21, 1947, from the Secretary of the Army as providing a basis on which an agreement with the Chinese Government could be negotiated. However, aside from the program for mapping Formosa already in progress, the aerial mapping project was not effected, presumably due to the further deterioration in the political and military position of the National Government of the Republic of China.]

EXCHANGE OF NOTES TERMINATING THE SINO-AMERICAN SPECIAL TECHNICAL COOPERATIVE AGREEMENT OF APRIL 15, 1943

711.93/3-1147

The Ambassador in China (Stuart) to the Secretary of State

No. 552

NANKING, March 11, 1947.

[Received March 21.]

SIR: I have the honor to refer to the Department's instruction no. 100 of October 18, 1946,¹ with which was enclosed a copy of a draft exchange of notes between the United States of America and the Republic of China for the termination of the Sino-American Special Technical Cooperative Agreement of April 15, 1943.²

There are now enclosed copies of the Embassy's note of February 5, 1947 to the Ministry of Foreign Affairs concerning the termination of the Agreement, and the English and Chinese texts, dated February 10, 1947, of the reply thereto from the Ministry of Foreign Affairs.³ (It will be noted that in the Chinese text of the Foreign Office reply, the date is left blank, but the English text bears the February 10 date; consequently the latter is considered to be the effective date.)

It will be noted that paragraph 3 of the notes represents an addition to the draft exchange of notes forwarded by the Department. This

¹ Not printed.

² Agreement not printed; it was known as the SACO Agreement. Its purpose was set forth in article I as follows:

"For the purpose of attacking our common enemy along the Chinese coast, in occupied territories in China, and in other areas held by the Japanese, the Sino-American Special Technical Cooperative Organization is organized in China. Its aim is, by common effort employing American equipment and technical training and utilizing the Chinese war zones as bases, to attack effectively the Japanese Navy, the Japanese Merchant Marine, and the Japanese air forces in different territories of the Far East, and to attack the mines, factories, warehouses, depots, and other military establishments in areas under Japanese occupation."

The agreement was signed in Washington for China by T. V. Soong, Foreign Minister of the Republic of China; Tai Li, Deputy-Director of the Bureau of Investigation and Statistics of the National Commission of Military Affairs of the Government of the Republic of China; and Sinju Pu Hsiao, Assistant Military Attaché, Embassy of the Republic of China at Washington, and for the United States by Frank Knox, Secretary of the Navy of the United States of America; William J. Donovan, Director of the Office of Strategic Services of the United States of America; and Milton E. Miles, Chief of the United States Strategic Services in the Far East.

³ Latter not printed; it confirmed the understanding.

paragraph was inserted at the request of the Foreign Office, made in its note Mei-36/01871 of February 1, 1947, in order that the notes might accord with Article II of the Draft of Termination Agreement. Pertinent to this is enclosure no. 3, which is a copy of a memorandum ⁴ on the subject from Rear Admiral Murray ⁵ to the Minister-Counselor.

For purposes of record there are also enclosed two photostatic copies of a receipt, dated November 17, 1946,⁴ given by Lieutenant General Cheng Kai-min for materials as outlined in Sections I and II and the Appendix of Article II of the Draft of Termination Agreement.

Respectfully yours,

For the Ambassador :

W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

[Enclosure]

The American Minister-Counselor of Embassy in China (Butterworth) to the Chinese Minister for Foreign Affairs (Wang)

No. 688

NANKING, February 5, 1947.

EXCELLENCY: I have the honor to refer to our recent conversation during which it was mutually agreed that the Sino-American Special Technical Cooperative Agreement of April 15, 1943 has fulfilled the purpose for which it was drawn and should be terminated.

It is my understanding that during that conversation we reached agreement as follows:

1. The Sino-American Special Technical Cooperative Agreement shall be considered terminated to the mutual satisfaction of both Governments signatory thereof.

2. The Government of the United States of America having made provision to supply the Government of the Republic of China under the Special Technical Cooperative Agreement communication and other equipment for the installation and operation of a weather system and related communications system, the Government of the Republic of China shall as rapidly as practicable proceed with the installation of that equipment at the places previously agreed upon and shall establish and maintain a weather system and related communications system in accordance with previous agreement. The Government of the Republic of China shall make available to the Government of the United States of America the weather services thus provided for a period of five years. Prior to the expiration of

⁴Not printed.

⁵Rear Adm. S. S. Murray, Senior Member of the Naval Advisory Group Survey Board in China.

this period, negotiations may be initiated for the continuation of these services beyond this five-year period. The Government of the Republic of China shall not, without prior agreement with the Government of the United States of America, transfer title to, or possession of, the weather and communications system equipment received from the Government of the United States of America.

3. With reference to the question of materials listed in Appendix A of Article II of the Agreement, all materials not so listed and later required may be furnished to the Chinese Government by the United States Government on a sale basis, the method of transaction to be in accordance with the accepted method of inter-governmental transfer of materials in effect between the signatory governments.

4. The provisions of the Sino-American Special Technical Cooperative Agreement relating to a year's course of study in the United States for a selected group of forty trainees in reward for meritorious service during the war have been settled separately and to the mutual satisfaction of the two Governments signatory thereto.

It is my understanding further that we agreed that the points of agreement set forth above would become effective on the date on which a letter is received by me giving your confirmation that the agreement reached is as set forth above.

Accept [etc.]

W. WALTON BUTTERWORTH

REQUEST BY THE CHINESE GOVERNMENT FOR AN
AMERICAN ADVISER ON CIVIL AERONAUTICS

893.796/2-1447

The Ambassador in China (Stuart) to the Secretary of State

No. 488

NANKING, February 14, 1947.

[Received February 25.]

SIR: I have the honor to forward, in original and hectograph, the text of a memorandum dated January 15, 1947 from Major General John P. Lucas, Chief of the Army Advisory Group, Nanking, which briefly outlines the status of civil aviation in China and makes recommendations for its rehabilitation. This memorandum was prepared by Brigadier General John P. McConnell, the Director of the Air Division, Army Advisory Group, in response to an earlier request from General Marshall¹ for a frank and thoroughgoing survey with recommendations on this subject to be made available to Generalissimo Chiang.²

The memorandum was translated into the Chinese language at the Embassy, and on January 21, 1947 I handed a Chinese copy to the Generalissimo, who received it gratefully and promised that he himself would read it through.

On February 7 I met the Generalissimo again, and he informed me that he had read the memorandum carefully and with much interest and subsequently had despatched a copy to General Yu Ta Wei, Minister for Communications, for his perusal and for the attention of Colonel Ango Tai, Director of the Civil Aeronautics Administration. General Yu has been ill for the past fortnight so that no reactions from him have been forthcoming, but Colonel Tai has subsequently requested from General McConnell an English language copy of the memorandum which has been supplied him. At his request an English language copy was also given to T. V. Soong, President of the Executive Yuan.

In the Embassy's view this memorandum presents an accurate and wholly frank criticism of the conditions under which air travel has been

¹ General of the Army George C. Marshall, Special Representative of President Truman in China, December 1945-January 1947; he became Secretary of State, January 21, 1947.

² Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.

operating in China, and its suggestions seem entirely acceptable and constructive. There is no doubt that the numerous air tragedies to which Chinese civil aviation has suddenly fallen victim in recent weeks have thoroughly shaken the confidence which Chinese aviation authorities previously displayed both publicly and in negotiations on aviation matters. This confidence arose out of an underestimation of the difficulties surrounding successful operation of modern aircraft, and was reflected in the careless manner in which planes were being loaded and the conditions—meteorological and navigational—under which they were permitted to take off and to attempt to land. The coincidence of the recent accidents and the delivery of this memorandum to the highest officials of the Chinese Government is expected to result in a much more welcome reception for the recommendations contained therein than could otherwise have been expected, and it is hoped that some at first small-scale undertakings along the lines suggested will soon be apparent.

In view of the reference on pages 7 and 8³ of the memorandum to the application of Pan American Airways for an Export-Import Bank loan, it is suggested that a copy of this despatch and its enclosure be supplied the Bank.

Respectfully yours,

For the Ambassador :
W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

[Enclosure]

Memorandum by the Director of the Air Division of the Army Advisory Group (McConnell) to the Ambassador in China (Stuart)

[NANKING,] 15 January 1947.

Subject: Civil Aviation in China

Purpose:

1. This memorandum will attempt to outline briefly the status of civil aviation in China with particular attention to commercial airline operations and facilities, and to make recommendations for the rehabilitation of China's commercial aviation.

Discussion:

2. In discussing China's civil aviation system, it is borne in mind that we are attempting to apply the most modern mode of commerce to a land which, due to warfare and economic catastrophes, has been unable to accept it.

³ Section on "Sound and sufficient financial support," not printed.

3. Efforts have been made by the Government to promote the development of civil aviation in China, and some progress has been made. Rehabilitation of CNAC⁴ during the past two years and establishment of another commercial carrier in CATC⁵ has given the country a new start in commercial aviation.

4. During the past year commercial aviation in China has established a record of safe, efficient operation which is commendable, considering the operational difficulties encountered. Recently, however, China's commercial aviation suffered catastrophes which were not only of national consequence, but were felt in aviation circles throughout the world. The loss of these commercial aircraft, and the attendant loss of life, within a short period and under the existing circumstances points to more than a mere accident.

[Here follows detailed discussion of elements involved in successful operation of airlines in China.]

Conclusion:

9. In view of the foregoing, it is concluded that commercial aviation in China is not satisfactorily organized, is improperly operated, is not adequately supervised or regulated, is not soundly backed financially, is not equipped with the necessary facilities to provide for safe and efficient operations, is undesirably entangled with military aviation, does not receive support and cooperation of military aviation and is attempting a 1946 type of operation with 1926 type of facilities.

Remedies:

10. Commercial aviation in China can be brought up to satisfactory standards by the institution of certain remedies. Some of these remedies can be made applicable immediately, others within the reasonable near future, and still others within a period of time from three to five years.

a. Immediate remedies:

(1) The first remedial action which should be taken is the establishment of a strong, well-organized, efficient Civil Aeronautics Board. This Board should be composed of personnel who are familiar with the requirements, capabilities and limitations of commercial aviation. The Board should not be made a part of any existing ministry or department of the Government but should be responsible directly to the President of China. It should be directed, empowered, and backed with sufficient financial support to

(a) Designate airways throughout China, to include traffic control areas and a means of authority for clearance of aircraft.

⁴ China National Aviation Corporation.

⁵ Central Air Transport Corporation.

(b) Install, maintain and operate adequate visual and electronic aids to aerial navigation.

(c) Eliminate duplication of such existing aids as are now established.

(d) Designate alternate airdromes for emergency use and provide them with suitable equipment for this purpose.

(e) Establish limitations on personnel and equipment, to include physical and professional qualifications for crew members, maintenance standards for aircraft and accessory equipment, close supervision of passenger loads and weight balance of cargo.

(f) Establish airways regulations and procedures to include flight clearance off and on the airways, approach procedures, control zones and traffic patterns.

(g) Establish and enforce flight regulations to cover weather minimums, clearance authorities, minimum altitudes, instrument approach procedures, accessory aircraft equipment and pilot qualifications.

(h) Take over and operate all of the weather facilities within China as one central weather agency, and make the necessary arrangements for rehabilitation of weather equipment and the proper dissemination of current weather information.

(i) Establish, maintain and operate an adequate single system of airways communications and eliminate the present system of duplication, and in many cases triplication, where these facilities are operated under the supervision of CNAC, CATC, and the CAF.⁶

(j) Redesignate in conjunction with the CG, CAF, certain military airdromes as civil airdromes (however, this redesignation would not prohibit the military from using the airdromes whenever necessary).

(k) Divorce civil aviation from military aviation but require absolute coordination between the two, to include reciprocal use of facilities.

(l) Consolidate all existing airlines within China under one management and one operational control.

b. Remedies which can be taken within the reasonable near future:

(1) The construction of a satisfactory network of modern terminal airdromes and alternate landing fields, properly equipped and suitably situated.

(2) The rehabilitation of weather and communications facilities to eliminate duplication, to do away with obsolete equipment, and to install modern equipment and efficient operating technique and procedures.

c. Remedies which can be taken within the next three to five years:

(1) Replacement of all commercial obsolete aircraft operating on civil airways with new modern, properly equipped and more economical types of aircraft.

⁶ Chinese Air Force.

(2) Expansion of China's domestic airways system and establishment of an international system.

Recommendations:

11. It is recommended

a. That a Civil Aeronautics Board be established under the direct supervision of the President of China and separated from any existing ministry or other agency of the Chinese Government to discharge the function set forth in the foregoing. Among the personnel of the Civil Aeronautics Board there should be a small number of expert American advisors. It is my suggestion that the President of China request the President of the United States for the loan of an individual well-qualified in all aspects of the operation of both commercial and military aircraft. This individual should have the unqualified confidence of the Generalissimo and the directive to the Civil Aeronautics Board should include a provision to the effect that his advice would be accepted and placed into immediate effect.

b. That civil aviation and military aviation be divorced from one another but that close cooperation be assured in the use of common facilities.

c. That all existing commercial aviation be consolidated under one management, operating and controlling agency.

d. That a program be established for the construction of satisfactory terminal airdromes and necessary alternate airdromes, properly equipped and suitably situated.

e. That a program be established with sound financial backing for the rejuvenation of the visual and electronic aids to operation of aircraft.

f. That all weather agencies be consolidated under the Civil Aeronautics Board.

g. That all existing airways communications facilities be consolidated under the Civil Aeronautics Board.

h. That a program be established looking toward the retirement of the present obsolete aircraft as they become unserviceable and their replacement with modern and more economical aircraft.

i. That China expand its commercial aviation into international operations at the earliest possible moment.

J. P. McCONNELL
Brigadier General, USA

Approved:

John P. Lucas
Major General, USA
Chief, Army Advisory Group

893.796A/3-2547

The Ambassador in China (Stuart) to the Secretary of State

No. 580

NANKING, March 25, 1947.

[Received April 3.]

SIR: I have the honor to refer to my despatch no. 488, February 14, 1947 transmitting a memorandum on civil aviation in China prepared by the Military Advisory Group in Nanking.

The Minister of Communications visited me early in February to inform me that the contents of the memorandum are acceptable in principle to the Chinese Government. Minister Yu accordingly requested that the necessary machinery be set in motion to effect the appointment of an American adviser on Chinese civil aeronautics as recommended in the memorandum. This purely verbal acceptance has been confirmed by Generalissimo Chiang's aide-de-camp, General Peter Pee in a conversation with Minister-Counselor Butterworth.

I should like to state that I am strongly impressed with the vital role which civil aviation can and should play in contributing to the authority which the National Government may appropriately exercise over various parts of China and consequently in contributing to the political and economic stability of the country. A strong civil aviation network reaching to the most important centers throughout China—many of which are without other modern means of transportation to urban areas of eastern and central China—would inevitably strengthen frequency of contact and the interchange of ideas and personnel. This will in my opinion be of measurable assistance in maintaining and even increasing the respect of such outlying areas for the position of the Central Government and for the decisions and recommendations which it puts forth. In short I feel sure that a well-organized, efficient and modern civil aviation establishment in China will contribute to the country's unification and stability.

The memorandum prepared by the Army Advisory Group on civil aviation in China lucidly describes the inadequacies of civil aviation in this country today. The fleets of the civil airlines—CNAC and CATC—are now reduced to a total of 69 planes, and as practically all of these were procured from United States military surplus stocks and have not received adequate maintenance, many of them should shortly be retired. The difficulty which the local airlines face in obtaining essential spare parts, the lack of suitable airport facilities, insufficient communications, navigation and weather facilities, and the lack of adequate organization and administration point toward a worsening of the civil aviation situation. It seems that in such circumstances the southern areas under the jurisdiction of the Na-

tional Government will be increasingly separated physically and therefore psychologically from northern areas under its jurisdiction.

The January 15 memorandum is directed toward the development of a first-class civil aviation establishment in China. It is strictly a technical document in that its aim is the creation of a civil aviation system operated by and for Chinese. It is not directly concerned with the domestic political situation; in the sense mentioned above, however, the implementation of the recommendations of the memorandum, including the appointment by the United States Government of a civil aviation adviser to China, would be of major political significance of a broad nature.

Minister Yu worded his request to me for the appointment of an American adviser as suggested in the memorandum in such a way that I was not at all assured that he intended that the adviser should come to China with the understanding that the recommendations of the memorandum would be fully complied with by the Chinese Government. You will recall I am sure the frequent disputes and jealousies which have characterized the relations between the Ministry of Communications represented by General Yu Ta-wei and the Chinese Air Force represented by General Chou Chih-jou in connection with civil aviation policy in China. These jealousies and disputes came forcefully to my attention in the closing weeks of the negotiations on the Sino-American Bilateral Air Transport Agreement⁷ and they continue to hamper progress in the field of civil aviation generally.

The January 15 memorandum which I handed to the Generalissimo contains specific, frank and pointed reference to these difficulties as they confront the organization of a civil aviation program in China and recommends—in the same manner—that civil aviation and military aviation be divorced from one another with the Chinese civil aeronautics board to be responsible directly to the Executive Yuan. Furthermore, in view of the sizeable financial outlay essential to any program for the advancement of civil aviation in China and considering the Chinese awareness that an adviser officially designated by the United States Government might facilitate the advancement of funds from the United States Government, it seems necessary that the position and powers of the adviser be not only clearly defined but understood and accepted in advance by the Chinese Government. I am sure that General Yu would be pleased, for instance, to receive a Civil Aviation Adviser from the United States whose functioning authority and position were ill-defined, if at the same time he might come closer

⁷ Signed December 20, 1946; Department of State Treaties and Other International Acts Series No. 1609, or 61 Stat. (pt. 3) 2799.

to obtaining funds from the United States Government thus far not available to him.

With the above considerations in mind the Embassy of course considers such unwritten and informal approach to this important matter inadequate; without further written assurances from the Chinese Government regarding the terms under which the adviser would be appointed, it would not seem wise to proceed with his appointment and I do not recommend that this be done now.

According to his secretary, Shen Ch'ang-huan, the Generalissimo is inclined toward an American adviser fully responsible to the Chinese Government, though Dr. Shen did not indicate that the Generalissimo's mind was made up in this matter. The Embassy feels, on the other hand, that the adviser should be an employee of the United States Government with the initiative for his appointment and his recall remaining in the hands of the United States Government, and that he should be a man of military rank—probably a Major General. Having military rank the adviser would be able to elbow his way through the adverse complexities of civil-military aviation in China in his effort to establish a strong and independent civil aviation establishment.

A number of the executive officials in the Ministry of Communications, the newly formed Chinese Civil Aeronautics Administration, and the domestic airlines are officers or former officers of the Chinese military forces. In addition, in view of the lack of trained Chinese specialized and technical civilian personnel, the adviser would in all likelihood be forced, prior to the institution of an effective training program for civilians, to draw initially upon the Chinese Air Force for such personnel. These persons all would have respect for the position of a military as compared to a civilian adviser.

The Embassy therefore would advise that the senior American adviser envisaged in the January 15 memorandum be a Major General of the Army Air Force familiar with commercial air transport operations, well versed in the technical regulations of the United States Civil Aeronautics Administration, and conversant with the procedures and powers of the Civil Aeronautics Board. It is suggested as a preliminary basis of consideration that five American assistants to the senior adviser would be in order—one each for operations, communications, maintenance, weather, and examination and training of flight personnel. It is suggested that these assistants could be employed by the Chinese Government after they had been accepted by the senior American adviser.

It is of course important that the Chinese Government establish a civil aeronautics board charged with the responsibility for effectively implementing and giving legal sanction to the recommendations which the adviser may make to it. In my judgment, this board, constituted

and empowered as recommended in sections 10a and 11a of the memorandum of January 15, should be established by the Chinese Government prior to the arrival of the adviser in China. Otherwise, I fear that prolonged delays in its establishment or inadequate delegation of authority to it may lower the prestige of the adviser and limit his usefulness.

Although, for obvious reasons, it has not been emphasized in the enclosed draft letter to President Chiang,⁸ the Embassy contemplates that through the medium of the proposed Executive Office correlating the activities of all American officials in China, the adviser would be responsive to the wishes of the United States Government in policy matters.

It seems to me that the purposes and objectives which we seek in this case will be most expeditiously and satisfactorily met if I receive written assurances from the Generalissimo that the memorandum of January 15, 1947 and the contents of a letter along the lines of that tentatively outlined in the enclosure hereto—which I propose forwarding to him should you approve—are acceptable to him and to Chinese Government. With such a confirmation we would have a broad field of operations in which the senior adviser could operate as outlined in the memorandum and suggested in the letter. This approach might in the long run give the adviser broader scope in carrying out his work than the conclusion of a formal written agreement describing his powers and position would do.

I look forward to your comment on the course of action herein recommended and wish to express the hope that instructions will be forthcoming permitting the Embassy to take steps as suggested which will lead in the near future to the designation by the United States Government of a senior civil aviation adviser to China. Meanwhile, the United States Civil Aeronautics Administration may wish temporarily to discontinue its present endeavors to obtain suitable competent advisers to Lt. Colonel Tai of the Chinese Civil Aeronautics Administration.

Respectfully yours,

For the Ambassador:
W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

893.796A/3-2547: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 19, 1947—5 p. m.

748. Dept regrets delay giving authority send letter (Urdes 580 Mar 25). Assignment of civilian was being considered, but no funds

⁸ Not printed.

can be made available for salary. War being queried as to availability suitable military man.

MARSHALL

893.796A/8-2147 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 21, 1947—noon.

1046. Letter from Sec War to Sec State⁹ indicates well qualified Major General with Air Transport Command experience can be made available serve adviser on Civil Aeronautics to Chinese Govt (Deptel 748, June 19 and previous) but Dept must initiate special legislation to allow assignment. Since no action can be taken till Congress convenes (even so not thoroughly certain legislation will be passed), Dept suggests Emb may wish discuss with Gen Wedemeyer¹⁰ with view he make strong recommendation. Embs current opinions on subject now desired.

LOVETT

893.796A/9-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 4, 1947—noon.
[Received September 4—5:45 a. m.]

1858. Embassy's view regarding need for appointment American adviser to Chinese Government on civil aeronautics as expressed in secret despatch 580 of March 25, 1947, unchanged (ReDeptel 1046 of August 21, 1947).

Embassy did not contemplate need for special legislation prior to implementation of aviation advisory program. Should Department initiate action to obtain special legislation permitting assignment such an adviser, it is considered important, because of the public nature of congressional legislation, that Embassy first be afforded opportunity to advise Chinese Government of Department's intended action. This would permit Chinese to announce publicly, if they so chose, that they had requested adviser from U. S. Government.

It occurs to Embassy that procedure for instituting advisory program as originally outlined Embassy's despatch 580 may require revision. For instance, letter attached to that despatch would have to be

⁹ Not printed.

¹⁰ Lt. Gen. Albert C. Wedemeyer, Special Representative of President Truman on a fact-finding mission in China and Korea; for correspondence regarding the mission, see pp. 635 ff.

reconsidered and revised to meet situation at the time should proposed legislation be approved.

Accordance Department's suggestion, it was proposed to General Wedemeyer that he make strong recommendation that appointment of Major General USAAF possesses [*possessing?*] qualifications outlined despatch under reference as civil aeronautics adviser Chinese Government be authorized by Congress.

Sent Department, repeated Shanghai via courier, 763.¹¹

STUART

893.796A/12-1647

Memorandum by Mr. William McAfee, of the Division of Chinese Affairs

[WASHINGTON,] December 16, 1947.

There are attached the despatches and telegrams pertaining to the appointment of a civil aeronautics adviser to the Chinese Government.¹² The blue copy of the telegram which is in this file has been marked "not to be sent".

Mr. Butterworth, Director for Far Eastern Affairs, was in Nanking when the two attached despatches were prepared. He has indicated that the preparation of the letter to the Generalissimo should be a responsibility of the Department of State rather than of the Embassy. He concurred with the opinion that this letter should incorporate the provisions considered necessary for the effective functioning of the air adviser as set forth in the January 15 memorandum (Nanking's despatch 488¹³) and the draft letter¹⁴ to the Generalissimo originally prepared in the Embassy (Nanking's despatch 580¹⁵). He has requested that this file be returned to the Aviation Division which might in its discretion consult the CAB in the preparation of such a letter. This letter to the Generalissimo will form the basis of an agreement with the Chinese Government which will eventually be registered with the UN. For this reason it will be necessary to avoid the mention in it of classified documents or the inclusion of material which might reflect discredit on the Chinese Government.

When the letter has been prepared the Embassy will be requested to ascertain informally whether the proposals contained therein are acceptable to the Chinese Government. If they are acceptable the Department will request the necessary legislation.

¹¹ Marginal notation: "1. Will Wedemeyer recommend 2. If so, prepare legislation 3. Instruct Emb. to notify Chinese before bill is introduced."

¹² None attached to file copy.

¹³ February 14, p. 1007.

¹⁴ Draft not printed.

¹⁵ March 25, p. 1012.

NEGOTIATIONS BETWEEN THE UNITED STATES AND
CHINA RESPECTING JOINT EFFORT IN THE EXPLORA-
TION OF CHINA FOR MINERALS OF IMPORTANCE IN
THE ATOMIC ENERGY PROGRAMS OF THE TWO GOV-
ERNMENTS

893.6359/6-2747

The Secretary of State to the Ambassador in China (Stuart)

No. 419

WASHINGTON, September 10, 1947.

The Secretary of State refers to the Embassy's despatch No. 840 of June 27, 1947,¹ transmitting information on deposits of radioactive minerals in China and indicating a willingness on the part of certain Chinese officials to discuss United States surveys for such minerals with representatives of the United States Government. The Department and other agencies of the government are deeply interested in possibilities of this character and the Department appreciates the work of the Embassy and of the Consular Offices in China in this connection. The subject has been discussed in some detail by representatives of the Department, including Mr. Walton Butterworth,² and the Atomic Energy Commission.

It has been decided that the first step toward effective operations in China should be a series of interviews with Dr. Wong Wen-hao³ and Dr. Sa Pen-tung,⁴ and possibly other Chinese officials, by a competent geologist selected and briefed by the Atomic Energy Commission. An effort is now under way to select the right man. When he is chosen you will be notified promptly.

Obviously the mission would be of great importance and the Department knows that it can count on the Embassy's fullest cooperation.

There is enclosed for the information of the Embassy a copy of a letter from the Special Adviser on Enemy Property Affairs, Mr. E. A. Bayne, with respect to this same subject, which the Embassy does not appear to have received. This letter was acknowledged by a personal note⁵ from Mr. Penfield.⁶

¹ Not printed.

² Assigned to the Department, August 6; appointed Director of the Office of Far Eastern Affairs, September 15.

³ Chairman of the Chinese National Resources Commission.

⁴ Permanent member of the Chinese National Research Council.

⁵ Not found in Department files.

⁶ James K. Penfield, Deputy Director of the Office of Far Eastern Affairs.

[Enclosure]

The Special Adviser to the Chinese Executive Yuan on Enemy Property Affairs (Bayne) to the Deputy Director of the Office of Far Eastern Affairs (Penfield)

SHANGHAI, 9 January 1947.

DEAR JIM: Not long ago some enterprising foreign correspondent published the story that uranium deposits existed in Manchuria, and that these deposits had been exploited by the Japanese. The deposits lie within fifty kilometers north of Yingkow, are relatively easy to work and reasonably close to rail transportation. Production during the last year of the Japanese control was in the neighborhood of 1,000 tons.

At a dinner conversation with Drs. Wong Wen-hao and Y. C. Sun last night, the continued exploitation of the deposit was brought up. Dr. Sun, deputy director of the National Resources Commission and generally recognized top Chinese mining executive, remarked that the area was free of Communists now and could be worked. Dr. Wong immediately urged that it be fully exploited and ore shipped out of the area as soon as possible, if necessary taking the matter of priority up with the Generalissimo.⁷ Shipments would be small, Dr. Sun said, but the quality of ore relatively good. I remarked that the United States would probably be interested in the ore and the general assumption was that the ore would be transported to the United States. Greatest production would probably be about 2,000 tons per year.

Other deposits of this ore are known to exist in Kwangsi and Yunnan, but the survey shows only small amounts and not to be compared with this Manchurian deposit. If the Department desires additional information and any further action on this subject, I would be happy to handle it. These two gentlemen are very close friends.

Sincerely yours,

E. A. BAYNE

893.6359/9-2247

The Ambassador in China (Stuart) to the Secretary of State

No. 1015

NANKING, September 22, 1947.

[Received September 30.]

SIR: I have the honor to refer to the Department's top secret air mail instruction No. 419 of September 10, 1947, regarding the interest of the United States Government in Chinese deposits of radioactive

⁷ Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.

minerals, and containing comment on the Embassy's secret despatch No. 840 of June 27, 1947,⁹ subject: "Information on Deposits of Radioactive Minerals in China."

During the course of several conversations in July with Dr. Wong Wen-hao, Chairman of the National Resources Commission, an officer of the Embassy discussed with him the possibility of having the Chinese Government supply to the Embassy detailed information on deposits of radioactive minerals in China. Dr. Wong said that he would have to take up that suggestion with the Generalissimo and suggested that the Embassy send a letter to him, signed by Ambassador Stuart, formally requesting such information. A letter, drawn up as suggested by Dr. Wong, was sent to him by the Embassy on July 28.

There is now enclosed a copy of Dr. Wong's reply dated August 5, 1947,⁹ stating that he had obtained the Generalissimo's permission to supply to the Embassy, for reference to the United States Government, certain documents regarding deposits of uranium and other rare minerals in China. At the same time, Dr. Wong enclosed copies of five reports, three of which are unpublished documents and two published papers. Copies of these five reports are enclosed with this despatch.¹⁰ A list of the reports is attached to the enclosed copy of Dr. Wong's letter.

The most comprehensive and up-to-date report is the one entitled "Note on the Uranium and other Rare Metal Deposits in China," prepared in the spring of 1947 by Dr. C. Y. Hsieh (Hsieh Chia-yung), Director of the Mineral Exploration Bureau of the National Resources Commission.* Dr. Hsieh states that deposits of uranium and other rare metals have thus far been found in the following three regions of China: (1) the Liaotung Bay region including localities in Hopei and Liaoning Provinces; (2) the Yinshan region of east Suiyuan and north Shansi; and (3) the Nanling mountain area including localities in northeast Kwangsi and Kwangtung Provinces.

Dr. Hsieh gives information regarding the Haicheng deposits in the Liaotung Bay region, these deposits assertedly having been worked by the Japanese in the early part of 1944 and up to March 1945, during which period a total of 4.4472 tons of hand-picked concentrates were produced. The average content of the concentrate in the ore was one to 5,000, equivalent to 0.02 percent. The uranium (UO₂) content of the concentrate is said to average 8 percent.

⁹ Not printed.

¹⁰ None printed.

*According to the 1944 edition of the official *China Handbook*, Dr. Hsieh was born at Shanghai in 1900, and received his M. S. from the University of Wisconsin in 1920. From 1940 to 1941 he held the position of director of the mining survey department of the Geological Survey of China; since 1941 he has served as director of the Mining Exploration Bureau of the NRC. [Footnote in the original.]

Dr. Hsieh states that the Yinshan mountain region "is one of the richest store houses of rare metals deposits in China," the most important locality being Shamentien. Regarding the deposits in the Nanling mountain area, Dr. Hsieh states that a uranium deposit has been discovered at Huangchanping, about 60 kilometers northwest of Paipu, which is the center of the Fuhochung tin placer mining in northeast Kwangsi Province.

The remaining four articles appear to be of secondary importance, especially when compared with Dr. Hsieh's comprehensive and recently prepared treatise. Some of the geological information contained therein, however, may prove useful to the concerned agencies of the United States Government.

Regarding the statements made in the Department's instruction under reference, the Embassy notes with interest that a competent American geologist may soon be appointed to visit China for the purpose of conducting a series of interviews with Dr. Wong Wen-hao and Dr. Sa Pen-tung, and possibly other Chinese officials. The Embassy hesitates in making this information available to Drs. Wong and Sa, and will not do so until so instructed by the Department, possibly when the aforementioned geologist has been selected.

The Embassy appreciates receiving the copy of a letter dated January 9, 1947, addressed to Mr. Penfield by Mr. E. A. Bayne.¹¹ The Department's assumption that the Embassy did not receive a copy of this letter is correct.

In closing, the Embassy ventures to express the opinion that the material supplied by Dr. Wong should prove valuable for the purpose of properly assessing the extent and importance of the known deposits of radioactive minerals in China, and also the extent and type of geological and other research work thus far done in regard to such deposits.

Respectfully yours,

For the Ambassador:
WILLIAM T. TURNER
First Secretary of Embassy

893.6359/10-147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 1, 1947—10 a. m.

[Received October 1—1:37 a. m.]

2006. Dr. Wong Wen-hao, chairman of National Resources Commission, September 29 informed Embassy officer in strictest confidence that Chinese Government had recently been approached by Swiss Minister on behalf of unidentified Swiss interests with offer to coop-

¹¹ *Supra.*

erate with Chinese Government in surveying and developing Chinese deposits of uranium and allied minerals (reference Department's instruction 419, September 10 and Embassy's despatch 1015, September 22, both Top Secret). Wong said Swiss emphasized their interest altogether in peace-time uses of such minerals and that no question could possibly arise as to any ulterior motives such as might prompt powerful nation to make similar offer.

Wong stated he had referred offer to Generalissimo who instructed offer be accepted. Wong said he informed Swiss Minister accordingly.

When reminded of his previous discussions with Embassy officer, and fact he had supplied Embassy with detailed information re Chinese deposits of radio-active minerals, Wong said that time of essence. Embassy officer thereupon told him that United States Government had expressed great interest in regard these minerals and was planning to send qualified geologist soon to China to have further discussions with him and other Chinese Government officials. Asked then what relation there was between reported acceptance Swiss offer and United States interest, Wong made evasive comment, adding, however, that "matters could be arranged". He indicated that if United States Government were to act quickly there would be no question on Chinese side to give United States preference owing to Sino-U. S. mutuality of interests and American technical competence in this field.

Embassy believes Chinese Government holding off making definite arrangement with Swiss (assuming that Swiss actually made offer) pending receipt indications of more positive interest by United States Government. Embassy recommends that selection of competent American geologist and despatch to China be expedited.

STUART

893.6359/10-147 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 3, 1947—5 p. m.

1224. Re your telegram 2006, October 1, an eminent geologist, H. D. Keiser, has been selected to undertake mission under reference and will arrive Nanking week October 20. Plan at present is that he will be traveling as private citizen nominally employed by U. S. Geological Survey visiting his brother Brig. Gen. Lawrence Keiser.¹² His connection with AEC¹³ will not be revealed except to very few such Chinese and American officials as you and he may think neces-

¹² Member, U. S. Army Advisory Group in China.

¹³ Atomic Energy Commission.

sary. You should, however, inform General Lucas¹⁴ and General Keiser now purposes Keiser's visit.

Please inform Wong of Keiser's mission. Also request from him details in so far as possible reported Swiss offer and definite info about any action Chinese have taken or propose to take. In view our correspondence and discussions with him concerning consultation between US and Chinese geological experts, we had assumed that no arrangements would be made with other countries for exploitation or surveys of materials in question pending such discussions.

For your own info, Dept is not unmindful that Wong's latest declarations may represent an attempt to put pressure on this Govt and for that reason is not inclined to show haste in making an offer for any Chinese materials which may exist, especially in view fact that Chinese may expect compensation in terms of industrialization or other aid which may be entirely impractical in view present political, industrial and economic development in that country. Dept also making effort to find out from other sources what, if any, approaches may have been made by Swiss and will keep you informed. In meanwhile, we doubt if Swiss have done more than inquire generally about availability small quantities for research purposes.

Although Keiser will naturally report his impressions of Chinese attitude on matters discussed above, his mission is for purpose verifying Wong's statements as to occurrences of minerals and for formulating recommendations with respect to possible use and eventual organization of survey parties; his task is primarily one preliminary geological fact-finding.

LOVETT

893.6359/10-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 7, 1947—9 a. m.

[Received October 7—4 a. m.]

2033. Generals Lucas and Keiser informed October 6 purposes visit to China of H. D. Keiser, geologist. General Keiser stated, however, that he has made arrangements leave Nanking before his brother's arrival because his wife requires urgent medical attention in U. S. General Lucas suggested H. D. Keiser come here for announced purpose of visiting him as old friend of Keiser family. General Keiser added his father also expected here December.

Interviewing Wong, now in Shanghai, October 7.

STUART

¹⁴ Chief, U. S. Army Advisory Group in China (Maj. Gen. John P. Lucas).

893.6359/10-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 8, 1947—1 p. m.
[Received October 8—7:15 a. m.]

2042. Wong Wen-hao informed October 8 re Keiser's mission according Deptel 1224, October 3. He expressed much pleasure with receipt of news and said he would inform Generalissimo promptly, also notifying Sa Pen-tung and other Chinese experts in this field. Keiser's status and relation with General Keiser explained, Embassy officer stating former visiting General Lucas during temporary absence General Keiser (Embtel 2033, October 7).

Asked about the reported Swiss offer, Wong said it had been made by Swiss Minister not on behalf private Swiss interests as stated Embtel 2006, October 1, but on behalf Swiss Government. Pressed for details, Wong gave evasive replies stating Swiss proposed send "a few professors" to China to have discussions with Chinese officials concerned, including himself. He said he was unable to state when Swiss would arrive but said Keiser would be here long before them.

When told we had assumed no arrangements would be made with other countries for exploitation or surveys of materials in question pending discussions with Keiser, Wong continued being evasive, obviously enjoying what he seemingly considers good bargaining position. He stated however that should conversations with Keiser prove successful there would be not [*no*] question on Chinese side which country they would decide to collaborate with.

Embassy concurs views expressed paragraph 3 ref Deptel.

STUART

893.6359/10-2447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 24, 1947—8 p. m.
[Received 10:52 p. m.]

2137. Keiser called at Embassy on arrival Nanking October 23 and had first conversation October 24 with Dr. C. Y. Hsieh, Director Mining Exploration Bureau National Resources Commission. (Re Deptel 1281, October 17¹⁵). Keiser was accompanied by Boehringer¹⁶ who will participate in all future conversations.

Wong away on 2 weeks' trip Formosa. Conversations will be con-

¹⁵ Not printed.

¹⁶ Carl H. Boehringer, First Secretary of Embassy in China.

tinued meanwhile with Hsieh and possibly with such other officials as he may suggest.

Please inform AEC of above and Mrs. Keiser of safe arrival.

STUART

893.6359/11-1047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 10, 1947—3 p. m.

[Received November 10—2:28 p. m.]

2222. From Keiser for Gullion¹⁷ for transmittal to Wells AEC.

“Please inform Wilson¹⁸ phase 1 of mission accomplished, have information relative known deposits and Chinese recommendations favorable areas for exploration. Phase 2 discussions nearing conclusion on basis joint exploration by U. S. and Chinese geologists under joint directors of exploration; this basis only one practicable that would assure results desired by U. S. General Keiser left Nanking by air November 7, will proceed from San Francisco to Washington following operation Mrs. Keiser and will telephone AEC. Suggest arrangements be made for him meet Nolan as army would provide air and motor transport, tentage and food for field parties; suggest also Nolan be informed now minimum 2 maximum 4 geologists be available depart for China by February 1. No ore deposits have been visited. Appreciate message relative Mrs. Keiser and my son. Regards.”

For Butterworth. Embassy convinced that joint exploration and joint conduct of entire exploration program is the only procedure acceptable to Chinese Govt that would yield results desired by U. S. Govt.

STUART

893.6359/11-2047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 20, 1947—1 p. m.

[Received November 20—5:42 a. m.]

2265. To Gullion from Keiser for Wells AEC for transmittal to Wilson.

Reference Embassy's telegram 2230, November 12, 4 p. m.:¹⁹ Dr. Wong November 19 personally approved draft agreement on which he requests commission's views prior submitting draft to Generalissimo for latter's approval. Following is full text draft agreement:

“1. The Chinese Government, through the chairman of the National Resources Commission as its designated representative, has discussed

¹⁷ Edmund A. Gullion, Special Assistant to the Under Secretary of State.

¹⁸ Carroll L. Wilson, General Manager, Atomic Energy Commission.

¹⁹ Not printed.

with a representative of the United States Atomic Energy Commission of the United States Government joint effort in the exploration of China for uranium, thorium, and other minerals of importance in the atomic energy programs of the two Governments.

"2. On the basis of the aforesaid discussions, the Chinese Government with the desire further to foster Sino-American cooperation for mutual benefit, hereby proposes that joint exploration of China for the said minerals be undertaken promptly.

"3. In the development of arrangements for said exploration, the Chinese Government will establish a special survey party. The party will work under the direction of the National Resources Commission in cooperation with other appropriate Chinese Government organizations, such as the National Geological Survey. The director of the party will be appointed by the National Resources Commission. One or two Chinese experts who will take part in the work of the party will be sent by the Chinese Government to the United States to confer with officials of the United States Atomic Energy Commission for the purpose of planning the joint exploration in China.

"4. To effect the said joint exploration, the United States Government will designate a small number of American geologists or other experts under the guidance of a leader to collaborate with the special survey party; he will be considered member of the party. It is understood that there will be approximately an equal number of Chinese and American members in the party. Complete arrangements for the exploration will be developed by the director of the party in consultation with the leader of the American members.

"5. The Chinese Government agrees to assume the complete expenses of the Chinese members of the party, including salaries, transportation, housing and subsistence. All other expenses of the field exploration, it is understood, will be assumed by the United States Government.

"6. The United States Government agrees to furnish to the Chinese Government complete reports of the field explorations made, including analyses of samples and estimates of reserves. It will also furnish on a loan basis for the period of the joint exploration portable field counters for the use of the Chinese members of the party. Instruction manuals and literature pertaining to the construction and application of said field counters will be provided by the United States Government and also detailed information as to methods, materials and equipment required for accurate chemical, mineralogical, and radiometric determinations of the uranium, thorium and other valuable metal content of the samples collected during the field exploration. The American leader will demonstrate to the Chinese members the application of the field counters. The United States Government also agrees to assist the Chinese Government in arranging for the export to China of any materials and equipment that the Chinese Government may desire to purchase or obtain by other means in the United States for establishment of laboratory facilities in China to implement the exploration proposed.

"7. The Chinese Government agrees to furnish to the United States Government complete information relative to the known occurrences of uranium and thorium in China and also complete reports of the field explorations made including analyses of samples and estimates

of reserves. The Chinese Government will permit the export to the United States of adequate samples for laboratory analyses and also of other adequate samples for metallurgical tests if in the opinion of the director of the party in consultation with the American leader such tests are advisable.

"8. It is agreed that the cooperative work outlined above will have a term of 2 years counted from the day of arrival of American members of the party in China, after which further cooperation, if deemed desirable, will be thoroughly considered.

"9. The Chinese Government expresses the wish to have American assistance in the establishment of an adequately equipped research laboratory on atomic energy in China for the benefit of scientific research and peaceful utilization of such energy. In this connection the United States Government agrees to accept a few Chinese physicists on a non-expense basis to participate in atomic research in the United States laboratories to be designated by the United States Atomic Energy Commission. The Chinese physicists will be selected by the National Resources Commission in consultation with the Academia Sinica. It is expected that in due course the United States Government will give consideration to assisting the Chinese Government in the establishment of a research laboratory on atomic energy in China.

"10. The Chinese Government further agrees that during the term of the field exploration referred to above it will have no intention of entering into technical cooperation with any other foreign country for the purpose of exploring in China for uranium, thorium and other minerals of importance in the atomic energy programs of the two Governments." End draft.

Above draft represents best terms obtainable from Wong. Believe fulfillment of provisions possible with minimum disclosure classified information. Phase 2 of mission would now appear accomplished and plans will be made to depart Nanking about week hence unless instructions received to contrary. End Keiser message.

Embassy comment. Expeditious action by AEC on foregoing draft urgently recommended. Wong since return from Taiwan has given negotiations highest priority and is anxious have AEC comments so he can present draft to Generalissimo soonest. With AEC approval of draft, Wong expressed opinion Generalissimo would also approve. Under circumstances and providing AEC takes expeditious action, Embassy believes highly desirable Keiser remain Nanking until draft approved by AEC and Generalissimo.

It occurs to Embassy that Department and AEC will wish to give consideration to whether formal agreement on this question will have to be registered with UN. In such case would Department and AEC consider carrying on work on basis verbal understanding inasmuch as Chinese appear willing to cooperate fully? Department's instructions requested immediately.

893.6359/11-2247 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 22, 1947—5 p. m.

1421. Revised draft submitted your telegram 2265²⁰ now under consideration. Department and AEC much appreciate work done by Embassy and Keiser in this matter.

AEC believes that consideration of draft and any further steps in implementation of it would be facilitated by Keiser's presence here and his direct return travel is therefore authorized as soon as practicable without waiting for the Generalissimo's reaction.

LOVETT

893.6359/12-1747

The Ambassador in China (Stuart) to the Secretary of State

No. 1155

NANKING, December 17, 1947.

[Received December 31.]

The Ambassador has the honor to refer to the visit during the period October 23 to November 28, 1947, of Mr. Hubert D. Keiser, representative of the United States Atomic Energy Commission, who conducted with Dr. Wong Wen-hao, Chairman of the National Resources Commission, and with other Chinese officials, discussions in regard to the known Chinese deposits of uranium and thorium and also in regard to the basis on which American field exploration parties might enter China for the purpose of visiting those deposits and exploring other areas where additional deposits might be discovered.

Upon his departure from Nanking, Mr. Keiser expressed the view to an Embassy officer that he felt reasonably certain that he had obtained from Dr. Wong and his associates all of the worth-while information available to the Chinese Government regarding the known deposits of radioactive minerals. Regarding the second phase of Mr. Keiser's mission, reference is made to the Embassy's top secret telegram No. 2265, November 20, 1 p. m., containing the full text of a draft agreement, approved by Dr. Wong, which provides for Sino-American collaboration in the field of atomic energy, with special reference to the sending to China of American geologists for field surveys.

In commenting on the work here of Mr. Keiser, the Embassy wishes to take this opportunity to state that he accomplished his mission in an exceptionally competent manner. He gained the confidence and won the esteem of all Chinese officials with whom he had conversations. They, in turn, have expressed their desire to have Mr. Keiser

²⁰ *Supra.*

return to China after the draft agreement is approved by the Atomic Energy Commission. In his final talk with Dr. Wong on November 27, Mr. Keiser was asked whether he could be present when the draft approved by the Atomic Energy Commission is presented by Dr. Wong to the Generalissimo. Mr. Keiser assertedly gave Dr. Wong no assurance that he would be authorized by the Commission to return for that occasion but stated that if Dr. Wong were insistent in the matter, he should make his wishes known orally to the Ambassador for possible reference to the Commission and the Department.

The Embassy urgently recommends that Mr. Keiser return to China, if not in response to Dr. Wong's above stated suggestion, then definitely as leader of the proposed American working party which would cooperate with the Chinese geologists in making detailed field explorations. The Embassy believes that Mr. Keiser is exceptionally well qualified, by reason of his technical competence and ability to work with the concerned Chinese officials in a friendly and diplomatic manner, to serve as the leader of the American party and to supervise the implementation in China of the proposed agreement in so far as the United States is concerned. The Ambassador personally stated to Mr. Keiser, at the time of his departure, that the Embassy was prepared to make the foregoing recommendation to the Department.

The Embassy has received from Dr. C. Y. Hsieh, Director of the Mineral Exploration Bureau of the National Resources Commission, a copy of Dr. Hsieh's report entitled "The Occurrence of Monazite Deposits in China", dated December 1947, a copy of which is enclosed.²¹ Dr. Hsieh stated that this report was compiled mainly for the purpose of summarizing the known information regarding monazite sand deposits, and that it contains little or no new information on the subject. Under separate cover there is transmitted a box containing about 20 kilograms of monazite sand from northeast Kwangsi Province, received from Dr. Hsieh for transmittal to Mr. Keiser.

²¹ Not printed.

FINANCIAL RELATIONS BETWEEN THE UNITED STATES AND CHINA:¹ CHINESE REQUESTS FOR FINANCIAL ASSISTANCE; REPRESENTATIONS REGARDING FIXING OF AN EQUITABLE RATE OF EXCHANGE FOR EXPENDITURES BY AMERICAN ARMED FORCES AND DIPLOMATIC ESTABLISHMENT IN CHINA; INTEREST OF THE UNITED STATES IN CHINESE MEASURES TO PROTECT ITS ECONOMY FROM A VIOLENTLY INFLATIONARY SITUATION

893.515/1-347 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 3, 1947—7 p. m.

13. From State and Treasury for Ambassador and Adler.² Navy states its supply of no-rate yuan³ exhausted. If obliged to procure yuan at official rates, will be forced to curtail drastically its program in China. Appropriations inadequate to finance existing program at official rate, and believed impracticable to seek deficiency appropriation. War position similar. Navy and War propose that Chinese Govt be advised informally of foregoing facts, either by Emb or by War and Navy representatives, and notified that unless arrangements can be completed by Jan 16 for procuring yuan through official channels at rate approx open market rate for US dollar currency, or unless Chinese Govt signifies preference for curtailment of War and Navy programs, War and Navy will on Jan 16 begin sale of US dollar currency at best obtainable market rate to meet yuan requirements. This would be considered an interim emergency measure, pending working out of permanent arrangements such as special exchange rate through Central Bank or Chinese Govt for US Army and Navy purchases of yuan with US currency or US dollar credits to Chinese account in US, such rate to approximate open market rate for US currency on date of purchase, or rate based on Central Bank selling price to public for gold.

Any other arrangements Chinese Govt may propose which will permit carrying out of War and Navy programs in China at reasonable US dollar cost will be sympathetically considered.

State and Treasury request your comments urgently. [State and Treasury.]

BYRNES

¹ Continued from *Foreign Relations*, 1946, vol. x, pp. 911-1032.

² Solomon Adler, Treasury representative in China.

³ Chinese national currency advanced by China at no fixed rate of exchange for the use of U. S. military forces in that country.

893.515/1-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 7, 1947—11 a. m.

[Received January 7—2:30 a. m.]

32. It is agreed by Embassy that it is desirable that Chinese Government be advised informally that appropriations are inadequate to finance existing Army and Navy programs at official rate and that deficiency appropriations impracticable. Embassy is opposed to injecting question of curtailment of War and Navy programs into such a discussion. From incomplete information available here it would appear that appropriations involved amount to \$1½ million a quarter. It would therefore be most unwise to allow major policy considerations to be affected by any such sum of money. General Marshall ⁴ has expressed his concurrence with above. (Reference your telegram No. 13 of January 3.)

Further it would not be advisable to advise Chinese Government informally that unless arrangements can be completed by January 16 for War and Navy to procure yuan through official channels at rate approximating open market rate, War and Navy will begin sale of U. S. currency at open market rate as interim measure, as this would probably result in Chinese Government's adopting a measure it has been contemplating for some time, viz., the imposition of complete ban on open market for U. S. currency, and thus do harm and no good.

It is proposed as an alternative that Embassy, possibly in conjunction with Army and Navy, put immediate pressure on Chinese Government either to grant special exchange rate for War and Navy purchases of CN ⁵ dollars approximating open market rate as of date of purchase or based on selling price of gold, or to sell gold for our account. Many questions arising from discrepancy between official and open market rates continually being brought up by Embassy with Chinese Government. Embassy therefore believes that it will be most difficult for Chinese Government to resist such pressure for long, especially as United States Government can defer for instance making available the \$30 million cash to be earmarked for shipping and other expenses under surplus property agreement of August 30 ⁶ to the Chinese Government. (Embassy in any case wishes to be consulted before favor-

⁴ General of the Army George C. Marshall, special representative of President Truman in China, December 1945–January 1947; he became Secretary of State, January 21, 1947.

⁵ Chinese national currency.

⁶ Signed at Shanghai, August 30, 1946; Department of State, *Report to Congress on Foreign Surplus Disposal*, October 1946, p. 40. For correspondence preceding the signing of this agreement, see *Foreign Relations*, 1946, vol. x, pp. 1033 ff. For correspondence on surplus property matters in 1947, see *post*, pp. 1242 ff.

able action on this \$30 million is taken.) Furthermore, Chinese wish to receive favorable consideration on relief allocation for 1947 and on pending Export-Import Bank specific loan projects. Adler, who is in full accord with above, requests copy be passed to Treasury.

STUART

893.515/1-747 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 15, 1947—7 p. m.

65. From State and Treasury for Ambassador and Adler. Recommend immediate official request to Chinese for special rate for War and Navy purchases of CN dollars approximating open market rate for US dollar currency on date of purchase or based on selling price of gold (Embtel 32, Jan 7). Suggest stressing inadequacy of available appropriations to finance existing programs at official rate, and difficulty of explaining to Congress request for deficiency appropriations to cover abnormal costs due to overvaluation of yuan. Recommend Emb continue to press for special rate arrangements even in event official rate is adjusted (Embtel 48, Jan 10⁷) since War and Navy have agreed to postpone sale of dollars in open market only on basis of assurance from Dept that Emb would press for permanent arrangements insuring availability of yuan to US Army and Navy at reasonable cost at all times.

Re last paragraph Embtel 32, Jan 7, Emb should not discuss Eximbank⁸ loan or post-UNRRA⁹ grant¹⁰ in connection these negotiations. Status these matters does not permit encouraging Chinese expectations. Refer Deptel 54 Jan 14,¹¹ re status \$30 million transfer under Aug 30 surplus property agreement. [State and Treasury.]

BYRNES

102.1/1-2247 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, January 22, 1947—11 a. m.

[Received January 22—4:45 a. m.]

174. From Adler to Secretary of Treasury.¹² Consul General Davis, Casaday¹³ and I saw Pei¹⁴ on Jan 15 (reurtel unnumbered of Jan.

⁷ Not printed; it indicated an adjustment in the official exchange rate was being considered (102.1/1-1047).

⁸ Export-Import Bank of Washington.

⁹ United Nations Relief and Rehabilitation Administration.

¹⁰ For correspondence on post-UNRRA grants to China, see pp. 1293 ff.

¹¹ Not printed.

¹² John W. Snyder.

¹³ Lauren W. Casaday, Assistant Treasury Representative in China.

¹⁴ Pei Tsu-yee, Governor of the Central Bank of China.

15,¹⁵) on a number of problems connected with exchange. I again raised problem of equitable arrangement for Army and Navy expenditures. Pei proposed to make temporary advances to Army and Navy for unspecified but limited period, implication being that settlement for such advances would be made immediately after adjustment had been made on the official rate at the new official rate. Though I had not yet received your unnumbered telegram of Jan. 15 I indicated his proposal was not feasible. Saw T. V. Soong¹⁶ Jan. 17 and he promised me an answer over the weekend. Returned to Nanking Jan. 18 to confer with Embassy, coming back to Shanghai Jan. 20.

Consul General Davis and I saw Soong and Pei again this morning (see Shanghai serial to Embassy 115 of Jan. 21¹⁷). They agreed in principle to a special arrangement for Army and Navy expenditures, Soong insisting that matter be kept secret. Soong designated Pei to negotiate details. Casaday and I are seeing Pei Jan. 23.

Sent Dept 174; repeated Nanking 120. [Adler.]

DAVIS

893.51/1-2347

The Ambassador in China (Stuart) to the Secretary of State

No. 443

NANKING, January 23, 1947.

[Received February 5.]

SIR: I have the honor to refer to the Department's telegram no. 1098, November 29, 3 p. m. (1946),¹⁸ giving the reactions of the Export-Import Bank of Washington to a Chinese approach for a new line of credit to finance rehabilitation of the Canton-Kowloon-Hankow Railroad and for certain Yellow River bridge projects, discussed in detail in the enclosures to the memorandum of November 26, 1946,¹⁹ addressed to General Marshall by Colonel M. S. Carter, General Marshall's representative in the Department. These enclosures include a copy of a letter dated October 29, 1946, sent to the Chairman of the Eximbank²⁰ by Mr. Clayton, Under Secretary for Economic Affairs; a copy of a letter dated November 9 [8], 1946, addressed to Mr. Clayton by the Acting Chairman of the Eximbank;²¹ and a copy of an inter-office memorandum from Mr. Vincent²² dated November 25, 1946.

¹⁵ Telegram No. 65, *supra*.

¹⁶ President of the Chinese Executive Yuan.

¹⁷ Not found in Department files.

¹⁸ *Foreign Relations*, 1946, vol. x, p. 1026.

¹⁹ Memorandum and enclosures not printed.

²⁰ William McChesney Martin, Jr.

²¹ Herbert E. Gaston.

²² John Carter Vincent, Director of the Office of Far Eastern Affairs (FE).

In connection with the Chinese approach for a line of credit to finance the rehabilitation of the Canton-Hankow Railroad there is now enclosed a copy of a memorandum on that subject dated January 4, 1947, addressed to General Marshall by the Embassy. This memorandum contains an appraisal of the financial, economic, and general policy considerations involved in the granting of a loan for this purpose.

There is also enclosed a copy of a letter dated October 21, 1946,²³ addressed to the Ambassador by Dr. T. V. Soong, President of the Executive Yuan, conveying the request of the Chinese Government for a new cotton loan. The Embassy's comments on this Chinese request are contained in the enclosed copy of a memorandum of December 31, 1946.

The relative merits of the Chinese requests for the railroad and cotton loans are discussed in the enclosed copy of a memorandum of January 6, 1947, prepared by the Embassy on that subject.

No comments were made by the Embassy in regard to the Chinese approach for a line of credit to finance reconstruction of certain Yellow River bridges, owing to the continued threat of hostilities in the area where the bridges would be built and their possible early destruction by Chinese Communist and/or Chinese National Government forces.

The Embassy has no additional comments to make at this time in regard to the Chinese requests for the railroad and cotton loans, since the means of implementation of our policy in China will be discussed by General Marshall on his arrival in Washington.

Respectfully yours,

For the Ambassador :
W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

[Enclosure 1]

*Memorandum by the Minister-Counselor of Embassy in China
(Butterworth) to General George C. Marshall*

[NANKING,] January 4, 1947.

The Export-Import Bank's response in its letter of November 8²⁴ to the State Department to the proposal for a loan vital to the rehabilitation of an area in which there is little or no likelihood of disruption of communications by hostilities raises the whole question of our future policy, political as well as economic, towards China.

²³ *Foreign Relations*, 1946, vol. x, p. 1014.

²⁴ Not printed.

I. Financial and Economic Considerations.

1. From a financial point of view China's long-term balance of payments position is so unfavorable as to raise serious and justifiable doubts as to her ability to meet any long-term commitments she incurs except most intermittently and partially. If the Export-Import Bank were to place a pedantically strict construction on the policy quoted in its letter of November 8 to the Department to the effect that "the loans of the Bank should, in the judgment of the Board of Directors, offer reasonable assurance of repayment", there would be little chance that long-term rehabilitation loans to China would satisfy this criterion. But the fact that the Bank authorized a credit for railway and bridge repair materials and equipment to China last February, not to mention a number of substantial credits to other countries which would not meet this criterion, if rigorously interpreted, provides clear indication that the Bank need not act in this wise.

It should be noted with reference to paragraph 1, page 2, of the Export-Import Bank's letter ²⁵ that China submitted a detailed statement of its foreign exchange assets and a forecast of its balance of payments to the Embassy on December 20 in connection with the question of relief allocations in 1947.*

2. Economically the case for loans for restoration of communications is stronger than for most other loans. The rehabilitation of the Canton-Hankow Railroad is a long-term project not connected with current hostilities. Presumably such hostilities will cease some day, and the economic recovery from years of war and civil war would be greatly facilitated if a start had already been made in the restoration of previously existing communication facilities. China cannot be expected to make rapid progress in its recuperation even after the final termination of internal hostilities, if it has to begin from scratch. In fact, it would have to begin from worse than scratch if no rehabilitation projects are initiated in the near future, as there will be all the destruction of the civil war to make good.

The present state of communications is one of the major obstacles to internal economic recovery, and the restoration of the Canton-Hankow Railroad would undoubtedly make a significant contribution to the economic rehabilitation of South China. In the past this area made considerable exports of wood oil, tungsten, antimony, tin and agricul-

²⁵ This paragraph indicated that it "was the practice of the Export-Import Bank to require from prospective borrowing governments a statement of their foreign exchange assets and obligations, and a forecast of their balance-of-payments position" and that China had not supplied such a statement (Marshall Mission Files, Lot 54-D270).

*See Embassy's telegrams to Department Nos. 2148, December 21, 12 noon, and 2149, December 21, 1 p. m., both 1946. [Footnote in the original; neither telegram printed.]

tural products. The restoration of the railroad alone would of course not suffice by itself to bring about the revival of these exports. In present conditions, and probably even with the railroad in efficient operation, many potential exports could not compete on the world market without subsidies or their equivalent. In any case, the prospects for substantially increasing China's exports and for improving her exchange position without drastic action in the fiscal sphere cannot be considered bright.

3. The case for the Canton-Hankow Railroad is strengthened by the following considerations:

a) It runs through an area in which there are no hostilities at present.

b) Its rehabilitation is a long-term project which will make little if any contribution to the National Government in its conduct of current military operations, and adequate provisions could be made in a loan agreement to prevent abuses of the loan such as diversion of railroad equipment to railroads running through disturbed areas.

c) As American air bombing, particularly in 1944, wrought great havoc to the Canton-Hankow Railroad, it would be fitting if the first specific railroad rehabilitation project should be carried out on this line with the aid of American funds.

None of the above considerations, except (c), apply to the Yellow River bridge project. It would appear to be expedient, therefore, if you decide to recommend the Canton-Hankow Railroad loan, to allow the question of Yellow River bridge project to be shelved for the time being.

II. *General Policy Considerations.*

Since any long-term U. S. Government loan to China would appear to be excluded on strictly financial and economic considerations, the question arises as to whether we should discriminate between limited loans for specific long-term projects, which would undoubtedly contribute to the improvement of China's internal and external position, and loans which would serve primarily to relieve the immediate pressure on her foreign exchange resources. The case for the latter would appear to be more questionable than the case for the former. As for the former,

a) The decision to make no such loans would have major political implications and consequences and would not appear to be in line with the President's statement of December 15 [18], 1946.²⁸ The Embassy sees no reason for recommending any such drastic reversal in the President's statement of policy as would be involved in a decision to make no loans of any kind to China.

²⁸ Department of State, *United States Relations With China* (Washington, Government Printing Office, 1949), p. 689.

b) The decision to preserve an open mind on limited loans for specific projects and to make such loans from time to time would both give us greater freedom of maneuver in our China policy and be consistent with the President's statement.

c) It would not impose long-term political commitments on us and would leave policy open for revision if and when desirable. Moreover, timing of such assistance could be of some value in implementing general policy.

d) As the proposed loan for the rehabilitation of the Canton-Hankow Railroad would appear to belong to the category of limited loans for specific projects, therefore the main question to be decided is whether now is the right time for this loan.

[Enclosure 2]

Memorandum by the Minister-Counselor of Embassy in China (Butterworth) to General George C. Marshall

[NANKING,] December 31, 1946.

I. With reference to your memorandum to me of November 5, 1946,²⁷ regarding Dr. Soong's letter of October 21, 1946, to the Ambassador,²⁸ the Embassy has received the following estimates and information:

1. <i>Chinese Cotton Supply—August 1, 1946 to December 31, 1947</i>			
a. Cotton carryover on August 1, 1946 (Including cotton on order but undelivered)	750,000	bales	
b. Anticipated UNRRA arrivals	200,000	"	
c. Expected receipts from 1946 domestic crop	550,000	"	
d. " " " 1947 " "	550,000	"	
	<hr/>		
Total supply 1946-47	2,050,000	"	
2. <i>Chinese Mill Consumption Requirements 1946-47</i>			
a. August 1, 1946 to December 31, 1946	500,000	bales	
	<hr/>		
b. January 1, 1947 to December 31, 1947	1,537,000	"	
	<hr/>		
Total August 1, 1946 to December 31, 1947	2,037,000	"	

The above figures are based on the *assumptions* of:

a. An estimated equivalent of full-time operation (20 hours per day, 6 days per week) of 2.4 million spindles in the last five months of 1946 and of 3,075,000 spindles in the calendar year 1947; this estimate is lower than Dr. Soong's, even though it allows for the arrival of new machinery.

b. An estimated consumption of 250 pounds, or ½ a bale, of cotton per spindle *per month*. Dr. Soong's estimate of cotton consumption per spindle *per month* is 312 pounds, which in the opinion of our Com-

²⁷ *Foreign Relations*, 1946, vol. x, p. 1019.

²⁸ *Ibid.*, p. 1014.

mercial and Agricultural Attachés²⁹ is much too high, given the current and expected levels of efficiency of operation.

3. *Carryover on January 1, 1948*

It will be noted that estimated mill consumption requirements for the period from August 1, 1946 to December 31, 1947 are approximately equal to the estimated cotton supply for the same period. However, the industry needs a carryover equivalent to 3 or 4 months' supply for its normal operations. Moreover, the expected receipts from the 1947 domestic cotton crop, which certainly should not be lower than those from the 1946 crop, will only begin to become available from October 1947 on. Even so, according to our estimates, there will be approximately 350,000 bales available at the end of the third quarter of 1947 apart from the domestic cotton crop. Our Commercial and Agricultural Attachés nevertheless estimate a safe carryover for January 1, 1948 to be a little over 500,000 bales, or the equivalent of mill requirements for 4 months.

4. *It follows that Chinese import requirements for the period ending December 31, 1947 total 500,000 bales, which should have a landed cost of between US\$80 and US\$85 million.* This estimate is about half Dr. Soong's, even though Dr. Soong's estimate refers to requirements for the period ending July 31, 1947.

II. *Policy Considerations*

1. From a *financial* point of view China's long-term foreign exchange and balance of payments position is so unfavorable as to raise serious and justifiable doubts as to her ability to meet commitments beyond 1947 except most intermittently and partially. According to estimates submitted by Dr. Soong to the Embassy on December 20, Chinese official foreign exchange resources will probably be exhausted by the end of 1947; at the same time it must be remembered that there are still very substantial foreign exchange assets in the hands of Chinese private citizens and corporations but in view of the inadequacy of Government controls and of the disturbed internal situation it is doubtful to what extent the Chinese Government can succeed in mobilizing them.

2. *Economically* the case for a loan to facilitate the maintenance of China's major industry, an industry moreover which is functioning relatively well, would appear to be stronger than for any other loan for which application has recently been made. While domestic cotton needs are still acute, in spite of the unrealistic exchange rate and high labor costs, China could export some of her cotton production to Southeast Asia because of the sustained heavy demand in former

²⁹ A. Bland Calder and Owen L. Dawson, respectively.

Japanese markets. In fact, it would be advisable to suggest to the Chinese that they should allocate part of their cotton production to sales abroad and use the proceeds to contribute to servicing and repaying such loan as we may see fit to make. At the same time, it is most unlikely that such proceeds would suffice to repay either a 5-year or a 2-year loan.

3. *Politically* the issue of a substantial cotton loan raises the whole question of our future policy, political as well as economically, towards China. It is not easy to justify such a loan on strictly financial and economic grounds, even though probably a better case can be made on these grounds than for almost any other loan. A decision to make no such loans would have major political implications and consequences which it would appear premature to provoke. On the other hand, a decision to preserve an open mind on limited loans for specific projects and to make such loans from time to time would give us greater freedom of maneuver in our China policy. It would not impose long-term political commitments on us and would leave our policy open for revision if and when desirable. Moreover, the timing of such assistance would be of great value in implementing general policy.

III. *Recommendations*

1. The cotton loan would appear to be in a category of loans for limited and specific purposes for which a reasonably good case can be made. At the same time the Chinese application (US\$150 million) is for an amount approximately double their requirements, and even a loan to cover our estimate of China's requirements (US\$80-85 million) would appear to be too large to be made in one installment. It is therefore suggested that you recommend an Export-Import Bank Loan of US\$33 million (i. e., the same amount as the previous Eximbank cotton loans³⁰). It would be advisable to inform the Export-Import Bank that a loan of this amount would not be sufficient to meet China's requirements for 1947 and that it would be in order to give consideration to another loan or loans to cover the deficiency in the light of relevant facts say at the end of the first quarter of 1947.

2. Credits granted by the Export-Import Bank for the purchase of cotton are invariably short-term. The existing 2-year US\$33 million Eximbank cotton loan to China is longer than any other cotton loan it has made. As it is therefore hardly likely to agree to more than a 2-year term for any further cotton loan, there would be little point in recommending a 5-year term in accordance with the Chinese request.

3. In accordance with II.2. above, the Export-Import Bank should be advised that among other conditions it will stipulate—presumably

³⁰ See Department's telegram No. 493, March 19, 1946, *Foreign Relations*, 1946, vol. x, p. 967.

these would be more or less identical with those of the existing cotton loan—it should require the Chinese to earmark part of their cotton production for export and to allocate the proceeds of such exports to contribute to the servicing and repayment of the loan.

[Enclosure 3]

Memorandum by the Minister-Counselor of Embassy in China (Butterworth) to General George C. Marshall

[NANKING,] January 6, 1947.

The two attached memoranda state the cases for the railroad and cotton loans. The pros and cons of these loans are summarized below:

1. *Arguments for Canton-Hankow Railroad loan.*

a) It is a long-term rehabilitation project vital for the restoration of Chinese communications and for the revival of the Chinese economy after the cessation of current hostilities.

b) Because it is a long-term project, it is not open to the objection that it is a political loan of assistance to the National Government in the civil war, and is therefore readily defensible in terms of the President's statement of December 15 [18]. It should also be possible to impose conditions preventing abuse or misuse of equipment purchased with the loan.

c) The railroad runs through an area in which there are no hostilities and little likelihood thereof. It is therefore unlikely that the investment in equipment and installations will be dissipated.

2. *Arguments against Canton-Hankow Railroad loan.*

a) The railroad has already been abused by the Military, and it may be difficult to prevent the recurrence of such abuses or the diversion of equipment intended for its rehabilitation to other railroads in areas of hostilities.

b) The record of Chinese utilization of UNRRA railroad equipment is not impressive.

c) The prospects for the repayment of the loan cannot be considered too bright.

3. *Arguments for cotton loan.*

a) The cotton textile industry is China's major industry, which moreover is functioning with relative efficiency. Its continued large-scale operation is vital to the prevention of further economic (and political) deterioration in Shanghai and in Nationalist China generally.

b) The functioning of the cotton industry is not immediately related to the civil war.

c) China can export some of her cotton manufactures and allocate the proceeds to the servicing and partial repayment of the loan.

4. *Arguments against cotton loan.*

a) While a cotton loan would provide immediate relief, it would not contribute to any basic long-term improvement in the Chinese economy.

b) Precisely because the cotton loan would provide immediate economic relief and improve the Government's immediate financial position (the Government anticipates receiving CN\$400 billion from the profits of the China Textile Development Corporation), it would be of assistance to the Government in waging civil war.

c) While the foreign exchange proceeds of cotton textile exports could contribute to the servicing and partial repayment of the loan, it is improbable that they would be on a scale sufficient to ensure its full repayment.

102.1/1-2547 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, January 25, 1947—noon.

[Received January 25—8:14 a. m.]

196. From Adler and Casaday to Treasury.

1. In an interview with Pei yesterday he made following offer with respect to Army and Navy expenditures (reference your 54, January 14 to Nanking³¹ and our telegram 174, January 22, repeated Nanking 120). Central Bank willing to make no-rate CN dollar advances to Army and Navy, settlement to be made at special rate to be determined on basis of cross-rate between Hong Kong open market rate for CN dollar and Hong Kong open market rate for US dollar as of date on which advance is made. Pei said in defense of this proposal that Central Bank could not very well transact business at Shanghai open market rate for US currency, a rate he added it had declared illegal and for private transactions in which arrests are intermittently made.

2. As you know, Pei and Rogers³² recently visited Hong Kong in order to persuade Hong Kong authorities to curb smuggling into China and restrict open market currency operations. While degree of success attained by Pei and Rogers in their negotiations with Hong Kong authorities not yet known, Adler nevertheless asked Pei whether his offer would include the provision "for the time being" in order to

³¹ Not printed.

³² Cyril Rogers, British adviser to the Central Bank of China.

safeguard us against any sharp break in Hong Kong open market. Pei readily agreed. We would, of course, be kept posted daily of Hong Kong open market rates to ensure scheme's working economically. Adler proposes to visit Hong Kong for a few days in next 2 weeks if possible to study situation at first hand.

3. Pei was notified that his offer would be transmitted to Treasury. We recommend acceptance of this offer, as (a) remedial action most urgently required, (b) in light [of] course of negotiations Chinese unlikely to improve on this offer, at this time, (c) market in Hong Kong does not appear to be thin, and (d) above cross-rate fluctuates in range of 10 percent below the Shanghai open market. Analysis reveals that the range is usually less than 10 percent, though when Shanghai open market rate takes a sudden upward spurt, Hong Kong open market cross-rate may lag behind at between 10 and 15 percent less than Shanghai rate for a day or two, generally not longer.

4. For your information Chinese authorities have made offer for similar basis of settlement with respect to United States Government acquisitions of and improvements to real estate under FLC³³ agreement of August 30³⁴ which Embassy finds acceptable, Adler concurring.

5. Your urgent flash reply addressed to Shanghai would be appreciated, as both Army and Navy are short of CN dollar funds. Army in any case anxious to procure no-rate advance immediately on basis of Soong's agreement in principle reported in our telegram 174 of January 22. Adler will be in Shanghai for a few more days until matters connected with exchange arrangements for Army and Navy expenditures and real estate acquisitions under FLC agreement are cleared up.

Sent Department 196; repeated Nanking 133. [Adler and Casaday.]

DAVIS

102.1/1-2547: Telegram

The Secretary of State to the Consul General at Shanghai (Davis)

WASHINGTON, January 28, 1947—1 p. m.

143. From State, War, Navy and Treasury to Adler and Casaday. In preference [reference] Pei proposal (Para 1 your 196, Jan 25) War and Navy desire to purchase yuan outright at rate based on Hong Kong cross rate 3 days or some other short fixed period prior to date of purchase. War and Navy desire to avoid any form of yuan advances, since disbursing officer could not in any event utilize yuan until purchase rate had been determined. However, if Pei feels strongly on this point, War and Navy approve acceptance his original

³³ Office of the Foreign Liquidation Commissioner.

³⁴ See footnote 6, p. 1031.

proposal and will issue appropriate instructions to accounting officers. Assume no interest would be involved. Agree that phrase "for time being" should be included in any agreement.

We congratulate you on success of your negotiations.

Sent Shanghai, repeated to Nanking.³⁵ [State, War, Navy, and Treasury.]

MARSHALL

893.51/1-2847

The Chinese Ambassador (Koo) to the Secretary of State

WASHINGTON, January 28, 1947.

SIR: With reference to the Agreement dated February 4, 1941,³⁶ as amended, relative to a loan of \$50,000,000.00 to the Central Bank of China, between the National Government of the Republic of China, the Central Bank of China and the National Resources Commission, an agency of the National Government of the Republic of China, on the one part, and the Export-Import Bank of Washington on the other, I have the honor to inform you that my government has authorized a further extension of this Agreement to June 30, 1947.

I am instructed to inform you that the following persons have been authorized by my government to execute any and all necessary documents in connection with this extension: namely, Mr. Dakuin Keetao Lieu, Commercial Counselor of the Embassy, for the Government of the Republic of China; Mr. Hsi Te-mou, Representative of the Central Bank of China in the United States, for the Central Bank of China; and Mr. Po-wen Huang, Director of the New York Agency of the Foreign Trade Office of the National Resources Commission of China, for the National Resources Commission.

I should be grateful if you would be so good as to transmit this information to the Export-Import Bank of Washington.

Accept [etc.]

V. K. WELLINGTON KOO

102.1/1-3147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 31, 1947—8 p. m.

[Received February 1—8:15 a. m.]

179. From Adler to Secretary of Treasury. ReEmbtel 48 of January 10, 1 p. m.³⁷ Returned Nanking Jan 30.

³⁵ Repeated to Nanking as telegram No. 104.

³⁶ Further details of this agreement are found in a note of January 6, 1941, from the Chinese Ambassador to the Secretary of State, *Foreign Relations*, 1941, vol. v, p. 593.

³⁷ See footnote 7, p. 1032.

1. Was informed by T. V. Soong yesterday evening that after protracted discussions he had decided to maintain official rate of exchange for time being but to introduce (a) export subsidy of 50 percent of official rate, (b) import surcharge duty of 35 percent on all goods except those on schedule I (capital goods), raw cotton, food-stuffs, and fertilizers, (c) a bonus of approximately CN dollars 3,000 per US \$1 for inward remittances.

He said he had discussed the scheme with the Generalissimo³⁸ and that it was to go before the Supreme National Defense Council on February 3 for approval. If approval is granted, his plan is to introduce (a) and (b) immediately—probably around February 5—and (c) a little later. He asked me to give you advance notice of this scheme.

2. As you know, Soong's original intention was to make sharp adjustment in official rate of exchange and his instincts still lean in that direction. I have distinct impression that Rogers influenced Pei and Soong to reject exchange adjustment in favor of new piecemeal plan, which is admittedly a stop gap. Arguments in favor of new plan rest largely on: (a) fear of further immediate rapid mark-up and upswing in prices with exchange adjustment, (b) fear that further adjustments in exchange rate will have to be made at increasingly shorter intervals, (c) fear of rapid undermining of what little confidence (such as it is) there is left in CN currency in event of (a) and (b), (d) Micawber³⁹-like hope that something will turn up.

3. In my opinion Soong's original intention sounder than plan to be adopted for following reasons: (a) exchange adjustment has been expected for some time and has therefore to some extent been discounted by traders and merchants, (b) in so far as it is effective it will also have an inflationary impact, (c) it will give at most a purely temporary fillip if any to exports, (d) it will add administrative complications to an administratively already overburdened and creaking setup, (e) it merely defers the evil day.

In general, new plan, which is partly postulated on continued heavy sales of gold in Shanghai, shows to my mind an excessive preoccupation with the nuances of Shanghai market psychology, which in present critical balance of payments situation would appear to be a luxury Chinese can ill afford to indulge in. [Adler.]

STUART

³⁸ Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.

³⁹ Character in novel "David Copperfield" by Charles Dickens.

893.51/1-3147

The Ambassador in China (Stuart) to the Secretary of State

No. 466

NANKING, January 31, 1947.

[Received February 12.]

SIR: I have the honor to report recent conversations with President Chiang Kai-shek and Dr. T. V. Soong.

Dr. Soong had just returned from two harrowing weeks in Shanghai when I saw him on the evening of January 27. He was more discouraged than I had ever found him before. He felt so keenly the need for emergency aid that he was thinking of sending Mr. John Blandford⁴⁰ to Washington to press for the proposed Canton-Hankow Railway loan and the \$100,000,000 cotton credit. He also wanted Mr. Blandford to arrange for civil advisers, to gain first-hand impressions of U. N.⁴¹ and American trends, and to have a rest or change of scene.

Messrs. Blandford, Butterworth and I have also been in constant conference over these and related matters. We are all aware of the gravity of the situation but agree that it would be inexpedient for Mr. Blandford to leave China at present.

Dr. Soong called on me the morning of January 31. I explained why we felt as we did about Mr. Blandford's possible trip and he accepted our judgment without hesitation. But he requested me to inquire as to the possibility of the Canton-Hankow Railway loan and the cotton credit.

President Chiang has expressed the desire that as many of the Executive Headquarters personnel as possible be absorbed into the Army Advisory Group as a further strengthening of military reorganization.

Both President Chiang and Dr. Soong are prepared to establish the State Council and to give it real authority as in effect an ad interim government. The Communist Party seats will be kept vacant, the minority parties urged to come in. These latter are apparently hesitating because of various uncertainties. The intention is to have the State Council composed of the most representative and competent persons available.

Respectfully yours,

J. LEIGHTON STUART

893.50/2-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 4, 1947—10 p. m.

[Received February 4—10:16 a. m.]

204. Interview with Dr. T. V. Soong. As set forth in despatch No. 466 of January 31, Dr. Soong has expressed himself as having become

⁴⁰ American financial adviser to the Chinese Government.

⁴¹ United Nations.

very anxious about the economic and financial situation, and he sent Blandford to discuss with Butterworth and me the position and to represent the need for helpful action. He also asked Butterworth to lunch alone with him and presented his views.

Dr. Soong maintained that he had refrained from burdening you and the Generalissimo during your political negotiations with his economic and financial preoccupations, but that since your departure the situation had abruptly deteriorated. China being an agricultural country, he had felt that foreigners attached exaggerated importance to the happenings in large coastal cities, but since the Chinese New Year prices had risen so precipitously, particularly in provincial areas, as to cause him genuine alarm. He summarized the position somewhat as follows:

1. that the economic-financial situation was very precarious and the recent rise in prices showed that the Government's ability to hold the situation in check was waning and might at any time slip away;
2. that there was obviously no chance of obtaining Communist participation in a coalition government;
3. that it was America's right to determine whether or not its policy and its money would be directed towards preserving the authority and influence of the Government of China;
4. that if adequate aid were withheld, it would not be Democratic League or the Social Democrats who would take power but the organized Communists who had armed forces to back them;
5. that if, however, the U. S. proposed in its own and China's interests to extend the need of aid to the Government, it was desirable that it should be forthcoming before the situation got out of hand and be employed in an ordered and considered fashion;
6. that, furthermore, aid by the U. S. was the only means of upsetting the Communists' calculations of bringing about economic chaos and making them more conciliatory; and
7. that in any case it was his considered opinion that time was growing very, very short—that the situation was fast reaching the point where it could not be held by domestic improvisations.

Soong thereupon raised directly, as he had raised indirectly through Blandford, the question of the latter's going to the U. S. to discuss Chinese situation and need for financial help. Pressed for an opinion, Butterworth pointed out that, although there had been abrupt rise in interior prices since you had left, no new or decisive element had been injected into the situation and, in fact, in the political field the inactivity had been all too apparent; that if there were facts or new information which you should have, Embassy would gladly transmit them.

This led Soong into a lengthy castigation of the futility and ineptness of the third party groups whom he accused of fluctuating in their attitudes with economic, military and international develop-

ments. He suggested, by way of constructive proposal, immediate constitution of State Council of Progressive Kmt,⁴² eminent independent and other party representatives, leaving seats for Communists, that the Council be given very substantial power which would permit it to organize into subcommittees which would specialize on and assume policy responsibility for various aspects of the Government, each subcommittee having an American technical adviser. He also vouchsafed that he would favor a coalition Executive Yuan. Soong emphasized that this action in State Council and Executive Yuan in his own opinion should be taken whether or not American assistance were forthcoming to which Butterworth agreed, and in turn emphasized that since subcommittees of State Council even if immediately organized would have only 8 or 9 months to run, it was obviously impossible for new American advisers to be selected, brought to China and become effective before advent of new constitution, though it was highly desirable that public undertaking to organize State Council and coalition Executive Yuan be implemented.

The conversation reverted to the former theme with Soong reiterating in extremely strong terms his considered opinion that time was fast running out and that it was most unlikely that the position would be able to be held within reasonable bounds in the fairly near or intermediate future. This appeal was directed personally to Butterworth who was inclined to think the matter over and consult with Soong again.

Embassy will forward you a detailed analysis of economic-financial situation in due course.⁴³ In brief, it is characterized by: (a) acute inflation which has not yet run its course. The rate of deterioration is thus bound to be cumulative, but there is no immediate evidence that it has reached catastrophic stage; (b) increasing pressure on official foreign exchange resources which Chinese authorities have been far from wisely husbanding.

The main danger in China, in our opinion, is not one of dramatic economic collapse—as in U. S. at beginning of 1933—but of insidious economic and political disintegration. This process has already set in, and political, military, economic deterioration mutually reinforce each other in accentuating it. As this process continues *de facto* authority of Central Govt and its ability to maintain its armies and and minimal apparatus of gov't can be expected to become weaker. In these circumstances, the revival of regionalism and warlordism with decided increase of Communist activities, perhaps less in the direction of taking over the whole country than of spreading their

⁴² Kuomintang.

⁴³ See telegram No. 264, February 12, 7 p. m., p. 1059.

influence and power from the areas in which they are strongly based and heightening the unsettlement in the Central Govt area can be anticipated.

Embassy is inclined to regard Soong's action in part as a facing up to the reality of your being in Washington which leaves him uncomfortably little room for maneuver. Both the Generalissimo and Soong seem unsure as to what the next move should be or at any rate would purport to be, though the latter, of course, has the additional problem of demonstrating the efficacy of his American connections at a time when the Government is being increasingly criticized both from within and without as its situation worsens appreciably.

STUART

893.51/2-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 5, 1947—10 p. m.

[Received February 6—1 : 48 p. m.]

206. In conversation with Butterworth, Adler and me on February 4, Blandford again raised the issues discussed by Soong in his conversation with Butterworth reported in Embtel 204, February 4, 10 p. m. Blandford expressed genuine alarm at the rapid deterioration in the economic situation. He stated his belief that China represented the last lifeline of the western democracies in the Far East, that the position of Britain, France and The Netherlands in the Far East was slipping, and that if the Central Government fell as a result of economic collapse, there would be nothing left. Blandford was also asked what new elements had emerged in the situation since your departure. He did not say explicitly that the purpose of his projected visit to Washington was to assist China in obtaining loan and to sound out attitude to China in official and other quarters in Washington, but such would obviously be the case. He explained it in terms of: (a) his own personal position, his responsibility to report to the President on the progress of his mission and his desire to clarify the question of whether another American adviser and/or group of advisers is to come out to China; and (b) the need for clarifying the procedures to be pursued by China with respect to possible Export-Import Bank and International Bank loans. But he was obviously skating on thin ice.

Upon reference to imminence of Moscow Conference,⁴⁴ Blandford said the Moscow Conference might last 3 or 4 months, and by the time of its conclusion the position of the Central Government might be

⁴⁴ Council of Foreign Ministers; for correspondence, see pp. 609 ff.

beyond remedy if no clarification of the loan situation had previously occurred. In this connection he emphasized the discouragement and damage done by seemingly inspired articles from Washington as to nonavailability of Export-Import Bank 500 million loan (see Embassy's 186[-A], February 2⁴⁵). The reorganization of the Government and progress along democratic lines were jeopardized as long as the Central Government's prospects were so clouded. Groups and individuals were afraid to be associated with it unless it had some evidence of American backing. In his opinion Soong, whom he spoke of as a man of outstanding ability, could not carry on his fight with both the CC group⁴⁶ and the militarists without American support. Blandford indicated that in its present weakened position with dwindling foreign exchange resources, it was impossible for Government to plan reasonable course of economic and financial action until more knowledge of American willingness to make commitments and its minimal requirements for such commitments. This is the most pertinent and valid point in the Chinese case and is worthy of attention.

Butterworth indicated that although developments in China were of great importance to us, they must be considered in the framework of the general world situation, and now [*not*] particularly in the light of the forthcoming Moscow Conference.

Blandford read a personal written appraisal of the present Chinese scene which will be transmitted in a separate telegram.⁴⁷

I indicated my feeling that Blandford's trip to Washington was premature at this time. It was true that the Government had handled its last peace offer to the Communists quite smoothly, that it was regrettable it had not handled its previous offer as effectively, and that the prospect of American assistance to the Central Government would increase the chances of the Communists entering into peace negotiations. I emphasized that from the Government's point of view the best thing it could do was to press forward with the organization of the State Council on a broad basis with room left open for the Communists and with reorganization of the Executive Yuan. These should go forward in any case. I would do my best to be of service in this connection.

There was also some discussion of Chinese foreign exchange policy in which Butterworth and Adler expressed grave doubts as to the wisdom of the Chinese Government's policy of domestic sale of substantial amounts of gold and its refusal to adjust exchange rates; it

⁴⁵ Not printed; it quoted a United Press story that "there was 'absolutely no chance' that China would ever receive all the \$500 million loan from the Export-Import Bank." (893.51/2-247)

⁴⁶ Group in the Kuomintang led by the brothers Chen Li-fu and Chen Kuo-fu.

⁴⁷ See telegram No. 215, February 6, 6 p. m., from the Ambassador in China, p. 1056.

was indicated that the measures China is proposing to adopt as a substitute for such adjustment were both ineffectual and not in accord with our world trade program. Butterworth suggested to Blandford that he draw up a statement on Chinese economic-financial situation which will be transmitted ⁴⁸ with documents when received.

Chinese pressure for a loan can be expected to continue with increasing force. Soong is in a desperate mood, and he and his entourage are showing all the symptoms of incipient and partly self-engendered panic. This is not to minimize current acute difficulties and eventual gravity of situation, which will be summarized in a later message.⁴⁹

STUART

102.1/2-647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 6, 1947—noon.

[Received February 6—7 : 20 a. m.]

207. From Adler to Secretary of Treasury. ReEmbtel 179 of January 31, 8 p. m. Was asked by Soong to attend a conference at his house at 11 p. m. February 4. Pei and Rogers had just arrived from Shanghai. Blandford, the Secretary [General] of Executive Yuan,⁵⁰ and C. T. Chu⁵¹ of Soong's staff were also present. Pei stated that in view of the rise in the price of gold to around CN dollars 470,000 per oz. and of U. S. currency to 8,500-9,000 in Shanghai in anticipation by the market of an adjustment in official rate, the contemplated introduction of an export subsidy of 50 percent and import surcharge of 35 percent were not out of date. The alternatives were (a) to make a drastic adjustment in official rate, (b) a more moderate adjustment in official rate to 5,000 or 6,000 plus a moderate export subsidy and import surcharge, or (c) substantial export subsidy and import surcharge of the order of 100 percent and 50 percent respectively. It was obvious that the consensus of the meeting, including Soong, was in favor of (c). When Soong asked me for my opinion, I replied that I could only give an informal and unofficial one and that it appeared to me personally that the events of the last few days gave further evidence that (c) was at best a stopgap and that as adjustment was inevitable it was best to get it over with. I was in a minority of one.

⁴⁸ See Embassy's telegram No. 213, February 6, 4 p. m., p. 1053.

⁴⁹ See Embassy's telegram No. 264, February 12, 7 p. m., p. 1059.

⁵⁰ Chiang Mon-lin.

⁵¹ Deputy Secretary-General of the Executive Yuan.

(Incidentally I would appreciate your advice and instructions on how to respond to Chinese invitation for expression of my opinion on immediately current technical policy questions, when there is no time for consultation with Treasury. I take great pains to emphasize informality and unofficial character of such opinion and refer all matters of high policy to Embassy, of course, keeping Embassy fully informed. Situation is delicate, as on one hand Chinese would like to implicate us, however remotely, in technical policy decisions, which it is desirable for us to avoid, especially as they sometimes run counter as in this case to our declared international economic policy, and on other hand it is in accord with American policy towards China to help with constructive advice when it is possible to do so without embarrassment. In my opinion it is best to pursue a cautious middle ground, avoiding either completely negative response or vague identification with Chinese decisions, and I propose, with Embassy's approval, to continue on this course unless you instruct me to the contrary.)

The final decision was to introduce an export subsidy of 100 percent and import surcharge of 50 percent in next 24 hours and a bonus of 100 percent on inward remittances in near future. The Chinese are nervous of the inflationary impact of an exchange adjustment in the present tense situation, and they emphasized the dangers of rapid upward movement of prices with further pressure on budgetary disequilibrium. They are also sensitive to reaction of Shanghai where rise in cost of living index was 25 percent in January and shows no sign of abating.

There was also considerable discussion of gold sales policy. Soong and Pei have decided not to continue sales on same scale as in past, and yet they are fearful of too drastic a cut in sales. Rogers claimed that gold sales were govt's main instrument in holding Shanghai economic situation together, and that their cessation might precipitate collapse. General atmosphere was one of deep pessimism. Thus it was stated that Chinese foreign exchange assets would last only 6 months or so and that anything could happen then. I ventured to express the opinion that the root of China's economic financial problem, which of course is immediately tied up with her military-political problems, was her inability to control expenditure and function within the limits of a planned budget, that the general inflationary upsurge would render nugatory and swallow up any temporary palliatives and that the careful husbanding of foreign exchange assets whether in the shape of gold or foreign balances was wisest policy to pursue in these circumstances. Chinese and their advisers insisted on need for buying

time even if it meant nothing more than deferring evil day when bottom of barrel was empty.

Soong informed me privately after meeting that major factor in his decision not to make exchange adjustment was inevitability of military demand for increased appropriations in case of general mark-up of prices. It is to be feared that such a demand will ensue in any case. [Adler.]

STUART

600.939/2-647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 6, 1947.

[Received February 6—6:55 a. m.]

210. Following is text of article issued February 5 by official Central News Agency, Nanking, regarding creation of board for development of export trade:

“Dr. T. V. Soong, President of the Executive Yuan, announced today the establishment of a board for the development of the export trade. The board, which has been set up under the Supreme Economic Council, is to encourage the production and movement overseas of China’s export produce. During the long years of war much of this export production has been neglected. Purposeful action is therefore necessary to bring these ‘distressed areas’ into renewed production. The disruption of communications now means longer and more devious journeys which, at the prevailing very high cost of moving goods to the ports, adds greatly to their sale price. These longer journeys entail correspondingly longer periods of financing and, with market rates of interest at their present penal level, leads in a matter of months to a doubling of the delivered costs of export goods. Attention must also be given to improving qualities and to establishing recognized and acceptable standards for export produce. To the removal of these obstacles, to the production and shipment of China’s export produce the new board will devote its energies.

It is the belief of the Government that the long run interest of the export trade will be best fostered through mobilizing the resources and experience of individual producers and merchants. In setting up the new board, the Government has no intention of creating a monopoly. With this in view, the new board is inviting a number of experienced Chinese and foreign merchants to assist it in an advisory capacity. The board will not be conducting business operations.

The Government confidently expects that action along the above lines will materially reduce export costs. However, in order to give an immediate stimulus to the export trade, the Government announces the grant of a bonus of 100 percent of the f. o. b. value which will be paid through the appointed banks at the time export exchange is delivered. This bonus will apply to all cargo moving from China ex-

cepting those originating from Manchuria and Taiwan where the internal currency values are already favorable to exports.

To provide the necessary funds an ad valorem surcharge of 50 percent is being imposed as from February 6, 1947, on selected categories of imports. Exemption from this surcharge is given to all the 'capital goods' in schedule I of the revised temporary foreign trade regulations of November 17, 1946,⁵² and to the following prime necessities in schedule II: rice, wheat and wheat flour, coal and coke, raw cotton, fertilizers and sulphate of ammonia. The goods so exempted amount to 60 percent of the total volume of imports.

Imports which have arrived on or before February 5, 1947 are exempted from this surcharge."

Please repeat to Commerce, Treasury and Agriculture. Sent Dept as 210; repeated Shanghai as 116.

STUART

893.51/2-647: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 6, 1947—4 p. m.

[Received 9:45 p. m.]

213. Dr. Soong sent for me late last night and handed me the memo to which reference was made in Embassy's telegram 204, February 4, 10 p. m. and 206, February 5, 10 p. m. At same time he gave me an *aide-mémoire* of an oral statement which reads as follows:

"I am not trying to be an alarmist. Last summer when people were freely predicting that economic collapse would come in a matter of weeks, I told General Marshall and yourself that it would be a question of many months before the eventuality had to be faced.

Even as General Marshall was leaving I expressed the hope that [*although?*] the economic situation in China is particularly difficult to predict, while 1947 will be a year of terrific difficulties, it might be possible to hold through because there was then visible signs of improvement particularly in efforts and in prospects of increased agricultural production. The rapid turn for the worse during the last few weeks as evidenced by the figures I have given you have radically altered the picture.

We had all hoped that we would not have to approach the United States Government for financial assistance until the State Council and the Executive Yuan have been reorganized. The economic situation, however, has forced our hands.

In fact, the economic situation has led the minor parties to sit on the fence, as they would naturally not like to be identified with a Government that might collapse. Moreover, this situation has un-

⁵² For a summary of these regulations, see telegram No. 1910, November 19, 1946, 4 p. m., from the Ambassador in China, *Foreign Relations*, 1946, vol. x, p. 1024.

doubtedly stimulated the Communists to greater efforts to weaken the Government and refuse to be in a conciliatory mood.

I am convinced that only one thing will steady the economic situation and improve the political outlook and that is some concrete form of American assistance and support. Perhaps the simplest, most helpful form of assistance would be an immediate credit of \$150 million for cotton or cotton and wheat for a term of 10 years as it would immediately favorably affect our balance of payments, secure the withdrawal of *fapi*⁵³ as the products are sold, assure the people of concrete American assistance. Politically it will encourage the wavering elements in the minor parties to join the Government, and it would encourage the progressive members of the Government to press forward for a speedy reorganization. A smaller sum than the figure mentioned will not have the effect necessary in this emergency.

On the other hand the nature of this credit goes as far as possible from any charge of direct aid for military use.

In addition if someone like Mr. Blandford, in whom the Chinese Government had confidence and had given access to all economic information could visit the United States immediately before General Marshall leaves for Moscow, he would be able to explore what further American financial and advisory assistance might be given and under what circumstances this aid might come.

I consider this particularly important as it would mean continuing aid with a definite program of action for both China and the United States."

The memo is as follows:

"The economic and financial situation has entered upon a most critical phase which gives cause for grave concern.

Without any allowance for future price inflation it has been determined that minimum budgetary requirements will call for expenditures of almost \$10,000 billion in 1947. Against this revenues on the most optimistic estimate will probably not reach \$7,000 billion after including large allowances for the sale of properties which will not materialize substantially until the second half of 1947.

The Government is forced into this spiral of increasing monthly deficits and increasing monthly note issues especially in the first half of 1947, at a time when all economic factors point to a serious bad turn in the trend of steady deterioration.

For example, during 1946, despite a drive for increasing revenues including large sales of capital assets, expenditures continued to increase at a faster pace with the result that the average monthly deficits for the four quarters were as follows in billions of dollars: 197—247—278—473. This mounting monthly deficit trend continues in 1947 with a January deficit of \$680 billion.

These increasing deficits are reflected in the rapidly rising note issue which at the end of January was 4,510 billion, i. e. 4 times that

⁵³ Chinese National currency notes.

12 months previous. During 1946 the average of the monthly increases was approximately 12 percent. In January this year the increase has accelerated to 21 percent.

The inseparable inter-relation of note issue and prices is reflected in the Shanghai wholesale index (January-June 1937=100) which shows the following movements: 1946—June to September monthly percent increase (average) 12 percent: October and November—no percent: December—13 percent: January 1947—30 percent.

In the first 4 days of February, there has been a further increase of 10 percent.

Prices in the interior, which in the past have lagged behind Shanghai, are now being dragged upward at an increasing rate. The wholesale index in Chungking at the end of June 1946 was 40 percent of that in Shanghai. At the end of January 1947, the Chungking index stood at 55 percent of the Shanghai index and during January alone had risen by as much as 60 percent.

The flight from the currency of which the above disturbing price movements are a manifestation is most clearly seen in the following rise in the open market price of gold and U. S. dollar notes. 1946 June—gold (per oz.)—198,000—U. S. notes 2,650: October—227,000—U. S. notes 4,300: November—gold 272,500 U. S. notes 4,950: December—gold 348,000 U. S. notes 6,500: January 31, 1947—gold 406,000 U. S. notes 7,900: February 1—gold 408,000 U. S. notes 7,700: February 2—gold 436,000 U. S. notes 7,800: February 3—gold 476,000 U. S. notes 8,800.

These increasing prices have taken place despite official sales of gold undertaken with the object of retarding the impact on prices which habitually move in a path with the price of gold in the open market. Sales of gold are an important deflationary measure in that they result in a contraction of currency approximately equal to three times that from the sale of an equivalent amount of foreign exchange. The inflationary pressure of money flowing into Shanghai from the interior in an ever growing flood has led to the following inroad on the Central Bank's holding: 1946 March 4—5,800,000 oz.; 1947 January 31—2,400,000 oz.; total 11 months sales 3,400,000 oz.

Of these sales, approximately one-half were made during the last 3 months.

Along with these declining gold holdings, the Chinese Government faces exhaustion of her other foreign exchange resources during the current year. Allowing for a minimum program of essential imports, China shows a deficit of at least \$380 millions in her estimated balance of payments for 1947 (submitted to Washington with reference to the possibility of post-UNRRA relief allocations). This figure has to be seen in relation to China's exchange resources of U. S. dollars 282 millions on January 31, 1947 (including 48 million ounces in silver).

The prospects for expending exports are steadily improving but the results would not come quickly enough to affect the current year's balance of payments."

711.93/2-647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 6, 1947—6 p. m.
[Received February 7—3:04 a. m.]

215. Reference Embassy's 206, February 5, 10 p. m. Following are the questions which in Blandford's opinion require clarification and the subsequent statement is his personal draft for confidential use reflecting Executive Yuan attitude:

"Questions as to U. S. policy.

1. Is the prior participation of the Communist Party in the Government a condition of further assistance?

2. When the Government has established the State Council and reorganized the Executive Yuan, will substantial economic assistance and technical guidance immediately become available?

3. Assuming sound projects, is there any limitation as to the rate at which the proposed \$500 million credit will be made available, or as to the term over which the funds may be utilized once they are committed?

4. Specifically what considerations will enter into the review of a project or in other terms what kinds of projects will be considered eligible for credit? In the interest of expediting the review of projects and of speeding China's recovery, could the U. S. Government arrange for such review by representatives stationed in China?

5. To what extent can the U. S. Government aid in obtaining from the International Bank assistance for reconstruction and currency stabilization?

6. China desires immediate technical assistance and guidance for the initiation of constitutional government: Military reorganization, civil government reform, financial stabilization, reconstruction, agricultural adjustment, industrial development and foreign trade promotion. To what extent is the cooperation of the U. S. Government immediately available?

"Appraisal of the current scene.

1. The Government intends to maintain a standing offer of reasonable terms for the participation of the Communist Party. However, it is unlikely that the Communists will participate in the near future except under terms which would mean the permanent economic and political disunity of China. The Communists are apparently finally set on a policy of reliance upon economic collapse of the Government or upon some form of international intervention which would include Russia. Any weakness in the Government's position confirms them in this policy. Contrariwise, a progressive government, firmly established and supported, is probably the sole factor which would cause them to change their policy.

2. The Government is pressing vigorously for the immediate participation of other parties in the Government. Specifically it has in mind the establishment of a State Council composed of China's outstanding citizens and fully representative of all possible parties—this

Council to be clothed with full power of policy during the current year of emergency and of preparation for constitutional government. It is also intended that there shall be, during this period, wider party participation in the execution of national policy through the Executive Yuan.

In the achievement of these objectives the Government is encountering a degree of delay because of a feeling of uncertainty. It is firmly believed that progress would be rapid if there were firm commitments as to the availability of substantial economic assistance and neutral technical guidance and reporting immediately upon the assumption of responsibility by the new State Council.

3. With the widest possible consultation the Government is waging a desperate battle on the economic front. Note issues are rapidly increasing due to large military and civilian expenditures for maintaining and restoring China's arteries of commerce and productive capacity at rapidly inflating prices. Meanwhile, revenues recover slowly and [surplus] property and foreign exchange assets are being exhausted. The Government has determined its minimum needs for essential imports but there is no chance of achieving them without the help of foreign credit. Generally the Government is being forced into measures of control which are overtaxing its administrative capacity and which are contrary to its concept of the right role of government in business and foreign trade. The year 1947 is the critical year. The first few months of 1947 constitute the period of decision."

STUART

102.1/2-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 7, 1947—3 p. m.

[Received February 7—9: 22 a. m.]

223. From Adler to Secretary of Treasury. Re Emtels 179 of January 31 and 207 of February 6 and at Butterworth's request to appropriate officials of Dept of State. Herewith my further comments on Chinese Govt announcement of export subsidy and import surcharge program transmitted in Embtels 210 and 211⁵⁴ of February 6.

1. Manner in which program announced characterized by gross ineptitude. In my discussions with Soong and his advisers, main argument used to justify this program as alternative to exchange adjustment was that its announcement would contain or be accompanied by statement that no change in exchange rate would be made or was contemplated, and that such a statement would tend

⁵⁴ Latter not printed; it gave the text of the announcement of the functions and composition of the Board for the Development of Export Trade (600.939/2-647).

to reassure public and thus relieve pressure on price of gold, U. S. currency open market rate and prices in general. Announcement of program on afternoon of February 5 was in fact made without any reference to exchange situation and thus "psychological" case for it fell to ground.

Shanghai open market rate for U. S. currency closed at 9300 on February 5 and at about the same on February 6, the rise can be ascribed to: (a) interpretation by market, which would be natural in absence of further clarification that program was prelude to exchange adjustment; or (b) insiders exploiting expectation that open market rate would fall soon afterwards with the absence of announcement of exchange adjustment; or (c) both.

In any case manner in which announcement was handled open to strong criticism. Blandford informs me he did not see announcement before it was made and does not know who drafted it.

2. Program has obviously undesirable implications from point of view of our international economic policy. Granted emergency character of Chinese economic-financial situation which can presumably be used to justify deviations from canons of long-term international economic policy, its inefficacy in achieving intended effects renders it doubly questionable. [Adler.]

STUART

893.515/2-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 12, 1947—2 p. m.

[Received February 12—8: 53 a. m.]

262. 1. Dr. T. V. Soong asked Butterworth, Adler and me to call upon him last evening. He began by referring to the break in prices of gold and U. S. currency in Shanghai and said as regards the general situation "this is it". The price of wheat had risen precipitously in North China and it was only the Govt's selling of its stocks in Shanghai which was preventing the price of rice from getting out of bounds there. Nevertheless, Soong seemed intent, despite pressure from some of his colleagues, on refraining from selling gold on significant scale in the Shanghai market and to harbor his foreign exchange assets for China's essential import requirement. He emphasized that further drastic measures would have to be taken both qualitatively and quantitatively to curtail imports and wherever feasible, such [as in] allocation of newsprint, rationing would be under-

taken. He expressed the hope that the U. S. Govt and American exporters would recognize the necessity for these unwelcome measures.

Soong reiterated that there was very real danger of a complete loss of confidence in China's currency and that their main hope of preventing such loss of confidence was financial aid from the U. S. on the lines requested since such aid would also induce confidence in the Govt.

2. This morning Soong invited Butterworth and Adler to call upon him. Also present were Govt representatives [*Governor Pei*] of Central Bank, Kan Li⁵⁵ and C. T. Chu, his Chinese advisers, and Blandford and Rogers, his foreign advisers. There was a long and disjointed discussion of the immediate situation and of the action that the Govt should take with respect to exchange and gold sales policy.

While Soong himself avowed awareness that financial and economic blizzard has only begun, his advisers, both foreign and Chinese, seem inclined to dissipate China's existing gold assets in a futile attempt to arrest it. It is to be feared that their influence will prevail for the moment but that an inadequate adjustment will be made in the exchange rate, and that gold sales will be continued. There were obvious signs of panic in Soong's entourage, and the only salvation he and they could see is American assistance. There was considerable talk of complete collapse of confidence in currency and of consequent collapse of Central Govt, partly inspired by genuine fear but also by desire for financial assistance. They have not yet faced up to the fact that such assistance would be a temporary palliative which would not change underlying situation and would not restore basic lack of confidence in currency.

Recommendation follows.⁵⁶

STUART

893.50/2-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 12, 1947—7 p. m.

[Received February 12—8:32 a. m.]

264. Herewith Embassy recommendations on Soong memorandum on economic situation and plea for immediate economic aid (reEmtels 204, February 4, 10 p. m.; 206, February 5, 10 p. m.; 213, February

⁵⁵ Director of the Import Quota Allocation Department of the Board for the Temporary Regulation of Imports.

⁵⁶ See telegram No. 264, February 12, 7 p. m., *infra*.

6, 4 p. m.; 215, February 6, 6 p. m.; 259, February 12, 10 a. m.;⁵⁷ and 263, February 12⁵⁸).

Section I. 1. There is financial and economic crisis in China, and gravity of internal, financial and balance of payments position must not be underestimated. Real crisis only just begun, and the worst is yet to come. This is not the time for basic remedial measures and Govt has no real alternative but to sweat it out. Unquestionably a loan—not a necessarily large one—would be of immediate psychological and political assistance. Unless deputy director⁵⁹ UNRRA's recommendations⁶⁰ transmitted as 259 February 12, [are accepted?] in whole or in part, Embassy would recommend for your consideration Eximbank 40-50 million dollar cotton loan.⁶¹ Action by UNRRA would, of course, hold definite advantages for us and Embassy suggests Dept's active attention. Embassy believes that balance of payments situation not so desperate that in absence of UNRRA action loan cannot be deferred if over-all international policy considerations so require. Embassy assumes that timing of loan would be in light of Moscow Conference as well as Chinese economic and political situation. (Chinese ignore ramifications of Moscow Conference and are urgently pressing for loan of 150 million before conference.) Embassy also believes that Chinese should give further evidence of genuine cooperation in implementing article 6 (b) 2 of FLC agreement of August 30, 1946, prior to receiving any loan.

2. Disadvantages of a cotton loan stated in Embassy's memo to you⁶² also contained in despatch 443, January 23, but, in view of general political situation, these disadvantages inescapable.

3. Blandford has already indicated that while China asked for a 10-year loan she would be content with a 5-year loan. Question arises as to whether ExImBank would care to make so long-term a commodity loan. It would probably prefer not to make a loan of more than 3 years maturity on cotton. Embassy would see no basic objection to such a reduction in period of loan. End Section I.⁶³

STUART

⁵⁷ Telegram No. 259 not printed.

⁵⁸ Telegram No. 263 not printed; it reported a precipitate rise in prices of commodities and gold, particularly after the announcement of the Chinese Government's export bonus scheme on February 7 (893.515/2-1247).

⁵⁹ Comdr. R. G. A. Jackson, Senior Deputy Director General of UNRRA.

⁶⁰ An informal Department of State-UNRRA discussion as to whether UNRRA's program might be modified to meet China's request for cotton and wheat.

⁶¹ In telegram No. 211, February 20, 6 p. m., the Department informed the Embassy that it saw no immediate prospect for an Export-Import Bank cotton loan to China and that the UNRRA Central Committee had deferred action on the request to modify UNRRA's program at its meeting on February 20 (840.50 UNRRA/2-2047).

⁶² Dated January 6, p. 1040.

⁶³ Message continued in telegram No. 265, *infra*.

893.51/2-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 12, 1947—8 p. m.

[Received February 12—11 a. m.]

265. Section II.⁶⁴ Herewith Embassy's comments on Soong's memorandum of Chinese economic situation.

A. Data in Soong's memorandum are substantially correct as to facts but are presented as part of thesis that China is on verge of economic collapse. Undoubtedly, financial and economic crisis and process of economic and political disintegration have already set in and will gather pace with continuation of hyperinflation. Most spectacular manifestations will be in large cities, particularly Shanghai—witness events of last few days. But the gravest political aspect of the situation will remain not financial and economic crisis in cities, serious as it is, but the attrition of power of Central Government which will find it increasingly difficult to command allegiance of generals, troops and Government personnel. As responsibility for economic crisis is not divided, Communists are bound to gain in strength, both through their increasing activities and through Government loss of popular support. Some Government leaders—not, Embassy believes, the Generalissimo—are already showing signs of panic, and Embassy is being besieged with appeals for financial aid.

B. It should also be noted that :

1. Budgetary situation is actually worse than indicated in first three paragraphs of Soong memorandum, owing to fact that Chinese budgetary estimates are generally exercises in wishful thinking and not based on systematic and realistic planning. On basis of previous experience, 1947 expenditures are likely to be several times the official estimates of 9.3 trillion with revenues yielding only a small fraction of expenditures. NB: Foreign exchange assistance will not make a significant dent on budgetary gap or expansion in note issue in absence of effective budgetary controls, which are impossible with continuance of civil war. In this connection, experience with 1942 half-billion dollar loan⁶⁵ and with assistance in various forms since V-J Day conclusive.

2. Cumulative nature and inflationary process renders economic situation, especially in cities, more precarious with each advance on inflationary incline even in absence of sharp increases in rate of increase in prices.

⁶⁴ Section I printed *supra*.

⁶⁵ For correspondence regarding this subject, see *Foreign Relations*, 1942, China, pp. 419 ff.

3. Last paragraph of Soong memorandum strikes a note of forced optimism. Visible signs of expanding exports are not yet to be seen. Nor are the prospects bright for increasing Chinese self-dependence in such commodities as cotton and tobacco, heavy post-war imports of which have taxed and are taxing her foreign exchange resources.

C. With respect to China's gold and foreign exchange assets and policy:

1. Desperate nature of China's long-term balance of payments, position and prospects have been apparent for some time. (Embassy suggests that Department check with Treasury as to data on China's foreign exchange assets referred to in Embtel 2149, December 22, 1946.⁶⁶) She has been living off assets received during the war (1942 half-billion dollar loan and US dollar receipts for yuan advances to US armed forces), and now that it is clear that they may well be exhausted by if not before end of year, she is appealing to US to bail her out. This balance of payments position is a long as well as a short-term problem, and therefore continued further appeals to U. S. to bail her out are to be expected.

2. It is significant that Soong in his request for immediate assistance asked not for reconstruction and rehabilitation loans which it is understood half-billion dollar ExImBank would primarily consist of but for loan to relieve immediate pressure on Chinese foreign exchange assets and to meet current import needs. Blandford also indicated that Soong is not very interested in Canton-Hankow railroad loan now but is desirous of immediate relief rather than long-term reconstruction loans.

3. The immediate short-term balance of payments problem is partly a product of China's past errors, and her refusal to cut her suit to the size of her cloth. She simply could not and cannot afford both to import goods and to sell gold domestically on the scale she has done and is doing. The heavy sale of gold was and is an inexcusable luxury, a fact which was pointed out to China both by State and Treasury as long ago as May 1945;⁶⁷ the main argument for such sales, namely, their anti-inflationary effect, is invalid in view of the general inflationary upsurge and of China's critical balance of payments position. China's management of her official foreign exchange assets and her inability to mobilize sizable private foreign exchange assets stand in pathetic contrast, for example, to record of England where an austerity program has been effectively pursued since 1939 and in a country with much higher living standards than China's.

⁶⁶ Not printed.

⁶⁷ See memorandum of May 8, 1945, by the Secretary of the Treasury to the Chinese Minister for Foreign Affairs. *Foreign Relations*, 1945, vol. VII, p. 1081.

4. Errors of Chinese economic-financial policy and execution of policy as well as over-all situation make it doubtful that even large-scale assistance would in the first place be effectively utilized and in the second be more than a temporary palliative while hyperinflation is running its course.

5. When all of this has been said, it must also be added that the Communists have it in their power by continuing guerrilla warfare to produce through disruption of communications and excessive expenditure on military insoluble economic situation for Government whose authority in these circumstances will continue to decline.

STUART

893.00/2-1447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 14, 1947—1 p. m.

[Received February 14—8 a. m.]

284. From Butterworth. In the early stages of the financial crisis the Gimo⁶⁸ did not take a hand. Dr. Soong and his advisers began by trying to extract from us a panicky recommendation to you and then became genuinely panicky themselves, though refusing to face up to the necessity for strong and really drastic measures. Beside the reported loan requests, there was much loose talk of the impossibility of introducing democratization measures in the present situation unless American material assistance makes it possible. On all occasions we have reinforced Dr. Stuart's advice to them to keep calm, to generate confidence and to get on with the political reorganization arrangements.

The Gimo has now stepped in and overruled Soong's advice; it is clear that he is taking advice from sources other than Soong. His instructions given yesterday to Soong are to work out a scheme within the following framework: (1) To stop the sale of gold; (2) to announce an adjustment of the exchange rate; (3) to peg Shanghai wages at the January level and to institute a rigorous system of price control for rice, cotton and fuel for the factory workers, Government employees and teachers and students of Shanghai and Nanking. In Shanghai this scheme, if effectively carried out, would take care of one-seventh of total population.

Soong was instructed to have the scheme ready for presentation to Supreme National Defense Council on Sunday so that it could be announced Sunday night; it will probably be coupled with political

⁶⁸ Generalissimo Chiang Kai-shek.

announcement. There is no doubt that the third party groups are now most reluctant to join the Government and share responsibility in crisis circumstances, but our belief is that Gimo can exert sufficient pressure on Youth and Social Democratic Party leaders to bring them in.

Soong's advisers did not like the Gimo's economic program and even talked of resignation, but when Soong stated their objections to the Gimo yesterday evening, the latter brushed them aside and told him to go ahead on the above lines. The Gimo said, "we are now paying for the mistakes of policy—such as selling gold—of the last few months, and we have to bear the consequences". Soong is accepting the Gimo's directive at present but his advisers may sap his will.

As I see it, the weakness of Dr. Soong and his technical advisers in this situation is that they are Shanghai-minded and see only difficulties and failures ahead; they fear the worst and do not know how to avert it. The Gimo's strength is that he is China-minded and here his stubbornness is an unqualified asset. He has grasped the crux of the emergency as it will develop, which is to preserve as much as possible the Government's power to govern by ensuring the maintenance of food supply to essential groups, if necessary on a barter basis, more clearly than Soong and his technicians. He may not appreciate the complicated means for carrying out correct policy, but at the moment this weakness is more than counterbalanced by his strength in facing up to the situation. [Butterworth.]

STUART

893.24/2-1447

The Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

[WASHINGTON,] February 14, 1947.

There is attached a memorandum in regard to a final Lend-Lease settlement for China.

I have discussed this matter with Mr. Clayton,⁶⁹ who concurs in my recommendation that we proceed with the negotiations. Public knowledge that we are proceeding with these negotiations, which will result in the cancellation of the 1942 1/2 billion dollar credit and of the 1 1/2 billion of Lend-Lease will, I believe, have a psychological effect beneficial to us in pursuing China policy. The public will be made graphically aware of the assistance we have given China and those elements which advocate the release to China of the 1/2 billion dollar Export-Import Bank credit may be given pause for thought

⁶⁹ William L. Clayton, Under Secretary of State for Economic Affairs.

when they inquire into the utilization made of the 1942 ½ billion dollar credit.⁷⁰

J[OHN] C[ARTER] V[INCENT]

[Annex]

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] February 14, 1947.

1. In its telegram no. 963 of October 30, 1946,⁷¹ the Department informed the Embassy at Nanking that consideration was being given to the matter of opening negotiations in Washington for final Lend-Lease settlement for China, but that pending the receipt of an indication of General Marshall's and the Embassy's views as to timing of these negotiations no notification would be made to the Chinese Embassy.

2. In its reply (telegram no. 1817 of November 6, 1946)⁷² the Embassy stated that General Marshall and the Embassy were in agreement that it would be preferable to delay negotiations on the final Lend-Lease settlement.

3. It is suggested that consideration might now be given as to the desirability of entering into negotiations in the near future for a final settlement of Lend-Lease problems with China.

4. For your ready reference, there are listed below the various items which would be included in a final settlement:

a. Cancellation of:

- (1) \$500,000,000 1942 political loan, and
- (2) Estimated \$1,500,000,000 military Lend-Lease assistance through June 30, 1946.

b. Funding of:

- (1) Civilian Lend-Lease inventory in China as of V-J Day of an estimated maximum of \$20,000,000;
- (2) Inventory of surviving commercial type aircraft of an estimated maximum of \$10,000,000;
- (3) Air training program in the United States⁷³ for the pe-

⁷⁰ Marginal notation by the Under Secretary of State (Acheson): "I concur. D. A." The Secretary of State's approval of proceeding with these negotiations was set forth in an undated note sent to Mr. Vincent by Brig. Gen. Marshall S. Carter, Special Assistant to the Secretary of State (893.24/2-1447).

⁷¹ *Foreign Relations*, 1946, vol. x, page 1016.

⁷² *Ibid.*, p. 1019.

⁷³ For correspondence on this subject, see *ibid.*, pp. 767 ff.

riod beginning December 1945 and ending June 1946 (estimated at \$12,500,000); and

(4) Outstanding claims of a miscellaneous character which tend to balance each other off.

c. Collection from China of \$5,000,000 advance deposit against program for Chinese occupation of Japan.

d. Payment by China for services and supplies provided after June 30, 1946 for reoccupation program of a maximum of \$25,000,000.

e. Collection of costs of military training programs supplied under June 28, 1946 agreement ⁷⁴ estimated at \$15,000,000.

A[RTHUR] R. R[INGWALT]

893.50/2-1747

Memorandum of Conversation, by the Secretary of State ⁷⁵

[WASHINGTON,] February 17, 1947.

Participants: Dr. V. K. Wellington Koo, Chinese Ambassador
Secretary Marshall
Mr. Vincent, FE

Ambassador Koo called at his request at 11:30.

The Ambassador referred to Generalissimo Chiang Kai-shek's statement of yesterday ⁷⁶ in regard to the economic situation in China and went into some detail in explaining what Chiang had in mind and in describing the seriousness of the situation. I told him that we realized that the situation was serious and that, while a review of the past would not contribute towards a solution, it was well to remember that I had foreseen many months ago a development of this kind unless steps, well known to the Ambassador, were taken promptly. I also mentioned T. V. Soong's program for conserving gold and foreign exchange resources for the government and said that this program seemed to act to discourage Chinese expenditures because they could not make a profit.

The Ambassador said that China was badly in need of cotton and wheat and suggested the possibility of getting cotton from UNRRA and of getting a cotton-wheat credit from the Export-Import Bank. I told him that the diversion of UNRRA funds from relief and rehabilitation purposes to purchases of cotton and wheat would raise a number of difficulties, but that if these difficulties could be over-

⁷⁴ Agreement on mutual aid signed at Washington; Department of State Treaties and Other International Acts Series 1746, or 61 Stat. (pt. 4) 3895.

⁷⁵ Memorandum drafted by the Director of the Office of Far Eastern Affairs (Vincent).

⁷⁶ See *United States Relations With China*, p. 704.

come I felt it might be desirable to carry out the suggestion. With regard to an Export-Import Bank credit for these purposes, I told him that as I saw it the possibilities of getting such a credit were limited. I also reminded him that conditions and developments in China would have a bearing on our attitude.

At this point Mr. Vincent said that he had been informed by Mr. Clayton recently that there was no surplus cotton in the United States and it would be very difficult to fulfil any commitment to ship large quantities of cotton to China. Mr. Vincent also referred to reports that there were approximately 1 million bales of cotton at Shanghai. The Ambassador said that it was true that there were approximately 1 million bales of cotton at Shanghai six months ago but that this figure had been greatly reduced and that China required 2 million bales of imported cotton annually. With regard to wheat, Mr. Vincent also pointed out that it was a commodity also in very short supply. The Ambassador said that he understood that in view of the reduction in the needs for occupied areas, there might be wheat available for China. He said China would like to have 200,000 tons of wheat, of which 50,000 tons should be made available in the very near future.

I told him that I would have Mr. Clayton's office look into the matter of available supplies of cotton and wheat to determine exactly what was the situation.

Ambassador Koo again reverted to credits and said that there were certain projects such as the coal mines at Pehpiao and Fushin for development of which Export-Import credits might be made. I mentioned also the coal mines at Pinghsiang in central China.

I told him that I had last autumn recommended credits for the Canton-Hankow Railway and for the Yellow River Bridge⁷⁷ but that my suggestions had not been acted upon by the Export-Import Bank.

The Ambassador said that China required credits now not only for material assistance but for the psychological effect that the issuance of such credits would have in China. He mentioned this phase of the matter several times during the conversation.

Changing the subject, the Ambassador asked whether I had in mind issuing any new policy statement on China. I told him that the issuance of such a statement was a possibility but I had nothing definite in mind. I reminded him that the course of events in China would of course have a bearing on whether such a statement would be in order. The Ambassador said that an encouraging statement with regard to China now might prove very helpful and asked whether

⁷⁷ See telegram No. 1548, September 27, 1946, 9 a. m., from the Ambassador in China, *Foreign Relations*, 1946, vol. x, p. 1009.

I might not make one before I went to Moscow. I repeated what I had said and told him I did not care to make a prediction.

The Ambassador brought up the question of the Military Advisory Group and asked whether we intended to have such a group in China. I told him we already had a group there under the President's War Emergency power and that we were considering legislation of a general character to authorize the stationing of American military and naval missions abroad. We preferred, I said, general legislation to specific legislation for China. In this connection I expressed my disappointment that the Advisory Group in China had not been utilized by the government to bring about administrative reorganization of the Chinese Army in areas south of the Yangtze River. Ambassador Koo said that he would inform the Chinese Government of my comment.⁷⁸

Ambassador Koo referred, as he had previously in a conversation with Mr. Acheson and in a note to this Government,⁷⁹ to the question of whether China and the Far East were to be discussed at Moscow. He said that the Chinese Government would wish to be informed in advance if there were to be such discussions. I told him that I had no present intention of discussing Far Eastern matters at Moscow; that my hands would be pretty full discussing the matters on the agenda; and that discussion of the Far East there would be "jumping from the frying pan into the fire". Ambassador Koo agreed, and Mr. Vincent reminded the Ambassador that in our reply⁸⁰ to his note we had said that we would bear the Chinese Government's request in mind in the unlikely event that the Far East were to be discussed at Moscow.

The Ambassador again mentioned reparations and expressed the hope that we could move rapidly in getting out a directive on advance withdrawals. I told him that we hoped matters would move quickly in the FEC⁸¹ and that if they did not we were prepared to issue an interim directive. The Ambassador mentioned the matter of shipping out of Japan for advance withdrawal of reparations and expressed the hope that we might find some way of making an exception for China from the rule that recipients would have to assume charge of cargo at shipside in Japan. I mentioned the 159 ship purchase program⁸² as a possible solution for China's shipping difficulties in this respect but the Ambassador said that there was still some technical difficulty standing in the way of completing this project.

The interview began at 11:45 and terminated at 12:40.

⁷⁸ For correspondence on this subject, see pp. 785 ff.

⁷⁹ Dated January 15, not printed.

⁸⁰ Dated February 5, not printed.

⁸¹ Far Eastern Commission.

⁸² For correspondence on this subject, see pp. 942 ff.

893.50/2-1747

*Memorandum by the Chairman of the Chinese Supply Commission
(Wang) to the Secretary of State*

[WASHINGTON,] February 17, 1947.

The present economic situation in China is not beyond recovery if effective action is taken now showing confidence and constructive steps by the United States. The following action is recommended.

1. An emergency commodity credit of \$200,000,000 would permit China to import essential cotton, wheat, fertilizers and other raw materials needed to control the inflation in commodity prices and revive domestic production. This credit might be granted out of the \$500,000,000 now earmarked for China by the Export-Import Bank.

2. Also from the earmarked funds action should be taken at full speed to help restore the basic facilities and services necessary to a functioning economy, particularly transportation.

(a) Projects such as rehabilitation of railroads, harbors, public utilities and coal mines prepared by competent American engineering firms after surveys on the spot should be considered favorably by the bank now.

(b) In clearing these projects the spirit of flexibility and cooperation now being extended to France should be accorded to China. The French simply buy useful things within certain broad categories and send the bill to the Bank for reimbursement.

(c) Projects for the full available amount of the credit should be approved before June 30, 1947, the present date when the Bank has informally indicated it intends to take this money from China and use it elsewhere.

3. Favorable action should be taken on the Chinese request of May 27, 1946, to purchase from the Maritime Commission the vessels necessary for China's domestic and foreign commerce. China has \$5,500,000 on deposit with the Maritime Commission which would entitle it under the Ship Sales Act⁸³ to purchase more than forty ships, but none has been made available in spite of repeated approvals by the National Advisory Council and you. In the meantime, substantial numbers of ships have been sold to France, Argentina and Italy.

4. There are many other problems in Washington affecting China's economy, such as reparations, Sino-Japanese economic matters, and Pacific surplus,⁸⁴ expedition of which will aid China with no further burden to the United States. Many operational problems can be expedited if they receive broadminded review and frequent attention by some designated assistant on your staff.

5. Early announcement of a positive policy should halt panic and recover the ground recently lost by China. The Chinese Government can then reinstate effective control of the prices of textiles, rice, and

⁸³ Approved March 8, 1946; 60 Stat. 41.

⁸⁴ For correspondence on the problems of implementing the Surplus Property Agreement of August 30, 1946, see pp. 1242 ff.

utility services. Importation of commodities will prevent impending civil service and industrial disorganization and unemployment. Stabilization of industrial wages can be attempted, and export trade stimulated.

In answer to the pessimistic view that nothing can be done so long as there is civil strife, it should be pointed out that a huge region of China is not affected by civil strife. Support and improvement of the economy of this unaffected region is the only alternative to taking the risk of abandoning China to the fate of a state disorganized through economic or monetary collapse in its large cities.

893.50/2-1747

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] February 17, 1947.

Participants: Dr. S. C. Wang and Mr. William Youngman
of the Chinese Supply Commission
Secretary Marshall
Mr. Ringwalt, CA ⁸⁵

Dr. Wang handed me the attached "Memorandum for Secretary of State Marshall" dated February 17, 1947 ⁸⁶ and in the conversation which followed he made an impassioned and somewhat disjointed appeal for early economic assistance to China. He asked for quick action for emergency cotton and food credits. He stated that China had only enough cotton to last until summer and that in view of the very substantial allocations of wheat for Europe we might spare at least 50,000 tons of wheat as a first installment for China. He expressed particular concern over the slowness with which the various approved programs for assistance to China were moving and made special reference to the \$500,000,000 Export-Import Bank fund tentatively earmarked for China last spring.⁸⁷ He asked that China be given a certain flexibility in connection with loan operations similar to that currently enjoyed by the French. I informed Dr. Wang that whereas I had exerted my every effort to expedite action by the Export-Import Bank last spring the Chinese themselves must accept responsibility for their failure to agree to the terms offered them at that time, that as he was well aware I had continued to press for certain project loans, but that I obviously could not control the activi-

⁸⁵ Arthur R. Ringwalt, Chief of the Division of Chinese Affairs.

⁸⁶ *Supra.*

⁸⁷ The Board of Directors of the Export-Import Bank formally approved the fund, April 9, 1946.

ties of the Bank. I then pointedly told Dr. Wang that notwithstanding my continued and patient efforts throughout the period of my mission in China the intransigent clique surrounding the Generalissimo was still in authority and had been able to defeat my every recommendation. I indicated that so long as this clique remained in power it would be very difficult to arrange for American assistance to China in the amount and along the lines suggested in Dr. Wang's memorandum.

The interview began at 2:30 p. m. and lasted until 3:15 p. m.

893.5151/2-1747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 17, 1947.

[Received February 18—1:50 a. m.]

299. The following economic emergency measures were announced February 16: (ReEmbtel 298, Feb. 17⁸⁸ and previous⁸⁹).

"1. Measures concerning the balancing of the national budget.

(a) Those budget appropriations of this fiscal year, made for various Government organizations and not considered of pressing necessity, shall be deferred. The Executive Yuan, together with the Comptroller General's office, shall draft regulations to effect this provision.

(b) The collections of taxes shall be rigidly enforced. Particular attention shall be paid to the collection of direct taxes and the increase of sources of tax revenue. The Ministry of Finance shall immediately draft measures for the implementation of these provisions.

(c) The sale of enemy and puppet properties and surplus commodities, under the control of Government, shall be expedited by different Government organizations concerned, and reports of the results shall be made every 10 days.

(d) Government operated enterprises, with the exception of heavy industries and those enterprises necessarily requiring Government operations, shall be sold publicly by issuance of stock shares or directly to private individuals and corporations.

2. Measures for the control of speculation in order to stabilize the currency.

⁸⁸ Not printed; it quoted a statement issued by the Chinese Ministry of Information on February 16 regarding regulations for the tightening of control over financial institutions (893.51/2-1747).

⁸⁹ An unnumbered telegram of February 16 quoted a statement issued by the Ministry of Information regarding measures to check speculation in and buying and selling of gold, prohibit the circulation of foreign currency notes, and govern foreign exchange deposits held abroad by Chinese nationals (893.515/2-1647).

(a) Immediate prohibition of the purchase and sale of gold.
(b) Immediate prohibition of the circulation of foreign currencies in the country.

(c) Strengthening of the regulation for currency transactions in order to control credit, thus harmonizing the Government's economic policy and stabilizing the currency market.

3. Measures concerning the expansion of trade:

(a) In order to maintain equilibrium of international payments and remedy the national depression, the foreign exchange rate shall be readjusted. This rate shall be fixed by the Central Bank of China from this day forth at CN \$12,000 to one U. S. dollar. The export bonus and import surcharge measures, promulgated on February 6, 1947, shall be abrogated.

(b) In addition to the readjustment of the foreign exchange rate, concrete measures for the improvement of production techniques, standardization of products, reduction of production costs and the exploitation of new markets shall be drafted and implemented by the export promotion committee.

(c) According to the revised import and export regulations, raw materials and machinery, which are to be imported this year to meet the urgent needs of Chinese industry, have an estimated cost of \$472,590,000 U. S. dollars, or its exchange equivalent. The quotas for the majority of the commodities under this allotment have already been fixed by the temporary Import Control Committee. This committee shall announce the established quotas from January to June. The Central Bank shall be prepared to pay the necessary foreign exchange for these imports, amounting to 200,000,000 U. S. dollars.

(d) In the temporary provision for the control of foreign exchange by the Central Bank, as now enforced, the part concerning the purchase and sale of gold and foreign exchange shall be revised.

4. Measures concerning adjustment of commodity prices and wages:

(a) The Executive Yuan shall designate certain localities for strict control of commodity prices. And the local governments and other organizations concerned of said localities shall mobilize the full strength of their areas to effect this control.

(b) The prices of daily necessities in those designated localities shall be fixed by consultations in accordance with the present regulations provided for that purpose.

(c) Salaries and wages in those designated localities, fixed according to the cost-of-living index, shall not be raised higher than the index of January 1947, nor shall basic salaries be increased in any way. But the factories shall ration food, clothing and fuel to their employees, who shall pay for these necessities at January 1947 prices.

The factories shall purchase the food, clothing and fuel needed through the Government and shall be absolutely forbidden from buying freely in the market, and thus breed suspicion of hoarding.

(*d*) The regulations regarding the control of agriculture, mining, industry and commerce during the emergency period, promulgated by the National Government in 1938, shall be vigorously enforced. The enterprises and commodities covered by those regulations shall be placed under effective control. The following are the principles of control:

(1) The treatment of labor and the profit from sales should be determined.

(2) During the period of enforcement of the present emergency measures, lockouts, strikes and sabotage are prohibited.

(3) Speculation, hoarding and other illegitimate activities are prohibited.

(4) Violators of the aforesaid regulations will be severely punished.

(*e*) Regulations prohibiting hoarding of daily necessities during emergency period shall be vigorously enforced. Violators will be severely punished according to these regulations and the regulations mentioned in the previous article, besides confiscation of the hoarded commodities.

(*f*) During the period of the enforcement of the present regulations, the local governments concerned are authorized to close certain financial markets in order to prevent speculation.

(*g*) The above measures will be enforced from the date of their promulgation.

5. Measures concerning provisions of daily necessities:

(*a*) The Government shall provide for the following daily necessities: rice, flour, cotton yarn, fuel, salt, sugar and food oils.

(*b*) Each month the Government shall provide the above-mentioned commodities to officials and teachers at fixed prices according to their legitimate needs. This measure shall first apply to the Shanghai and Nanking areas. The same commodities shall also be sold on the open market in order to stabilize prices.

(*c*) The Government can add to or reduce the kinds of commodities comprising article *a*, according to market and local conditions.

(*d*) The Government, besides handling directly the production, transportation and distribution of daily necessities, shall aid and encourage the citizens to engage in the same activities. A sufficient amount of rice and flour shall be imported from abroad by the Government.

(*e*) The Government shall gradually extend the provision of daily necessities to other important areas in addition to Shanghai and Nanking.

(f) The Supreme Economic Council shall be the supervisory body for directing provision of daily necessities; it will be responsible for deciding policy and auditing the operations.

(g) The Ministries of Economic Affairs, Finance and Food, and the National Resources Commission, under the direction of the Chairman of the Supreme Economic Council, shall be responsible for the provision of daily necessities according to their respective jurisdictions.

(h) Provincial and municipal governments shall supervise the merchants dealing in various daily necessities to ensure their compliance with the Government policy.

(i) The prices for daily necessities shall be decided and promulgated by the Government organizations concerned.

(j) Dealers in daily necessities shall not: (1) sell daily necessities at higher than fixed prices; (2) delay the sale of and hoard daily necessities. Violators of the above prohibitions will be severely punished as disturbers of the market.

(k) Detailed regulations shall be drawn up and enforced by various Government organizations under the guidance of the Supreme Economic Council.

(l) The present measures will be enforced from the date of promulgation."

Copies for Treasury, Commerce, and Agriculture.

STUART

893.50/2-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 17, 1947—9 p. m.

[Received February 18—4:25 a. m.]

300. Generalissimo's statement and measures adopted to cope with financial and economic crisis (re unnumbered Embassy's telegrams of February 16, 8 p. m. and 9 p. m.⁹⁰) are a forthright and statesmanlike approach to present crisis and will probably have immediate if only temporary effect of restoring degree of public confidence in Govt's ability to meet present problems. Castigation of Communists is much milder than in previous statements by Generalissimo, but familiar pattern of asserting Communist responsibility for major national ills is followed implying lack of any Government responsibility. Generalissimo again dedicates himself to solution of Communist problem by political means. Generalissimo's promise of

⁹⁰ Neither printed.

Government changes "within a few days" gives hope of reorganization of Government with broader base. During past few weeks, however, there has been a notable reluctance on the part of non-Kuomintang groups to assume partial responsibility for Government in a situation of crisis.

The following points are worthy of attention :

(1) Readjustment of the exchange rate at 12,000 is relatively realistic. It is interesting in this connection that the Generalissimo favored a rate of 15,000 which would have been preferable inasmuch as it would have given Central Bank a little more leeway, but the Generalissimo yielded to Soong and his advisers.

(2) Only cessation of civil war would create conditions for fiscal and currency stabilization. Measures to check transactions in gold and for prohibition of circulation of foreign currency notes are not likely to be more than temporarily effective. Chinese currency is so weak that insofar as these measures are enforced, flight into goods, which is already assuming significant proportions, will be encouraged. Sooner or later active dealings in gold and foreign currency will be resumed in private transactions, perhaps in a "blacker" market than previously. Mobilization of Chinese private foreign exchange assets abroad unenforceable.

(3) The decision to restrict price control to one or two areas and to specific commodities seems wise but there will still be serious problem of enforcement. In fact real test of Govt's ability to govern will be its success or failure in ensuring delivery of minimal essential supplies to key groups.

(4) Point 5 of statement provides for application of "rough and ready justice" in the collection of revenues, notably income tax, but on basis of past performance there is reason to doubt that this "justice" will be applied with the necessary impartiality and vigor to affect persons in high Government positions or their families and associates.

(5) Reference to self-sufficiency in cotton and tobacco by 1948 presupposes stability of conditions which will encourage farmers to engage in the production of cash crops rather than food crops; traditionally the Chinese peasant in troubled times has tended to forsake the former for the latter. In any event bumper cotton and tobacco crops in the fields can have little effect upon the over-all situation in the absence of adequate transportation facilities to move produce. In spite of the statement that railways in operation show "an increase by 50 percent" since the Government reoccupation of Japanese-controlled areas, it is an unfortunate fact that no major rail line north of the Yangtze River has been maintained in continuous operation during the past 6 months.

In this connection all present indications are to effect that conditions are worsening rather than improving due to continuous Communist harassment.

102.1/2-1947 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 19, 1947—noon.

203. For Adler from Treasury. Cable whether announced changes in monetary policy affect use of Hong Kong open market rate for Navy procurement of yuan. Also request info on any official measures taken to terminate use of US currency for troop pay. [Treasury.]

MARSHALL

893.51/3-1747

Memorandum by Mr. Charles R. Bennett of the Office of Far Eastern Affairs, to the Director of the Office (Vincent)

[WASHINGTON,] February 20, 1947.

All close observers of the China situation agree that from both the economic and the political point of view one of the most fundamental needs is the restoration of trunk lines of transportation. Such restoration combined with the already augmented coastal and inland waterways shipping is necessary not only to the movement of exports and imports but also for the supply of consumption and manufacturing supplies to urban areas. The political situation, however, is such that for the time being the reconstruction and re-equipment of trunk lines should be confined as far as foreign funds are concerned to areas not in immediate contact with the Kuomintang-Communist struggle.

The Chinese have asked the Export-Import Bank for \$103 million for six trunk lines and the Yellow River Bridge. It seems desirable however to avoid for political reasons financing rail lines in or leading into the Communist threatened areas. Three of the lines in the Chinese list might be considered [:] the Lung Hai which is the principal East-West line connecting West Central China with the sea, the Hankow-Canton-Kowloon line connecting the Yangtze River with the South Coast and the Hangechow-Shanghai-Nanking, traversing the rich provinces of Kiangsu and Chekiang and linking up with the war-dismantled line which connected with the Canton-Hankow near Changsha. For these three lines the Chinese ask for \$64 million. Their estimate for the Hankow-Canton-Kowloon is \$42,654,000. The total original cost of this line for bridge, track, signals, telephone and telegraph and rolling stock was roughly \$20 million. Allowing for 50% destruction and deterioration and allowing for higher present day costs of materials and delivery \$20 million would seem a liberal figure for rehabilitation especially as much of their rolling stock is adequate to Chinese needs. Using this analysis for judging the other

lines which have suffered more from deterioration than war destruction, consideration might be given to say:—

Hankow-Canton-Kowloon Ry.	\$20 million
Lung Hai	6 “
Hangchow-Shanghai-Nanking	5 “
	<hr/>
Total Railway Credits	\$31 million

Harbors

The new Tangku Harbor project has been almost fifty percent completed—40% by the Japanese. It already permits the passage of coast steamers up to 3,000 tons. A great deal more work must be done to permit of safe anchorage of ocean going steamers within the break-water protected harbor. Foreign estimates of costs of lighterage and demurrage for ships lying outside the Taku Bar are more than one and one-half million dollars per annum. This project seems highly practical and undoubtedly of great benefit to domestic and foreign trade. It is one of the few North China projects free of interference from civil war, though of course its full usefulness cannot be attained until the back country is stabilized. The amount asked for is \$16,750,000. In the absence of supporting technical data the need for such an amount is open to question. To complete the project which includes two shipyards an estimate of three or four years is given. It might be well to consider a two years allowance of \$8,000,000 with the expectation that completion can be accomplished out of revenue.

The Shanghai Harbor facilities were inadequate even before the war and a harbor development in the Woosung area was begun. That such development is economically desirable has not been questioned so far as I am aware and certainly if Shanghai is to handle the commerce that may conservatively be expected a great deal of improvement in its facilities must be achieved. However, a cautious attitude in initial credits is wise in the interests of promoting essential improvements first. Suggest the requested \$5,000,000 to be cut to \$3,000,000.

Much the same line of reasoning would indicate a cut in the Tsingtao Harbor request to \$1,000,000. Unless this harbor was badly damaged during the war, the Japanese development and equipment must have left pretty fair facilities. However, harbor improvement like transportation is generally desirable.

Coal Mines

While the great need of China is a restoration and development of her export trade to pay for essential imports, transportation and power are prior necessities. Coal therefore is of urgent importance. Before the war China exported more coal than she imported. Now

she can't supply her domestic needs. For the restoration and modernization of accessible coal mines within areas controlled by the Central Government consideration might be given to a total credit of \$10 million which is about the amount of the request for the Fuhsin and Peipiao and Chungshing Mines. The amount suggested might well, however, be allocated to a wider field than that of these three alone. For the immediate future a large increase in coal production is more important than the latest devices for future development. Modest equipment for *more* mines.

Formosa

The possibilities for Formosa to develop a large export trade have been commented on by various independent observers. One of the growing needs of Chinese agriculture (the backbone of the Chinese economy) is artificial fertilizer. No fertilizer industry of this type existed to a significant degree in China before the war. A great development is possible in the demand for such.

China's consumption of sugar is still relatively small but increasing and the sugar industry in China was assuming considerable importance before the Japanese attack. Formosan sugar would find a market however in foreign trade and in the domestic canning industry.

Sugar production requires fertilizer and sugar controls and fertilizer factories require power. Consideration might well be given to the three requests—Taiwan Electric Power Company \$4,400,000, Taiwan Fertilizer Manufacturing Company \$3,400,000 and Taiwan Sugar Industry \$4,200,000. Specific amounts for industrial projects can only be determined after technical survey on the spot. However though the power plant suffered some from bombing recent reports indicate the damage much less than at first reported. In Formosa the Japanese promoted the use of artificial fertilizer and even in China the use of such is increasing and probably is essential to any extensive improvement in agriculture. In 1938 Formosa exported 700,000 tons of rice, 250,000 tons of bananas, 1,000,000 tons of sugar and 3,000,000 dozen canned pineapple. An early restoration and development of this trade will provide a large amount of foreign exchange. Suggest however a reduction of the total requested credit from \$12 million to \$8 million (Power \$2,000,000, Sugar \$3,000,000 and Fertilizer \$3,000,000).

North China Industrial Restoration

The amount asked for is small but in view of the political situation there would seem no urgency for the projects listed with the possible exception of the Chi Pei Electric Power Company. Even this might better wait on more settled conditions.

Summary

Hankow-Canton-Kowloon Ry.	\$20	millions
Lung Hai Ry.	6	"
Hangchow-Shanghai-Nanking Ry.	5	"
	<hr/>	
Railway Credits	\$31	"
New Tangku Harbor	8	"
Shanghai Harbor	3	"
Tsingtao Harbor	1	"
Coal Mines	10	"
Taiwan Electric Power Co.	2	"
Taiwan Fertilizer Mfg.	3	"
Taiwan Sugar Industry	3	"
	<hr/>	
Total	\$61	"

In addition to the above serious consideration should be given to the Chinese request for a short term loan of \$150 million for 1,100,000 bales of raw cotton. However whereas Dr. Soong estimates requirements at 1,100,000 bales to July 1, 1947, the Embassy estimates on the basis of 1947 native production being at least as high as 1946, is only 500,000 bales for the whole of 1947 and this includes a probable carry over December 31, 1947 of 500,000 bales. For the present then it would seem that 250,000 bales would fill all China's effective needs. Unofficial reports indicate very large stocks of raw cotton hoarded by private individuals as well as textile companies and raw cotton production prospects are excellent. This would add \$40 million to the above figure making a grand total of \$101,000,000.

102.1/2-2247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 22, 1947—5 p. m.

[Received 11:40 p. m.]

345. From Adler to Secretary Treasury and on Butterworth's request for appropriate distribution in Department of State. Returned Nanking February 21.

(A) Saw Soong in Shanghai February 18. He informed me that impact of emergency regulations in Shanghai was successful and that he intended to enforce them vigorously—in an aside he said that secret service was acting under his personal instructions.

He then proceeded to raise the following problem. The Government had promulgated measures governing foreign exchange and deposits abroad on February 16 (cabled by Embassy on February 17 [16]⁹¹) and was preparing supplementary regulations to enforce

⁹¹ Unnumbered telegram not printed, but see footnote 89, p. 1071.

them. He wished to obtain Treasury's informal response to these supplementary regulations adding that without foreign cooperation they could not be enforced. I said, "Then you are asking for our cooperation?" To which he replied, "Not asking but begging."

Saw Soong again on the 19th when he informed me that his plan was first to require registration of all Chinese assets abroad, after which the Government could decide on steps to vest them. He repeated that without American and British cooperation, this measure could not amount to much and told me that he was asking for British cooperation also, particularly with respect to Hong Kong. The forms of cooperation he envisages are:

a. Receiving a list of Chinese depositors in the US and in the British Empire.

b. Reblocking of Chinese assets in the US and the sterling area.

He, of course, realizes that (*b*) is quite unlikely. On February 20 he sent me a draft of the proposed regulations which are transmitted in Section II.⁹²

(B) Undoubtedly China's balance of payments position is such that there is a case for vesting Chinese private assets abroad. From our point of view this case is all the stronger, since it is inevitable that with the running down of her official foreign exchange holdings her requests for financial assistance from US and from the International Bank will become more frequent and pressing.

At the same time:

1. It would have been preferable for the Chinese authorities to begin by moving effectively against Chinese private foreign exchange assets in China—particularly gold and foreign currencies—before asking for our cooperation on the vesting of Chinese private foreign exchange assets abroad.

2. For the Treasury to give a list—if available—of Chinese private depositors in the U. S. to the Chinese Government would create an awkward precedent.

3. Reblocking of Chinese assets in the U. S. would constitute a flat reversal of the domestic policy to which we are committed—namely, the gradual relaxation and eventual abandonment of wartime economic and financial controls.

I accordingly recommend that the Treasury's reply to Soong's request for cooperation be sympathetic and friendly in tone but non-committal in substance and making reference to (B) 1 above.

(C) I understand that Soong will go ahead with the regulations, whether or not foreign cooperation is forthcoming, but that he may delay their announcement until he hears from you and from British Treasury. [Adler.]

STUART

⁹² Received in the Department as telegram No. 344, February 22, 5 p. m.; not printed.

102.1/2-2247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 22, 1947—8 p. m.

[Received February 23—5:25 a. m.]

347. From Adler to Treasury. Was informed by Pei in Shanghai on 19th that with new regulations and new rate use of Hong Kong open market rates for settling Army and Navy expenditures was automatically terminated (ReEmbtel [*Deptel*] 203, February 19, noon) and that henceforth Army and Navy could procure CN dollars at 11,900.

Point 5 of "measures for prohibition of circulation of foreign currency notes" promulgated on February 16 and cabled [by] Embassy on February 17 [16]⁹³ prohibits payment of salaries, allowances and stipends in foreign currency. But it is not clear whether Chinese authorities intend to include payment of foreign personnel of foreign government agencies in this regulation. Both Soong and Pei informally raised the question of troop pay with me. I was noncommittal in my comments pointing out that Army and Navy could not even consider making troop pay in CN dollars without a firm repurchase commitment from Central Bank. I have also advised Army and Navy to stall if they were officially approached to make troop pay in CN dollars. In the meantime Army and Navy are continuing to pay troops in U. S. currency, but have asked Central Bank to provide convenient facilities to enable troops to exchange US currency at 11,900 so as to reduce chance of their frequenting black market. [Adler.]

STUART

102.1/2-2547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 25, 1947—3 p. m.

[Received February 25—9:10 a. m.]

369. From Adler to Secretary of Treasury. Saw Soong this morning. (ReEmbtels 344⁹⁴ and 345 of February 22.) In reply to a general question, he said the recent emergency measures had been politically successful but did not affect the underlying economic situation and, therefore, gave only temporary respite. He informed me that about US dollars one quarter million of currency were being turned in daily to Central Bank, chiefly in form of gold notes and notes of large denominations; he did not expect this inflow to continue for long. Exports and inward remittances had also picked up for the time being.

⁹³ Unnumbered telegram not printed.⁹⁴ Telegram No. 344 not printed.

He then took up the subject of the mobilization of Chinese private assets abroad and asked how soon I expected to hear from the Treasury, to which I replied, "probably around the end of the week". He showed me the final draft of the supplementary foreign exchange regulations reported in Embtel 345. The most important change was the inclusion of vesting in the regulations; this apparently had been added by O. K. Yui.⁹⁵ The measure is to go before the Supreme National Defense Council tomorrow. [Adler.]

STUART

893.24/2-2647

The Secretary of State to the Chinese Ambassador (Koo)

The Secretary of State presents his compliments to His Excellency the Chinese Ambassador and has the honor to refer to this Government's agreement with the Government of China on the Principles Applying to Mutual Aid, signed June 2, 1942,⁹⁶ and to article 7.d. of the agreement of the two Governments for the Sale of Certain Surplus War Property, signed August 30, 1946, and proposes the initiation in Washington on or before April 15, 1947 of negotiations for the final settlement of war accounts outstanding between the two Governments, including obligations of both Governments under the Mutual Aid Agreement. It is proposed that the Chinese Government at its earliest convenience designate the persons who will represent it in these negotiations.

WASHINGTON, February 26, 1947.

893.51/3-1747

Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

[WASHINGTON,] February 28, 1947.

There is attached a memorandum⁹⁷ in regard to possible future credits to China. You will note that the total comes to about \$101,000,000. Over \$60,000,000 is for transportation, mining, harbor improvement, and manufacturing, and \$40,000,000 is for cotton. This latter figure represents what China hoped to get in the way of cotton from UNRRA. It now appears unlikely that UNRRA will be able to approve the request.

In having this memorandum prepared my thought is that we may

⁹⁵ Chinese Minister of Finance.

⁹⁶ At Washington; Department of State Executive Agreement Series No. 251, or 56 Stat. (pt. 2) 1494.

⁹⁷ By Charles R. Bennett, of the Office of Far Eastern Affairs, February 20, p. 1076.

want or have to come forward at some not too distant future time with a definite recommendation with regard to credits for China. At that time I think we should be ready to say that we have examined the situation in so far as available facts will permit and, after discussion with the ExImBank, are prepared to support China's requests for certain definite projects. I believe that the psychological effect will be beneficial if we are prepared to say that the projects aggregated \$100,000,000 and that therefore we recommend that this portion of the \$500,000,000 loan be made available.

I do not, as I have indicated, know when this time will come, nor do I have any assurance that the ExImBank will be favorably inclined at that time, but our own position vis-à-vis China and vis-à-vis those in this country impatient to aid China would be strengthened if we were in a position to say something positive and definite.

102.1/2-2847 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 28, 1947—7 p. m.

248. For Adler from State, Treasury, War and Navy. In absence text of agreement not yet received here, not understood how Chinese can claim agreement automatically terminated. (Embtel 347, Feb 22.) Unless there was clear understanding on both sides at time of agreement that it would terminate under circumstances such as now exist, you are instructed to inform Pei and Soong that US Govt considers agreement still in effect. War and Navy are agreeable to use of official rate only so long as no more favorable rate for US dollar would appear on Hong Kong basis in accordance original understanding with Chinese Govt.

If, however, present Hong Kong rate is radically out of line with your appraisal of realistic purchasing power of yuan, you are authorized to hold up above communication and report fully to Washington.

Re last sentence your 347, steps taken by Army and Navy re troop pay question are approved. [State, Treasury, War and Navy.]

MARSHALL

102.1/3-347 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, March 3, 1947.

[Received March 4—10:44 a. m.]

522. For Treasury, State, Commerce from Casaday. Shanghai press Sunday and Monday announced acceptance by Generalissimo of

resignation of Tsu-ye Pei as Governor General of Central Bank. Resignation said to have been tendered last September. This morning's *China Press* reported that Chang Kia-ngau, Assistant Governor General of Central Bank, is scheduled to assume the Governorship to-day. The same news article also contains the following statement:

"Meanwhile authoritative sources made public the fact that Chang will stabilize the currency and force down commodity prices and stabilize the erratic economy. They also scotched the rumor circulating in the economic circles that the National Government would reform its economic policy.

The central policy of a country will not be affected by a reshuffle in personnel, the same quarters pointed out. Furthermore, the emergency economic measures were approved by Generalissimo Chiang Kai-shek himself. Since the Generalissimo will temporarily act as President of the Executive Yuan⁹⁸ he will not effect any change in policy but endorse its enforcement, the same circles point out."

Chang Kia-ngau is reported to have recently arrived in Nanking from Changchun where he held post of Chairman of the Economic Affairs Commission of the President's Northeast Headquarters.

Repeated Nanking 381. [Casaday.]

DAVIS

102.1/3-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 4, 1947—10 a. m.

[Received March 4—3:06 a. m.]

436. From Adler to Secretary of Treasury: Text of exchange of letters between Pei and me and all background material transmitted as enclosure 2 of my letter No. 5 of February 4 to Jenkins.⁹⁹ (Reference your telegram 248 of February 28.) In your telegram 104 of January 28 to me in Shanghai¹ you agreed to use of phrase "for time being". This phrase was vital to both parties as with obviously unstable situation Hong Kong cross rate might easily cease to be a reliable indicator. Since exchange adjustment of February 16 Hong Kong cross rate appears to have been lower than official rate in Shanghai, and we are at the moment better off using official rate than Hong Kong cross rate. There is therefore nothing to be gained by raising question of Hong Kong cross rate with Chinese Government now, though it can be used as a precedent later.

It should be pointed out that as period of increasing instability is to be expected, we must be prepared to adopt temporary expedients

⁹⁸ Dr. Soong had resigned.

⁹⁹ David Jenkins, Division of Monetary Research, Department of the Treasury.

¹ See footnote 35, p. 1043.

and if there is no alternative to finance Government expenditures by sale of U. S. currency. The expedient of the Hong Kong cross rate saved the U. S. Government a considerable sum of money, as following quotation from cable from Navy Shanghai repeated to me underlines: "Rates obtained were above our fondest hope. Six billion of one three settled at eleven nine hundred. Seven five million of one four at ten seven hundred." [Adler.]

STUART

893.51/3-447

Memorandum by the Secretary of State to the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] March 4, 1947.

Re: Chinese Loans

I have gone over your memorandum of February 28 on the above subject, and also Mr. Bennett's memorandum to you of February 20.

I am in general agreement with your analysis of the requirements.

What I would like you to do is to press in my name Mr. Martin and the Export-Import Bank Directors for favorable consideration of the loans for the Hankow-Canton-Kowloon Railroad, for the new Tangku Harbor, and for an initial loan for the reconstruction of the coal industry. The other items are important but as a beginning I would like to have you press for the three items listed above.

I think the time has come when we must take some prompt action towards the rehabilitation of certain specific industries.

Please explain to Mr. Martin that I do not find the time to speak to him personally about the above but I am hopeful for favorable consideration.

G. C. MARSHALL

102.1/2-2247: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 7, 1947—6 p. m.

284. 1. Pls inform Chinese authorities (urtel 345, Feb 22) along following lines (For Emb and Adler from Dept and Treas).

"After most serious consideration this govt regrets that it is unable comply with Mr. Soong's request to Mr. Adler on Feb 19, 1947, for the reblocking Chinese assets in US or for info available to this govt concerning assets in US owned by Chinese persons. Reimposition freezing controls over Chinese assets not only impracticable in view administrative difficulties but would also be completely contrary to commitments made to Congress to effect that our wartime controls will be eliminated as rapidly as possible. Info available to this govt

concerning assets in US of Chinese persons obtained by Treas thru its TFR-300 census as wartime measure to assist primarily in implementation its wartime freezing controls. Requests from other foreign govts for this type info have been refused."

2. Any comments Treas may have concerning draft foreign exchange regulations (urtel 344, Feb 22³) will be transmitted separately. [Department and Treasury.]

ACHESON

102.1/3-447: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 7, 1947—7 p. m.

287. For Adler from Treasury. As matter of construction [it] would not appear phrase "for the time being" necessarily provided termination agreement. Realize may be easier secure new agreement present officials than recognition Pei agreement.

Agree no advantage Hong Kong rate at present, but desire periodic reports Hong Kong market, and meanwhile request retention our position on Hong Kong arrangement if at all possible. (Reurtel 436, Mar 4). For reasons stated Ourtel 65, Jan 15, desire details of other possible temporary expedients to be used in event that serious deviation black market from Central Bank rate recurs. [Treasury.]

ACHESON

893.51/3-1147

The Secretary of State to the Ambassador in China (Stuart)

No. 279

WASHINGTON, March 11, 1947.

The Secretary of State transmits herewith for the information of the Officer in Charge a copy of an amendatory agreement³ signed by the Representatives of the Republic of China, the Central Bank of China, the National Resources Commission of China and the Export-Import Bank of Washington. The purpose of the amendment is to extend the availability of the credit of \$50 million authorized on November 30, 1940⁴ to the Central Bank of China to finance the purchase in the United States of agricultural machinery and industrial products. The credit expired on December 31, 1946 and with this amendatory agreement, the credit is extended to June 30, 1947. While

³ Not printed.

⁴ See oral statement of the Department of State to the Chinese Embassy, December 4, 1940, *Foreign Relations*, 1940, vol. iv, p. 705.

the amendatory agreement has just recently been signed, it is made effective as of December 31, 1946 in order to conform with the necessary legal requirements.

893.50/3-1147

The Ambassador in China (Stuart) to the Secretary of State

No. 555

NANKING, March 11, 1947.

[Received March 21.]

The Ambassador has the honor to refer to the Embassy's plain-text telegram of February 16, 1947 (unnumbered),⁵ and nos. 298⁶ and 299 of February 17, 1947, containing the text of the Economic Emergency Measures and related rulings decreed February 17, 1947 by the Chinese Government, and to the Embassy's telegram no. 300, February 17, 1947, giving brief comment on certain aspects of the Measures. Enclosed is a copy of the Regulations for the Enforcement of Measures Regarding the Provision of Daily Necessities,⁷ announced in Nanking on February 19, 1947, which are intended to implement one provision of the Economic Emergency Measures.

There appears below a discussion of the Economic Emergency Measures—in summary and then in detail—which evaluates them in relation to the history of similar measures in China and the degree of success which may be expected from them.

Summary

While some favorable results may materialize from the Economic Emergency Measures, they cannot, in the circumstances, achieve a lengthy stabilization. Some increase in revenues may be effected, the reduction in certain expenditures may be sizeable, and for a short time certain wages and prices may be stabilized. These, combined with the control over imports already introduced in the Revised Temporary Foreign Trade Regulations,⁸ are contributions toward a more stable economic and financial situation. But they are far from sufficient. The factors making for inflation in China today are sufficiently powerful to make it doubtful whether even the strictest, most conscientious, and thorough-going enforcement of the Economic Emergency Measures could succeed in controlling the situation. It is understood that henceforth the Government intends to employ large numbers of secret agents who shall apply whatever strong-arm meth-

⁵ See footnote 89, p. 1071.

⁶ See footnote 88, p. 1071.

⁷ Not printed.

⁸ See telegram No. 1910, November 19, 1946, 4 p. m., from the Ambassador in China, *Foreign Relations*, 1946, vol. x, p. 1024.

ods they may deem necessary to bring about compliance with the regulations of the Government. But it is feared that rather than bringing compliance, such steps will lead to resentment among the populace and increase the likelihood of physical disturbances representing protests against the conditions under which people are forced by circumstances to live. The demands made on the economy today are simply far greater than it can meet.

Considering, therefore, the realities and difficulties to be faced in implementing the Measures as outlined below—the lack of adequate and trained administrators, the insufficient wage of public servants, the enormous and continuing military expenditures, the disruption of internal distribution, and the time required to reap the results from the positive steps which might be taken to meet the situation—it is difficult to imagine how more than a short period of stabilization can be achieved. This in itself is a laudable accomplishment, especially if otherwise the existence of the Government and the internal urban economy might have been threatened. But no one is deluded that the stabilization will remain in effect for long. The Government has established for itself a slight breathing spell—partly because of the institution of drastic requirements which surely no one wishes immediately to circumvent, and partly because the Measures have a certain psychological value. *End of Summary.*

[Here follows detailed discussion of economic emergency measures.]

893.00/3-1447

*Memorandum by the Director of the Office of Far Eastern Affairs
(Vincent) to the Secretary of State*

[WASHINGTON,] March 14, 1947.

In accordance with instructions contained in your memorandum of March 4⁹ (copy attached for ready reference), I had lunch with Mr. Martin of the Eximbank and, after informing him of the contents of your memorandum, I went to some length in explaining our thinking at this time with regard to help and credits to China in relation to the developing political situation.

I told him that we were concerned over the situation in China and desirous of being helpful in a practicable way but without impairing our position that substantial or large scale support should not be forthcoming until there was some degree of real improvement in conditions in China. I emphasized specifically, of course, your desire

⁹ *Ante*, p. 1085.

that the Bank give favorable consideration to credits for the Canton-Hankow Railroad and the Tangku Harbor Works. I suggested that the Bank might meet its problem of obtaining reasonable assurance of repayment by having terms which would provide for service on the credit as a first charge on revenues and by placing Americans in supervisory positions—chief accountants and possibly chief engineers.

Mr. Martin described the position and attitude of the Bank in terms that are already well-known to you. He pointed out that the two specific credits I had mentioned were for reconstruction and that theoretically the money should be obtained from the International Bank. He said that he would soon have to appear before the Congress in regard to legislation for the continuation of the Bank and that the granting of credits to China under present conditions might seriously embarrass him before the Congress.

Mr. Martin clearly indicated that he was sympathetic with what you were trying to achieve with regard to China; but he was not encouraging with regard to the Bank's being helpful. He went on to say that nevertheless he would take up the matter of the two credits informally with the Directors of the Bank and let me know the outcome. He asked that I tell you this. I believe he would like to grant the credits but is certain the two Republican Directors would oppose and fears the consequence of such a division.

I have also talked with Mr. Gaston and Mr. Gauss, Directors of the Bank, about this matter. I explained your ideas and went on to say that we could not wait in giving help to China until the last shot was fired and Jeffersonian democracy burst forth in full bloom.

With regard to the two specific credits, I made the same suggestions as I made to Mr. Martin. I said that, if within the next few weeks the Chinese took sincere though limited steps to improve the Government, we should be prepared to meet this move with evidence of approval in the form of limited credits.

Both Mr. Gaston and Mr. Gauss expressed approval of what you were trying to achieve in China, but they both stated that credits under present conditions could be classed only as political and that they did not approve making political loans. They suggested that the Department might go directly to Congress to obtain financial assistance for China. However, in conclusion, they said that they would be willing to consider with an open mind any proposals for credits to China brought before the Directors of the Bank by the State Department member. Their attitude was not hostile but it was not, as you can see, encouraging. Mr. Gaston, I was surprised to find, was more unsympathetic than Mr. Gauss.

102.1/3-1547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 15, 1947—10 a. m.

[Received March 17—6:33 a. m.]

565. For State and Treasury from Adler.

1. Informed Minister of Finance and Governor of Central Bank of your response to Soong's request. (Reference your telegram 284 of March 7.) Finance Minister made no comment but Governor said he supposed Chinese Govt would have to rely for mobilization of Chinese private assets abroad on appeal to patriotic motives (an appeal from which in light of previous experience here too much cannot be expected).

2. Governor informed me with some pleasure that Central Bank had been buying foreign exchange at rate of US \$1 million a day in last 10 days, chiefly in form of export bills and US currency.

3. One of Soong's advisers informed me that of 5 major resolutions to be presented to imminent meeting of Kuomintang Central Executive Committee 1 will be concerned with economic recommendations and policy. [Adler.]

STUART

102.1/3-1547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 15, 1947—10 a. m.

[Received March 15—5:07 a. m.]

566. From Adler to Treasury.

1. Do not see how possible to obtain Chinese consent retention our opposition [*position?*] on Hong Kong cross rate while at same time abandoning its use for post February 16 and current transactions. (Reference your telegram 287 of March 7.) Therefore fully agree it will be much easier to secure new agreement present officials when black market for United States currency re-emerges and Hong Kong cross rate diverges in our favor from official rate than recognition of Pei agreement. In securing such new agreement previous use of Hong Kong arrangement under Pei agreement would serve as a strong precedent on our side.

2. Am continuing to receive daily reports on Hong Kong market. Hong Kong cross rate still well below official rate, hovering above 10,000.

3. Re temporary expedients, these would have to be improvised in

consultation with you with reference to future circumstances depending on degree of further economic deterioration, degree of efficacy of Chinese Government controls, and spread between different markets and rates. There will be a number of possible alternatives, among others (a) Hong Kong cross rate, (b) sale of United States currency or Treasury checks or drafts to Central Bank at current Shanghai open market rate for United States currency, (c) sale of United States currency in black market in Shanghai and elsewhere, (d) sale of gold, and (e) possibly even Macao cross rate should Hong Kong authorities move against open market for United States currency in Hong Kong. For reasons already stated impossible to make prior decision now on which of these temporary expedients will have to be resorted to. [Adler.]

STUART

893.51/3-1747

Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Under Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] March 17, 1947.

I am attaching a copy of a memorandum¹⁰ which I sent to General Marshall last Friday together with a copy of his instruction¹¹ which caused me to take the action reported in my memorandum.

The prospects of favorable action are clearly not encouraging, but knowing how earnestly the Secretary desires that something be done I think that we ought to leave no stone unturned here in trying to do something. Incidentally, he spent an hour with me the day before his departure talking over this matter.

I am also attaching a copy of my earlier memorandum¹² and Bennett's memorandum¹³ to which the General refers in his instruction to me. These memoranda grew out of an earlier conversation I had with him.

I should like to talk to you about this as soon as you can conveniently arrange the time. You will note that I have sent copies of my memorandum to the Secretary to Mr. Thorp¹⁴ and Mr. Ness.¹⁵ It will be helpful if they could be present at our meeting.

J[OHN] C[ARTER] V[INCENT]

¹⁰ Dated March 14, p. 1088.

¹¹ Memorandum of March 4, p. 1085.

¹² Dated February 28, p. 1082.

¹³ Dated February 20, p. 1076.

¹⁴ Willard L. Thorp, Assistant Secretary of State for Economic Affairs.

¹⁵ Norman T. Ness, Director of the Office of Financial and Development Policy.

893.51/3-1747

The Chairman of the Board of Directors of the Export-Import Bank of Washington (Martin) to the Director of the Office of Far Eastern Affairs (Vincent)

WASHINGTON, March 17, 1947.

DEAR JOHN CARTER: I discussed with the Board of the Bank the proposal of the Secretary with respect to the Canton Railroad, the Tangku Harbor and the rehabilitation of the coal industry.

While they did not completely close their mind on the subject, the position I outlined to you at lunch is, in general, the position of the Board. I would suggest that this matter be postponed unless, of course, you or Mr. Thorp would like to raise it formally at a Board meeting.

Sincerely yours,

WM. McC. MARTIN, JR.

893.61321/3-2747

Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Assistant Secretary of State for Economic Affairs (Thorp)

[WASHINGTON,] March 18, 1947.

DEAR WILLARD: With reference to the memorandum I sent you a day or so ago¹⁶ in regard to credits to China, I am sending you a copy of a letter to me from Bill Martin.¹⁷ I have also sent a copy to Mr. Clayton.

Am I right in guessing that your vote and that of Norman Ness is for postponement? I should like to see the matter raised with the Bank, provided no harm would come from doing so, even though favorable consideration would not be forthcoming. I have not found, as I said in my memo to the Secretary, that the Directors were antagonistic, but I will admit that they seem to be determined on a negative approach to this problem. What I should like to do is prepare the ground so that if there is some degree of real improvement in the Chinese Government during the next few weeks, we could give recognition to this improvement by having the Bank show a willingness to consider limited credits for selected projects. It seems to me that only in this way can we encourage the Chinese Government along the lines we want; that is, by pacing our assistance to steps the Chinese Government may take towards improvement.

¹⁶ Addressed to Mr. Clayton, March 17, p. 1091.

¹⁷ *Supra.*

893.61321/3-2747

*Memorandum by the Director of the Office of Far Eastern Affairs
(Vincent) to the Secretary of State*

[WASHINGTON,] March 27, 1947.

With reference to my memorandum of March 14, I am enclosing a copy of a note of March 17 from Mr. Martin of the Eximbank¹⁸ and a copy of my memorandum to Mr. Thorp.¹⁹ Yesterday Mr. Clayton went over this matter at some length with me. He is of the opinion that it would be impracticable and inopportune to bring formally before the Directors of the Bank any suggestions for credits to China for long-term construction projects. He was certain that, under present conditions, the response would be unfavorable. He did say, however, that it might be worth discussing with the Directors a short-term commodity credit for cotton of some \$40,000,000 or \$50,000,000, but he felt that it would be necessary for the Chinese to agree to set aside a certain portion of the manufactured product for export to markets where it would be possible to obtain US dollar exchange for the repayment of the credit. He will explore this matter. In this connection it is interesting to note that Shanghai Consulate General reported in a recent telegram²⁰ that Chang (new head of the Central Bank of China) "would shortly be approaching US Government for at least moderate cotton loan" and that Central Bank would agree to partially servicing loan through increase of textile exports.

The prospects are brighter now than when you left for obtaining some cotton for China from UNRRA, but final decision has not yet been reached.

I have a personal letter²¹ from Chang Kai-ngau of the Central Bank in China in which he outlines his ideas for rebuilding the confidence of the people and asks for advice but not assistance. Because I have great respect for Chang's ability, I should like, if it were possible, to strengthen him in his new position by some limited measure of financial assistance.

The SWNCC²² has requested the JCS²³ to prepare a study of the military aspects of the China problem. The JCS have been informed that Colonels Caughey²⁴ and Hutchin²⁵ are ready to give background

¹⁸ *Ante*, p. 1092.

¹⁹ *Supra*.

²⁰ Telegram No. 744, March 25, not printed.

²¹ Not found in Department files.

²² State-War-Navy Coordinating Committee.

²³ Joint Chiefs of Staff.

²⁴ Col. J. Hart Caughey, former Executive Officer of General Marshall's staff in China.

²⁵ Lt. Col. Claire E. Hutchin, former member of General Marshall's staff in China.

information on the problem. It is my opinion that we must exercise the utmost care and judgment in reaching a decision with regard to arms for the National Government. I do not think that the time has come for all-out military aid to Chiang, and I feel there is basis for hope that it will not come, although limited assistance of one sort or another may be advisable.²⁶

Mr. Acheson, as you probably know, did a very good job of explaining to Congress how the Greece and China problems, in so far as method of approach is concerned, are not on all fours.²⁷

J[OHN] C[ARTER] V[INCENT]

102.1/3-2847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 28, 1947—3 p. m.

[Received March 28—7:30 a. m.]

682. From Adler for State and Treasury.

1. Was informed by Minister of Finance and head of Ministry's Bond Department²⁸ that two new Government issues will be:

(a) Three-year Treasury notes amounting to CN dollar equivalent of U. S. dollars 300 million, paying 20 percent per annum and redeemable on basis of CN dollar-US dollar official exchange rate at time of redemption. Executive Yuan thought 20 percent interest rate too high but Legislative Yuan felt it was too low. (Black market interest rates are around 20 percent per month.) Backing for Treasury notes consists of alien property not yet disposed of and revenues of Government enterprises. One objective of flotation of Treasury notes is to render possible orderly liquidation of Government holdings of alien property. Most important stated objectives are fiscal and absorption of idle capital.

(b) US dollars 100 million of 10-year bonds, paying 6 percent per annum, to be purchased in gold, U. S. currency, and other foreign exchange instruments, and redeemable as to both principal and interest in foreign exchange. Backing for bond issue is Government's foreign exchange resources. Objectives of bond issue to absorb private foreign exchange and conserve official foreign exchange.

First flotations of both issues will be on April 1 in denominations of U. S. dollars 5,000; 1,000; 500; 100; and dollars 50; the Treasury notes, of course, to be purchased with CN dollars. While these issues are receiving considerable amount of favorable publicity, difficult to see how they can achieve much success.

²⁶ For correspondence on the subject of military aid, see pp. 785 ff.

²⁷ See *Assistance to Greece and Turkey*: Hearings before the House Committee on Foreign Affairs, March 20, 1947, 80th Cong., 1st sess., pp. 16, 17.

²⁸ P. T. Chen.

2. Minister of Finance also informed me that Legislative Yuan had recommended suspension of issue of any currency denomination over CN dollars 5,000 but that recommendation had not yet come before Executive Yuan and Supreme National Defense Council, where he would vigorously oppose it when it did.

Repeated Shanghai as 308. [Adler.]

STUART

893.00/4-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 12, 1947—3 p. m.

[Received April 12—9:47 a. m.]

801. For Acting Secretary of State. Foreign Minister²⁹ sent for Min[ister]-Coun[selor] (reEmbtel 800, April 12, 2 p. m.³⁰) and in the course of the interview informed him, and for conveyance to me, that Chinese Govt had almost completed its assessment of its economic and financial situation and intended shortly to address a formal communication to our Govt, either through this Embassy or the Chinese Embassy in Washington, requesting financial assistance. Min-Coun inquired whether it was intended that such a communication should be dispatched before the Govt reorganization had been completed and before General Marshall returned from Moscow. Dr. Wang Shih-chieh indicated that it should be possible to make announcement of the reorganization of the Govt in a few days and that note would arrive a day or two before or day or two after, and a copy would be given General Marshall in Moscow.

Min-Coun stated that he was not in a position to make any official comment regarding any such formal and presumably well-considered action by Chinese Govt. Dr. Wang Shih-chieh indicated that he personally would like Min-Coun's initial personal reaction. Min-Coun said that two queries immediately came to mind. After his year in China General Marshall had reported to the American people on his mission to China³¹ and the situation here as he saw it, and the information he had thus provided and the conclusions he had drawn had entered into the concept of China of the American people, on the support of whom American foreign policy rested. The query, therefore, immediately arose as to the desirability of Chinese Govt's applying for financial assistance before it had completed the steps which

²⁹ Wang Shih-chieh.

³⁰ *Ante*, p. 512.

³¹ See personal statement by General Marshall, January 7, 1947, *United States Relations With China*, p. 686.

the Generalissimo had last December announced would be soon undertaken. The second query rose out of the fact that Secretary of State having just returned from a year in China would bear an unusually large share of the responsibility in advising the President in considering any such formal request of assistance and that at the moment he was preoccupied with the Moscow Conference.

Min-Coun received the impression that Foreign Minister was being pressed for action and that he was personally disposed not to present the issue at this time. The foregoing remarks may have furnished him sufficient ammunition to meet the situation when Generalissimo returns. It should not be difficult to ensure the postponement of such a request by an informal approach, and it is quite likely that this question was raised by the Foreign Minister for the purpose of obtaining an indication as to what our desires in the matter were. Your instructions are awaited.

The economic-financial situation at the moment is briefly as follows:

There has been no basic change in unfavorable economic situation. While foreign exchange position has temporarily improved, fiscal situation continues to deteriorate and with it pressure on price structure increases.

Govt's foreign exchange position has temporarily improved since promulgation of emergency economic regulations on February 1 as result largely of tighter import controls and immediate fillip to exports given by exchange adjustment, cessation of sale of gold and measures against foreign currency. Govt's total foreign exchange assets now approximately \$410,000,000, an increase of \$70,000,000 over February 16; 75% of Govt's foreign exchange assets consists of US dollars and gold, the remainder of sterling area currencies and silver. On the other hand, as the effect of the February 16 exchange adjustment wears off, the pickup in exports will decline while the loss of exchange necessitated by essential imports, however tightly controlled will be resumed.

Fiscal position continues to deteriorate. Note issue March 30 approximately CN \$5.7 trillion, an increase of about one-sixth on February-March expenditures CN \$1.5 trillion, or about 50% larger than February, while receipts (incomplete) barely 25% of expenditure. Over 50% of March expenditures were for direct military expenditures, and undoubtedly continued fiscal deterioration can be ascribed to extension military operations.

Price situation is delicate and precarious. For about first 6 weeks after promulgation of emergency economic regulations Govt was relatively successful in holding price line by its gold [*bold?*] show

of action and by fear of drastic penalties. More recently commodity holders and speculators have been testing out efficacy of Govt controls, and accumulation of idle funds in Shanghai and continued note emission inevitably impose heavy pressure on line Govt is trying to maintain. Whether Govt will be able temporarily to hold these pressures within reasonable bounds should be known in next week or so.

Embassy still of opinion that moderate ExImBank cotton loan judiciously timed and accompanied by steps by Chinese authorities to mobilize Chinese private foreign exchange holdings would be of considerable short-run psychological value to Govt in its efforts to contain dam against which waves of note issue are mounting.

Repeat to Moscow as 12 for personal attention of Marshall.³²

STUART

893.00/4-1247 : Telegram

The Acting Secretary of State to the Ambassador in the Soviet Union
(Smith)³³

WASHINGTON, April 14, 1947—8 p. m.

924. MOSKCO 60. For the Secretary. We suggest a reply along the following lines to Nanking's 801 Apr 12 repeated to you as no. 12: Believe Chinese Govt will be well advised to delay presentation of request for assistance until after reorganization of Govt and you are authorized to make an informal approach in that sense. It is realized that the Chinese Govt may infer that we are in effect giving encouragement to the idea that their request will when submitted receive favorable consideration. You should make it clear that no such assurance is or can be given now.

It is not believed advisable to tie timing of request with my return to Washington. Your raising this question also raises the question as to whether the Chinese Govt is contemplating a request in a form which will require Congressional action or whether they have in mind utilization of funds earmarked by Eximbank for possible future credits to China. You might discreetly endeavor to ascertain the answer.

ACHESON

³² The Secretary of State was at this time attending the Meeting of the Council of Foreign Ministers in Moscow.

³³ In telegram No. 1360, April 14, 11 p. m., (893.00/4-1447) the Embassy in the Soviet Union had transmitted a request of Brig. Gen. Marshall S. Carter, Special Assistant to the Secretary of State, for the views of Mr. Vincent on telegram No. 801, April 12, 3 p. m., printed *supra*.

102.1/4-1547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 15, 1947—1 p. m.

[Received April 15—7 a. m.]

809. Last evening before seeing the Generalissimo the Governor of Central Bank called at Chancery on his own initiative. He gave Minister-Counselor résumé of financial-economic situation and covered much of same ground as is contained in Embtel 807, April 15, 9 a. m.³⁴ One additional development he mentioned was that due to disturbing reports he had received in last day or two regarding pressure for higher prices and increased speculative activities, particularly in Shanghai, he had countermanded by telephone a previously agreed announcement permitting holders of exchange to import with their own resources certain categories of goods, since he feared that such an announcement would be seized upon in present circumstances to foster further speculative price rises and intensify speculation in US currency.

Chang Kia-ngau made to the Minister-Counselor the same sort of statement that Foreign Minister had as reported in Embtel 801, April 12, 3 p. m., and was given the same reply, though Chang Kia-ngau was more specific in that he directly referred to a cotton loan, and in this connection Minister-Counselor asked him about plans for mobilizing the admittedly substantial foreign exchange assets of mill owners for partial application to China's need for increased cotton supplies. The Governor indicated that he intended to institute discussions with this group when he returned to Shanghai with a view to making an arrangement with them without disturbing the general currency situation. He then reiterated his pressing need for help and the importance of the psychological effect it would have in alleviating the pressure for price increases which, if undampened, would lead to further Govt expenditure on supply and, therefore, further increase in note issue.

Sent to Dept, please repeat to Moscow as 13 for personal attention of Marshall.

STUART

³⁴ Not printed; it gave Chang Kia-ngau's detailed estimates for 1947 of China's exports, imports, foreign exchange requirements, holdings, etc.

893.00/4-1647: Telegram

The Ambassador in the Soviet Union (Smith) to the Acting Secretary of State

Moscow, April 16, 1947—11 p. m.
 [Received April 17—6:20 a. m.]

1407. KOSMOS 44. For Acheson from Marshall. Please reply to Stuart's 801 in sense of your Moskco 60 and indicate my concurrence.³⁵
 [Marshall.]

SMITH

893.50/4-2147

The Minister-Counselor of Embassy in China (Butterworth) to the Secretary of State

No. 652

NANKING, April 21, 1947.
 [Received May 1.]

SIR: I have the honor to refer to several telegrams sent by the Embassy to the Department in late March and early April, 1947, regarding the meetings at Nanking of the Third Plenary Session of the Central Executive Committee (CEC) of the Kuomintang and referring, in part, to the proposals for economic reform made by Dr. Chen Li-fu, Minister of the Party's Board of Organization and chairman of the CEC sub-committee on economic policy which drafted the Economic Reform Plan adopted March 23, with modifications, by the CEC.

There are now enclosed ³⁶ copies of the following translations, memoranda of conversations and press articles which relate to this Plan:

1. Translation of the Economic Reform Plan prepared by the International Department of the (Kuomintang) Minister of Information;
2. Copy of a memorandum of conversation on March 28, 1947, with Dr. Kan Nai-kuang, Political Vice Minister for Foreign Affairs;
3. Copy of a memorandum of conversation on April 1, 1947, with Dr. Wong Wen-hao, Vice President of the Executive Yuan;
4. Copy of a memorandum of conversation on April 3, 1947, with, among others, Dr. Huang Yuan-ping, member of the CEC sub-committee on economic planning and one of the drafters of the Plan;
5. Copy of an article entitled "Important Economic Reform Plan adopted by Kuomintang Session", issued March 24, 1947, by the official Central News Agency, Nanking;

³⁵ In telegram No. 445, April 17, 6 p. m., the Acting Secretary complied with this instruction by repeating to the Ambassador in China this telegram and Department's telegram No. 924 (Moskco 60), p. 1097. (893.00/4-1247)

³⁶ Enclosures not printed.

6. Summary translations of three articles from the Chinese press regarding the Economic Reform Plan; and

7. Copy of an editorial entitled "Verbiage à la Mode" from the March 26, 1947 issue of the (American-owned) *Shanghai Evening Post and Mercury*, Shanghai.

Summary of the Plan. The Economic Reform Plan is a very elaborate and comprehensive document. Divided into two parts, Part I refers to the deteriorating economic situation and the failure of the economic measures thus far enacted to improve conditions; Part II is much more lengthy and contains an outline of the suggested policies and plans for economic reconstruction. In Part I are stated the following reasons why existing legislation has "brought but negligible results and frequently conspicuous disappointments": (1) failure to follow the basic features of the "Principle of People's Livelihood";³⁷ (2) failure to make proper use of China's manpower and other resources, and to map out plans for a sound economic foundation; (3) decline of confidence of the people in the Government caused by hasty and ill-advised economic and financial measures; (4) lack of clear demarcation between state-operated and privately-owned enterprises; (5) currency inflation and failure to lead floating capital into productive enterprises; (6) failure of past economic measures, which served no purpose other than providing "predatory merchants" with chances to accumulate more wealth, to meet the requirements of the majority of the people; and (7) irregularities in gold sales which caused further rises in commodity prices; and (8) lack of long-range plans.

Part II, entitled "Principles for the Future", states that China's economic problem "still rests on whether the Government has adequate policies to boost production and conserve the people's economic power." It is further stated that "if all economic problems are tackled in compliance with the spirit of the Principle of People's Livelihood and its socialistic principles, suitable solutions will not be too difficult to find." The suggested policies call for development of state capital and state operation of major enterprises; operation of minor enterprises by private capital; enactment of clear-cut measures to encourage foreign investments and privately-run enterprises; and rigid enforcement of laws, coupled with severe punishment for corruption and eradication of speculation and manipulation.

The Plan contains recommendations under 15 headings covering briefly the following: (1) full utilization of manpower to boost production; (2) increased production of goods to stabilize commodity

³⁷ One of the Three People's Principles (San Min Chu I) taught by Dr. Sun Yat-sen, who was known as the Father of the Chinese Republic and who was its first Provisional President in 1912.

prices; (3) stabilization of the value of currency; (4) reform of banking system; (5) rural reforms; (6) development of industries with recommendation that the Government should map out an over-all economic plan and specify the scope of state, provincial, municipal and private enterprises and fix annual production quotas; (7) development of commerce with a view to encouraging exports and restricting imports so as to attain a favorable trade balance; (8) development of communications by joint efforts of the Government and private enterprise; (9) financial measures aimed to increase production, to increase the Government's revenue and prevent corruption, and to reduce expenditure; (10) reforms in food administration calling for abolition of compulsory borrowing of foodstuffs in 1947, more reasonable collection of land tax in kind, and adoption of a granary storage system to stabilize grain prices; (11) diversion of idle capital from speculation to productive channels; (12) encouragement of foreign capital, including measures to expedite remittances from overseas Chinese; (13) rational adjustment of treatment accorded public employees, school teachers and Army personnel; (14) severe punishment for persons who utilize political influence to benefit private enterprises; and (15) strengthening of the economic organization with over-all planning of the nation's finance and economy.

End of Summary.

Obviously, with the Economic Reform Plan in mind, the Central Executive Committee of the Kuomintang, in its manifesto issued March 24, 1947,³⁸ at the close of the Third Plenary Session, made the following recommendations under the heading "Carry out the Principle of People's Livelihood and Stabilize the National Economy":*

"A serious obstacle to the development of our nation is economic maladjustment. This Plenary Session considers that the only way to remedy this situation is to carry into effect the Principle of People's Livelihood by reforming our economic policies. Thus, all the economic policies of the Government must be aimed at promoting the welfare of the masses, including the farmers. Economic rehabilitation and reconstruction must not be confined to large cities but extensively pushed to all rural areas. Further, there should be rational administration of finance, improvement of procedures for extending loans to productive enterprises and extensive establishment of cooperatives. At the same time, the nation as a whole should sincerely observe all the laws and ordinances pertaining to the enforcement of emergency economic measures."

In effect, the foregoing offers a brief and concise statement of the objectives of the Economic Reform Plan. It is couched in the same

³⁸ For summary, see *United States Relations With China*, p. 737.

*As reported by the official Central News agency, Nanking on March 24, 1947. [Footnote in the original.]

vague terms; it also contains reference to Dr. Sun Yat-sen's Principle of the People's Livelihood; and covers practically every economic ill that besets China today—and has for many years past. The Plan itself is an "omnibus" of plans, and many of the recommendations contained therein appear to be covered by laws already passed but never enforced. Implementation of all the recommendations contained in the Plan would result in an utopian, socialistic state of the type envisioned by Dr. Sun Yat-sen. The quandary faced by Chinese economic planners is summed up aptly in the following sentences from the article entitled "Trouble with China is Confucius," which appeared in a recent issue of *Fortune* magazine:†

"Dr. Sun said in effect: What we have won't do; neither will capitalism, which smacks of imperialism, nor Russian Communism. There must be a middle-ground rallying-point for a social revolution. We cannot have big-business capitalists, who are foreign to Chinese tradition in any case (Confucius was a managed-economy, not free-enterprise man), but socialization will not fit the anarchistic strain in Chinese life. Therefore, we shall have socialism in heavy industry and we shall guarantee free enterprise elsewhere . . ." ³⁹

The foregoing reflects the general atmosphere and statements of principle which feature the Economic Reform Plan. Moreover, the same contradictory economic objectives indicated above may also be found in the Plan.

It does not appear advisable to dismiss the Plan merely by stating that it "reaches the highest point in dreamy nebulosity," as opined by a Shanghai newspaper (Enclosure No. 7). Neither does it seem advisable to say there is nothing new in it (Enclosure No. 2).

The Plan is believed to be of significance primarily because it was drawn up under the direction of Dr. Chen Li-fu, Minister of the Kuomintang Board of Organization and head of the so-called C-C Clique which dominated the Third Plenary Session of the Central Executive Committee of the Kuomintang, and because Dr. Chen is reportedly endeavoring to obtain control of several key economic posts ⁴⁰ in the Chinese Government (Enclosures Nos. 2 and 3).

As stated by one of Dr. Chen's associates ⁴¹ (Enclosure No. 4), there is some question, in view of the present reorganization of the Chinese Government, whether the Plan will be approved by the Cabinet or, if

† As reported by the United States Information Service in a report from New York dated April 4, 1947. The issue of *Fortune* is believed to be that for April 1947, the USIS report stating that it was the "current" issue. [Footnote in the original.]

³⁹ Omission indicated in the original despatch.

⁴⁰ Namely, Minister for Economic Affairs, Chairman of the National Resources Commission, and Chairman of the National Economic Council.

⁴¹ Huang Yuan-ping.

approved, whether it would be substantially modified out of deference to non-Kuomintang parties participating in the Government. Another very definite possibility exists that the Plan, which appears to have little appeal to those members of the Kuomintang not affiliated with the C-C Clique, may subsequently be modified even by Party members.

If this Plan had been drawn up by the more liberal elements in the Kuomintang, there would appear to be reason to treat its recommendations with respect. In the present case, however, question arises over the motives which prompted the reactionary C-C Clique to sponsor seemingly liberal and much-needed sweeping reforms. The suggestion has been made, and apparently with good reason, that Dr. Chen cynically sponsored the drafting of the Plan as a move to enlist the support of unwary liberal elements in the Party and outside, and with no real desire to be called upon to implement the Plan. It remains to be seen whether this supposition proves to be correct.

Press reaction to the announcement of the Plan was scant and favorable comment was limited almost entirely to papers under control of the C-C Clique or of the Kuomintang. Examples of the type of comment made by three such papers are given in Enclosure No. 6. One of these papers, the *Shun Pao*, Shanghai, stated that as the new policy had been worked out solely by Dr. Chen, the responsibility for implementing it should be entrusted to him.

Detailed analysis of the Plan does not appear to be warranted at this time, especially because similar recommendations have frequently been made in resolutions adopted by the Central Executive Committee of the Kuomintang, without visible result in so far as actual reforms are concerned. Mr. Solomon Adler, the Treasury Attaché, for example, does not consider significant the recommendations for banking and other financial reforms. Attention is invited to the comments on the Plan made by Dr. Huang Yuan-ping, one of the drafters thereof, as given at some length in Enclosure No. 4. From this memorandum it will be seen that several errors in translation occurred in the English version of the Plan prepared and released by the Ministry of Information.

The reactions toward the Plan of Dr. Wong Wen-hao, Vice President of the Executive Yuan and one of China's ablest officials in economic matters, and of Dr. Kan Nai-kuang, Political Vice Minister for Foreign Affairs and reportedly to be given the influential post of Secretary-General of the Executive Yuan under the present reorganization of the Chinese Government, seemingly represent the views generally held by the liberal Political Science Group in the Kuomintang, of which both are members. Dr. Wong stated to an officer of the

Embassy that he would find it "extremely difficult" to have to work on important economic matters with members of the C-C Clique which he characterized as "too narrow-minded, dictatorial and essentially only anti-Communist". In this connection, reference is made to the last paragraph of Enclosure No. 4 wherein Dr. Huang Yuan-ping is quoted to the effect that the Plan had not been drawn up primarily for the purpose of combating Communist influence although, if the recommendations contained therein were carried out, the Plan would have that effect.

Respectfully yours,

W. WALTON BUTTERWORTH

893.00/4-2247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 22, 1947—9 a. m.

[Received April 22—1:05 a. m.]

864. Minister-Counselor and I had appointment to see President of Executive Yuan designate⁴² but, as it worked out, I had to accompany Admiral Denfeld,⁴³ CominPac, to see Generalissimo at same hour.

General Chang Chun told Minister-Counselor that he expected after the preliminaries of the State Council to be able shortly to submit his Cabinet. He expatiated on the enormity of his task and used the same simile as employed by Foreign Minister (Embtel 775, Apr. 10, 2 p. m.⁴⁴) and by the Governor of Central Bank (Embtel 809, Apr. 15, 9 p. m.) to the effect that China was like a sick man who needed a blood transfusion, and he made it clear that in his opinion the transfusion had to come from the US. Minister-Counselor led the conversation into the problems of effective rationing and the pressure on prices resulting from the rapidly mounting note issue due to extension of the civil war and indicated that cure for the major ills of China lay in the hands of Chinese. Gen. Chang Chun admitted that civil war was the root of China's troubles, explaining that was why he had personally favored a peacefully negotiated settlement; so that was for the moment out of the question, all that could be hoped for was speedy and successful military action. He went on to say that if the reverses to Govt forces at Shantung had not occurred, the situation would have been better by now but that in any case the next 3 months would be determining ones.

⁴² Gen. Chang Chun.

⁴³ Adm. Louis E. Denfeld, Commander in Chief, United States Pacific Fleet.

⁴⁴ *Post*, p. 1434.

In all the circumstances it seemed unwise and inappropriate to lead him into any detailed loan discussion such as acting upon Dept's 445, Apr 17, 5 [6] p. m.⁴⁵ would have inevitably entailed, the third paragraph of which will be dealt with otherwise.

STUART

102.1/4-2347 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 23, 1947—4 p. m.

473. For Adler from Treasury. Request early agreement with Chinese for payment US procurement expenses at rate more favorable than Central Bank rate. (Reurtel 566 Mar 15 Nanking, 866 [886] April 11 Shanghai⁴⁶ indicating black market rate 18,000.) Following alternatives listed in order of preference: 1. Payment all expenses US currency. 2. Sale of US currency or Treasury checks or drafts to Central Bank at current Shanghai open market rate or other realistic rate negotiated by Treasury Representative for US currency. [Treasury.]

ACHESON

894A.50/4-2347

*Memorandum by the Chief of the Division of Investment and Economic Development (Havlik) to the Director of the Office of Departmental Administration (Humelsine)*⁴⁷

[WASHINGTON,] April 23, 1947.

Problem:

On April 12 the Embassy at Nanking informed the Department⁴⁸ of the intention of the Chinese Government shortly to address a formal communication to the United States requesting financial assistance. It was not made clear to the Embassy whether this request would be in a form requiring approach to Congress for a grant-in-aid, or whether it would request extension of loans under the Export-Import Bank "earmarked" credit of \$500 million. On the basis of its review of China's present economic-financial situation, the Embassy expressed itself in favor of a moderate Export-Import Bank cotton loan to assist Chinese authorities in combating inflationary pressures.

⁴⁵ Not printed; but see footnote 35, p. 1099.

⁴⁶ Latter not printed.

⁴⁷ Mr. Humelsine was on detail organizing the Executive Secretariat.

⁴⁸ Telegram No. 801, p. 1095.

Action Taken:

The Embassy at Nanking has been instructed ⁴⁹ informally to advise the Chinese authorities that they would be well advised to delay a request for assistance until after reorganization of the Chinese Government, and to endeavor discreetly to ascertain whether the Chinese Government is contemplating a request which would require Congressional action or whether they have in mind utilization of funds earmarked by the Eximbank for possible future credits to China.

Present Status:

Department does not believe that U. S. objectives in China can best be promoted at this time by a comprehensive grant-in-aid program through Congress, or by an extension of credits for projects aggregating the total of the earmarked \$500 million Export-Import Bank loan. Aid of this character, or in this magnitude, it is believed, can only jeopardize attainment of the reforms within China which are essential for widespread support of the National Government, and as a basis so far as that is possible for peaceful solution of civil strife and for economic reconstruction. Currency stabilization does not appear a practical possibility until China improves its fiscal system and reduces military expenditures. It is accordingly believed premature to undertake any large credit directed specifically for "currency stabilization."

It is regarded as essential, however, that as China takes sincere steps toward reorganization and reform to give some positive, selective support. It may be possible under post-UNRRA relief to give assistance in 1947 in meeting essential foodstuff imports, perhaps as much as \$35 million. Such assistance, together with a cotton import credit of \$40 million available later this year, could permit China to go through 1947 without much diminution of its existing foreign exchange reserves, and would have important psychological benefits. It is believed that selective financial assistance should, so far as that is possible, prevent a runaway inflation or currency collapse; that it should strengthen the participation of liberal elements in the Chinese Government; that it should not be of such magnitude or character as to remove economic pressure for reform and peaceful solution of China's internal conflicts.

Representatives of American business have recently brought to the attention of officials of the Department and of the Export-Import Bank two projects now under consideration in China: the first for development of airports at Shanghai and Canton, and the second for an electric power generating plant at Shanghai. These projects appear noteworthy in that they contemplate management contracts with

⁴⁹ See footnote 35, p. 1099.

American firms during the life of any loans which may be sought; and because in their formulation concern is being paid to providing specific assurances for repayment of such loans. With respect to a possible Export-Import Bank cotton credit, it has also been indicated that the Chinese Government might be willing to rescind its embargo on export of cotton textiles. Such exports to the Philippines and other areas could provide dollar exchange and offer the Export-Import Bank "reasonable assurances" of repayment of its loan.

Recommendation for further action:

It is recommended that the closest continuing attention be given to China's developing political and economic situation. That following the recent reorganization of the Government in China⁵⁰ the Department undertake to give positive selective financial support to the Chinese Government in a way which will best promote attainment of U. S. objectives.

To this end, it is recommended that the Department's support be given the Embassy's recommendation of an Export-Import Bank cotton credit; and it is further recommended that favorable consideration be given to credits for reconstruction projects which are basic to China's needs and offer opportunities for American trade, with suitable safeguards for efficient management and the services of qualified technicians, and which provide reasonable assurances of repayment.

893.50/4-2747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 27, 1947—9 a. m.

[Received April 27—1:05 a. m.]

907. Embassy's discreetly ascertained info is to the effect that Chinese Government intends in near future to present through Chinese Ambassador in Washington considered analysis of China's economic and financial situation and need for American assistance prepared in the main by Chang Kia-ngau, O. K. Yui, Wong Wen-hao and Wang Shih-chieh. To assist in this S. C. Wang, head of the supply mission in Washington, is coming to Nanking. This document, besides indicating the projects to accomplish which American financial assistance will be required, also will touch on the political importance of a stable China and in terms of the world scene. It will no doubt show in somber colors the immediate economic and financial prospect and in bright colors the longer range picture if adequate

⁵⁰ For correspondence on this subject, see pp. 100 ff.

assistance is forthcoming. It will set forth not only a series of projects having to do with (a) transportation, (b) power development, (c) mining schemes, (d) industrial and agricultural innovations, but also the problem of making use of Jap reparation equipment. (Re third paragraph Deptel 445, April 17, 5 [6] p. m.,⁵¹ repeated Moscow as 924, April 14, 8 p. m.)

Some of the Chinese officials concerned—and this includes the Generalissimo—greatly favor commodity loans in order that foreign exchange be saved on necessary imports and because these would produce CN on being sold to fabricators. It will no doubt be argued that such loans would have a deflationary effect and that the ensuing CN would be available for use for expenditure on construction and installation of Jap reparation equipment and American equipment supplied under other loans. Of course, it cannot do both. Whether or not commodity as well as special project loans will be applied for under ExImBank procedure is still a subject of debate, one noted disadvantage of such procedure being the fact that repayment of commodity loans would fall due within 3 to 5 years. For this reason it may be that the Chinese request will merely delineate China's needs and not suggest the means for meeting them, but on this point the advice of S. Y. Wong⁵² may prove decisive.

It is also quite possible that the request may touch on military assistance. It has not escaped the Chinese that large proportions of the Greco-Turkish loans are to be allocated for such purposes; also that in the case of Greece it was testified that an important part of the funds would be made available for local expenditure.

STUART

102.1/4-2847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 28, 1947—4 p. m.

[Received April 28—5:45 a. m.]

914. To Secretary Treasury from Adler. Left Shanghai April 26 returned Nanking April 25 [*sic*] (reurtel 473, of April 23).

Price situation undoubtedly deteriorating and payments U. S. procurement expenses at official rate is already creating difficulties in Shanghai. At same time it is my opinion and Embassy fully concurs that this moment is not the right time to approach Chinese Government re an agreement for a rate more favorable than official rate for following reasons:

⁵¹ See footnote 35, p. 1099.

⁵² Possibly S. Y. Liu, Deputy Governor and Managing Director of the Central Bank of China.

1. Most important consideration is following. Chinese Government is in process of making specific demands for financial aid from the U. S. For the U. S. to approach China for relatively small adjustments at this critical juncture when these demands are under consideration would not be politically expedient and would probably be much more expensive in the long run than continuing to pay U. S. procurement expenses at the official rate for a short time.

2. New President of Executive Yuan⁵³ whose approval for any arrangement would be required, assumed office only a few days ago and is not yet familiar with details of work of his predecessor in the field of finance and exchange.

3. While burden of paying procurement expenses at official rate is increasing it is not yet intolerable. In addition black market for U. S. drafts and currency in Shanghai is still thin and largely subterranean.

Timing of approach to Chinese authorities for satisfactory arrangement is a matter of judgment to be exercised in conjunction with Embassy in view of larger political and financial considerations involved. Am in daily touch with Army and Navy as well as Embassy on problem and propose, subject to your approval, to defer approach to Chinese authorities until status of Chinese demands for financial aid is clarified unless, of course, burden of official rate becomes intolerable in meantime. Needless to say, strongly favor, and Embassy concurs, China's being required to carry out certain arrangements including payment of U. S. official expenditures at a realistic rate, should it be decided to give China financial aid though of course such decision would rest on broad economic and political considerations. [Adler.]

STUART

893.24/4-2947

The Chinese Ambassador (Koo) to the Secretary of State

The Chinese Ambassador presents his compliments to the Secretary of State and, pursuant to the instructions of the Minister for Foreign Affairs in Nanking, has the honor to inform the Secretary that it is agreeable to the Government of the Republic of China to initiate at once negotiations for the final settlement of the war accounts outstanding between the two governments as referred to in the note of the Secretary dated February 26, 1947. The Ambassador has been directed by the Chinese Government to enter into these negotiations on its behalf with the assistance of Dr. Shao-Hwa Tan, Minister of the Embassy, Mr. Hsi Te-Mou, Representative of the Ministry of Finance, and Dr. Shou-Chin Wang, Chairman of the Chinese Supply

⁵³ Gen. Chang Chun.

Commission. It is likely that additional experts may be designated, in which case their names will be duly communicated to the Secretary.

WASHINGTON, April 29, 1947.

102.1/4-2847 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 1, 1947—6 p. m.

515. From State and Treasury for Ambassador and Adler.

1. Navy Dept pressing for more favorable rate for official expenditures (reurtel 915 [914], Apr 28). In view of price and exchange rate developments in recent days recommend reconsideration desirability negotiating special rate.

2. Agreed that rate negotiations should not be linked with any possible future loan discussions. As indicated Depts 65, Jan 15, failure of Chinese to make yuan available at reasonable cost may seriously imperil continuance present US Army and Navy programs in China. Reasonable rate not to be considered favor to US which could weaken in any way US position on further financial aid to China. [State and Treasury.]

MARSHALL

102.1/5-247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 2, 1947—2 p. m.

[Received May 2—6 a. m.]

946. To Secretary of Treasury from Adler. At Embassy's suggestion for appropriate distribution in Department.

1. Called on Governor of Central Bank who was in Nanking for price control conference afternoon of May 1.

In discussing the price situation he asserted that the recent break in prices was inevitable given the continued inflationary pressures, as the emergency economic measures of February 16 were primarily political and did not change the underlying economic situation. The immediate causes of the recent rise in the price of rice were the lack of rain—fortunately now terminating—and the fact that the price controls in the various cities were not coordinated so that in some cases price of rice was higher in distributing than in receiving cities. Controls were accordingly being attenuated or removed outside Shanghai, while in Shanghai it was intended to relax somewhat military and police aspects of commodity controls. Asked how the

sale of Government bonds and treasury notes was proceeding, Governor replied that he was concentrating on sale of bonds for present and that he had had to use personal appeals to individuals to push their sale. He claimed that US \$25 million of bonds will have been purchased by next week. With respect to treasury notes, he anticipated that they would sooner or later attract some speculative funds.

2. Reference your telegram 473 of April 23 and Embassy's telegram 914 of April 28, at Embassy's suggestion had an exploratory talk with Governor pointing out that pressure of rising prices while official exchange rate remains stationary is creating serious problems for US Government agencies in China, and that this problem will become still more acute as prices continue to rise, and informing him of details of arrangement worked out with T. V. Soong and Tsuyee Pei, with which apparently he was not too familiar. For your information and again with Embassy's consent, I made no request for any action. But such an exploratory talk was in any case an indispensable preliminary to formal request for action at appropriate time. [Adler.]

STUART

S93.5151/5-247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 2, 1947—5 p. m.
[Received May 2—5:12 a. m.]

947. For State and Treasury from Butterworth and Adler.

1. There is no question as to desirability of negotiation special rate (reference your telegram 515 of May 1 which crossed Embassy's telegram 946 of May 2). Sole question is one of timing, i. e., whether formal request be made now or next week or week after. There is also unanimity that reasonable rate not to be considered favor to us. However, case for reasonable rate in absence of adjustment in official rate of exchange rests on deteriorating financial and economic situation, which Chinese invoke as chief ground for urgent action on such financial aid. Therefore they would certainly feel their case for immediate aid would be strengthened at least morally by immediate request for reasonable rate.

2. In meantime as indicated in paragraph 2 of Embassy's telegram 946 of May 2, Adler has already had exploratory talk with Governor Central Bank and will repeat substance of conversation to Minister of Finance tomorrow. He is also planning trip to Shanghai over weekend for further discussions with Governor Central Bank and one or two of his advisers. [Butterworth and Adler.]

STUART

893.00/5-247

*Memorandum by the Director of the Office of Far Eastern Affairs
(Vincent) to the Secretary of State*

[WASHINGTON,] May 2, 1947.

I had lunch alone last Tuesday, April 29, with Ambassador Koo. The conversation was devoted almost entirely to the matter of American financial assistance to China. He did most of the talking, and in the process he went over various and sundry types of assistance we might give, such as credits for approved projects, financing of exports to China, and a currency stabilization loan. He seemed to think that something might be done to persuade the Eximbank to change its attitude. He also showed interest in a special Congressional authorization of a loan. With regard to currency stabilization I pointed out to him how impractical it would be to establish a fund for this purpose as long as the situation required issuance of currency to make up the large budgetary deficit.

I am all but certain that the Ambassador when he calls⁵⁴ plans to discuss with you financial assistance, and I believe that this will be the only subject he will want to discuss. In the course of the discussion he will, in all probability, ask your opinion of the recent reorganization of the Chinese Government, including the establishment of the State Council, the appointment of Chang Chun as Premier, et cetera.

I suggest that you express satisfaction over the changes in the Government and the hope that there will be practical results in the way of reform, an arrest in the deterioration of conditions, and reestablishment of confidence on the part of the Chinese people in their Government. With regard to financial assistance you might mention the fact we have been informed that the Chinese Government is now preparing a comprehensive request for assistance and that this request will be given thorough study when it is received in the Department.

In the event that you wish to familiarize yourself with the recent changes in the Government, there is attached a memorandum describing those changes and giving a brief statement regarding the individuals involved.⁵⁵

⁵⁴ See memorandum by the Secretary of State, May 8, *infra*.

⁵⁵ Neither printed.

893.51/5-847

*Memorandum of Conversation, by the Secretary of State*⁵⁶

[WASHINGTON,] May 8, 1947.

Participants: The Ambassador for China, Dr. Wellington Koo
The Secretary
Mr. Vincent, FE

The Chinese Ambassador called at 11:30 this morning at his request. Dr. Koo expressed appreciation of my work at the Moscow Conference, stating that he felt I had succeeded in making clear to the Russians the position and attitude of the United States and of other nations of similar mind. He asked for my impression of Soviet objectives; that is, whether they were outright expansionist or in a measure defensive.

I gave him my views on the subject which in brief were as follows: There is some lack of clarity both with regard to what Russia wants and with regard to methods employed. There can be little doubt that Russia desires to have a predominant influence in those countries on her borders both in Europe and the Far East. The techniques used to achieve this end, although they assume an ideological form, are not employed necessarily for the purpose of spreading an ideology. They are in fact techniques which might be employed by another ideology or -ism. I went on to explain how these techniques were applied in Austria, for instance; how they might be applied in Manchuria; and how they might be applied by an imperialistic Russia as well as by a socialist Russia, the objective being, and quite a normal one, of extending national power. I pointed out that it was not my intention to minimize the threat of communism as an ideology but simply to show how it served as a potent technique to achieve non-ideological ends.

There was some talk of the work of the press at Moscow. The Ambassador agreed with me that the effect of having in Moscow this large body of men engaged in publicity had been good from the Soviet as well as from the world point of view. I took occasion in this connection to point out to Ambassador Koo how unwise I considered China's own censorship regulations.

Dr. Koo then stated that he was calling under instructions from his Government to inform me of the Chinese intention to request financial assistance from the United States. He went on to speak at some length of the recent changes in the Chinese Government and of the Government's need for aid. He said that there would be a request for aid under three headings: (1) for rehabilitation, particularly of Chinese transport and communications; (2) for power projects and

⁵⁶ Drafted by the Director of the Office of Far Eastern Affairs (Vincent).

mining, particularly coal; and (3) for agricultural rehabilitation with particular emphasis on fertilizer production and irrigation projects. He said that in making this request the Chinese Government was prepared to undertake (1) that the money would be definitely expended for the purposes stated; (2) that it would not be used to solve Chinese budgetary difficulties; and (3) that the approved project-by-project basis for releasing the money would be followed. He said that the \$500 million earmarked in the Export-Import Bank could be used for the purposes stated above. He went on to say, however, that the Chinese Government would want an additional \$500 million to be used (1) to finance the transportation and installation of industrial equipment from the United States and from Japan under reparations; (2) to employ technical assistance; and (3) to purchase in the United States commodities for export to China, such as cotton, cereals and gasoline. With regard to the last item Dr. Koo explained that the Chinese Government would utilize the Chinese currency derived from the sale of the imported commodities solely for the purpose of financing the Chinese dollar costs of the various projects.

With regard to Dr. Koo's reference to reparations I had earlier in the conversation spoken of the situation in Germany and told him how uneconomic the Russians had found it to remove whole plants from eastern Germany. I said that the Chinese Government should give careful consideration to this situation in its approach to the matter of reparations from Japan.

The Ambassador raised the question of the continued earmarking of the \$500 million Eximbank credit after June 30. I told him that this was a matter for consideration by the National Advisory Council which was composed of a number of high Government officials and on which the State Department was represented, and that the question would be no doubt raised in the Council.

I informed the Ambassador that I was most earnestly and that I was personally interested in affording assistance to China, and that I had been anxiously awaiting the time when it would be practicable to give aid. I welcomed the recent evidence of progress in the governmental changes in China but at the same time I noted that a Kuomintang political council had been established with Ch'en Li-fu as its Secretary-General. I had not had an opportunity to give a thorough study to this matter, and I did not want to pre-judge the new development, but I did feel that the establishment of this council under Ch'en Li-fu's direction was discouraging. It seemed to me to be an approach to the problem which in many respects resembled the attitude which I met while I was in China and which had so effectively frustrated my own efforts. I felt that no good could come from a Kuomintang political council as now constituted, but I repeated again that I wished

to give the matter further study and to watch developments with an open mind.

I spoke of my deep discouragement over the course of military events in China and of my very serious concern in this respect. I told Ambassador Koo, as I had told the Generalissimo, that he was the worst advised military commander in history and that I found no satisfaction in the current unhappy developments which proved that advice I had given the Generalissimo was correct and that which his military commanders had given him was not correct. The National armies were overextended and were expending their military strength. All the Communist armies had to do was go where the National armies weren't—and there was plenty of space for this type of movement.

With regard to the Chinese desire for financial assistance, I suggested to the Ambassador that he prepare an informal memorandum⁵⁷ for me, setting forth in writing what he had just told me orally. I said that this would be preferable to raising the matter in a formal note to the United States Government and would give me an opportunity personally to study the matter and thereafter discuss it with him again on an informal and exploratory basis. Ambassador Koo agreed to this procedure. (NOTE: Although this is the procedure which Koo will no doubt follow, I am quite sure that it has been the intention of the Chinese Government to raise the issue formally and openly in order to take advantage of what they feel is public and Congressional sentiment in this country in favor of a large credit to China. J[ohn] C[arter] V[incent])

As the Ambassador was leaving he told me that Foreign Minister Wang had recently had a conversation with the Soviet Ambassador at Nanking⁵⁸ and had informed the Soviet Ambassador of China's hope that the Soviet and American representatives could get together soon and agree upon the formation of a Korean government. The Foreign Minister had instructed the Ambassador to inform me that, if the Soviet and American Governments were unable to reach agreement in this matter, the Chinese Government did not feel that it could quietly sit by on the sidelines because there was considerable pressure from all political elements in China for progress in solving the Korean problem. He inferred that the Chinese Government, and presumably the British Government, should be consulted in the event that the United States and Soviet were unable in the near future to make progress.

The conversation ended at 12:40 p. m.

(In a conversation with Mr. Vincent immediately following the discussion with the Secretary, Dr. Koo explained that China wished

⁵⁷ Memorandum of May 13 by the Chinese Ambassador, p. 1119.

⁵⁸ Apollon Alexandrovich Petrov.

to have the additional \$500 million set up as a credit outside the Export-Import Bank and assumed that this could only be done by Congressional action. He said, however, that China did not expect a credit as in 1942 with no strings attached. China would expect that the credit would be set up with a clearly defined statement as to its use and that the money would be released to China only for the uses stated. Mr. Vincent explained to Dr. Koo that Export-Import Bank credits for specific projects could and often did provide the funds necessary for transportation of the industrial equipment to its destination and for the technical assistants necessary to establish the plant or set the particular project in operation. JCV)

893.51/5-847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 8, 1947—6 p. m.

[Received May 8—5:47 a. m.]

1003. Foreign Affairs Minister asked me to come to see him today and made the following statement:

He spoke of the importance of the stability of China in relation to peace in East Asia and in the world. He then said his Government had recently had long discussions as to the need of an American loan for rehabilitation and for preliminary reconstruction, that this would not be used for reducing the deficit which would be accomplished by gradual reforms and reduction of nonproductive expenditures. The loan would be used for three different purposes:

1. Restoration of communications with some extensions. This would be primarily for railway and some shipping in inland and coastal waters.
2. Development of electric power and for mining and certain industries.
3. Agriculture—primarily conservancy and fertilizers.

The request would be for one billion dollars, one-half of this to be used for purchasing American supplies and equipment, about one-fourth for commodities such as raw cotton, foods, gasoline, etc., and the remaining one-fourth or less for utilizing Japanese reparations, this to include transportation and reconditioning. The commodities would be sold to the public and the proceeds for these sales used for salaries, wages and other domestic needs. This method would ensure repayment of the loan and would improve China's economic position in the world by restoring the balance between exports and imports.

The cotton now grown in China is one-fifth of the pre-war crop and the foodstuffs now produced are only a fraction of the pre-war volume.

The timing of the loan might be for a 3-year period. The hope was expressed that China might receive the same treatment as Great Britain in the matters of interest, dates for repayment, etc.

This verbal statement, according to the Foreign Minister, will be followed by a formal communication addressed to the Secretary of State in Washington. Dr. Wang asked me to use my personal influence in this matter, which the Government felt was vital to the national welfare. I assured him of my sympathetic interest in all that concerned the best interests of China but pointed out some of the problems from the American standpoint. I referred to a widespread feeling in United States that the present Government is controlled largely by reactionary elements and that there is much corruption and graft throughout the system. Furthermore, American sentiment is very definitely against aiding one party in the civil war and by so doing lengthening the war, strengthening the influence of reactionary or feudal elements, etc. I also spoke of some purely American issues such as the current emphasis on reducing the budget, especially in aid to foreign countries.

STUART

893.5151/5-1147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 11, 1947—3 p. m.
[Received May 11—5:56 a. m.]

1022. For Secretary of Treasury from Adler.

1. Saw Minister of Finance May 3 and after general review of financial situation I raised the problem of United States Government expenditures in China. (Reference Embassy's telegram 947, May 2.) Minister of Finance was sympathetic but non-committal and said the problem would have to be discussed with Premier and Governor of Central Bank. After I intimated that I had already discussed it with Central Bank Governor he said he would arrange an interview for me with Premier Chang Chun. Saw Premier on May 6 and again he reviewed general economic and financial situation. I then raised the problem of United States Government expenditures, adding that a precedent for reasonable solution had been set by the arrangement worked out in January with T. V. Soong and Tsuyee Pei. He replied that he would have to discuss the matter with Governor of Central Bank who would be in Nanking in next 2 or 3 days. Saw Governor of Central Bank on evening of May 10 informing him that I had already discussed the problem with the Premier and the Minister of Finance, and emphasizing that it had become more urgent and pressing in the 10 days since I had last seen him and that a solution was

essential. He rejected any settlement based on the use of the Shanghai black market rate for United States currency or drafts, stating the obvious objections from Chinese Government point of view. However, he was willing to accept the Hong Kong cross-rate as the basis for settlement of United States Government expenditures in China. He indicated that he was returning to Shanghai on May 11 when he would discuss the details with his business department and asked me to come up on May 12 to finalize the arrangement by an exchange of letters. He also agreed that the use of the Hong Kong cross-rate as a conversion factor should be subject to review from time to time in the light of changing conditions and that the arrangement should go into effect as from Monday, May 12.

2. I strongly recommend that we accept the Hong Kong cross-rate arrangement for the following reasons:

a) The Shanghai black market rate is unacceptable to the Chinese authorities and the Hong Kong cross-rate is the best settlement we can obtain from them. In any case the Shanghai black market is still subterranean and fairly thin.

b) The Hong Kong cross-rate which had been lagging behind Shanghai black market rate for United States currency is now catching up and on May 9 was 80 percent of the Shanghai black market rate.

c) The Government's agreement to review the situation from time to time in the light of changing circumstances enables us to shift from the Hong Kong cross-rate should it later turn out to be disadvantageous.

3. Embassy approves of arrangement on basis of Hong Kong cross-rate. Am proceeding to Shanghai tomorrow morning, and propose unless I receive instructions from you to the contrary by Niac⁵⁹ telegram to consummate the arrangement in the next couple of days. Also propose to settle on basis of Hong Kong cross-rate as of date of purchase of CN dollars and not as of 2 or 3 days prior to date of purchase of CN dollars, as with intensification of inflation such a time-lag works out to our disadvantage. [Adler.]

STUART

102.1/5-1347: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 13, 1947—5 p. m.

571. For Adler from Treasury. Approve completion arrangements for purchase yuan (reurtel 1022, May 11) at Hong Kong cross-rate as of date of purchase. Navy concurs. [Treasury.]

MARSHALL

⁵⁹ Night action.

893.51/5-1347

The Chinese Ambassador (Koo) to the Secretary of State

WASHINGTON, May 13, 1947.

DEAR MR. SECRETARY: Pursuant to your suggestion in the course of our conversation on May 8th regarding the question of financial aid to China in her efforts of rehabilitation and reconstruction, I beg to enclose herewith an informal memorandum, summarizing what I stated on instructions from my Government, for your personal and favorable consideration with a view to arranging a loan from the United States Government.

With high regards,

Yours very sincerely,

V. K. WELLINGTON KOO

[Enclosure]

Memorandum by the Chinese Ambassador (Koo)

In his interview with the Secretary of State on May 8th, the Chinese Ambassador, pursuant to instructions from his Government, requested a loan of U. S. \$1,000,000,000 for China from the United States and outlined the reasons for the request, the purpose which the loan would serve, and the uses to which it would be devoted.

The Chinese Ambassador said that China, conscious of her important role in promoting peace and stability in the Far East and the world, had been anxious to embark upon a program to improve her political and economic conditions which had become serious. In view of the general situation in the Far East and the world, the Government deemed it inadvisable to wait until a settlement was reached with the Chinese Communists but that it was necessary to start the work of political and economic rehabilitation as early as possible.

For this purpose, he informed the Secretary of State of the recent reorganization of the Chinese Government by broadening the basis of political representation in the several branches of the Government. The new coalition Government had pledged itself to carry out a program of national unification and economic rehabilitation agreed upon by all the participating parties and groups in the Government.

It was for the purpose of starting this work of economic rehabilitation that the Chinese Government desired to obtain financial aid from the United States Government in the form of a loan. He was asked by his Government to assure the United States Government that such financial aid would not be utilized to meet the budget deficit. This deficit would be and was being covered by the issuance of short-term treasury notes and the flotation of a domestic loan, along with meas-

ures for increase of internal revenue and a policy of retrenchment for non-productive expenditures.

The proposed loan would be used exclusively for meeting the pressing needs of economic rehabilitation. It is the plan of the Chinese Government to confine the use of the loan to three categories of projects: (1) restoration and development of communications; (2) development of electric power and certain mining industries; and (3) improvement of agriculture with special emphasis on irrigation and the manufacture of fertilizers.

These projects, when carried out, would be a great help in improving the general economic conditions and the standard of living of the people. In order to achieve this purpose of economic rehabilitation, materials and equipment would be purchased from the United States with the loan.

For these purchases and the necessary services for the implementation of the projects, a loan of U. S. \$500,000,000 had been earmarked by the Export-Import Bank. But the Chinese Ambassador explained that his Government felt that this amount would not be enough. The cost of transporting these materials and equipment in China, their installation and the initial operation would mean a further considerable amount of money. In addition, the removal of reparations assets from Japan and setting them up in China and operating them would also require a great deal of capital.

All these expenses could not be met by China herself, except by issuing more banknotes. Such a step, however, would again send prices up and further depreciate the value of the Chinese dollar, thereby aggravating the danger of inflation. To meet these requirements the Chinese Government proposes to purchase in the United States such commodities as cotton, food and gasoline and sell them in the Chinese market in order to get the necessary funds in Chinese currency. Such a plan would also have the beneficial effect of checking the danger of inflation by withdrawing a large amount of Chinese currency from the market and re-disbursing it in installments only as and when required to meet the above-mentioned needs.

For these reasons and purposes, the Chinese Ambassador said that his Government would like to have a loan of U. S. \$1,000,000,000 from the United States, one-half of which for financing the purchase of American materials and equipment and the necessary services, and the other half for financing the purchase of American commodities.

The Chinese Ambassador further stated that his Government was aware of its responsibility, if the proposed loan was accorded, to see that the proceeds of the loan were spent for the purposes which were outlined, so that lasting benefit could be secured from it.

It may be added that details of the plan for the proposed loan are being prepared by the Chinese Government and will be submitted for the consideration of the United States Government when it becomes clear that the request for the loan is acceptable in principle to the United States Government.

[WASHINGTON,] May 13, 1947.

893.51/5-1447

*Memorandum by the Director of the Office of Far Eastern Affairs
(Vincent) to the Secretary of State*

[WASHINGTON,] May 16, 1947.

The attached letter and memorandum from the Chinese Ambassador⁶⁰ were handed me last evening at six o'clock by the Counselor of the Chinese Embassy.

The memorandum is simply a restatement of what Ambassador Koo said to you when he called last week. The only thing new in the memorandum is contained in the final paragraph, which states that "details of the plan for the proposed loan are being prepared by the Chinese Government and will be submitted for the consideration of the United States Government when it becomes clear that the request for the loan is acceptable in principle to the United States Government".

I do not believe that we can, at this time and with the limited information we have, inform the Chinese Government that its request for a loan of \$1,000,000,000 is "acceptable in principle". It seems to me that we must have not only much more specific and detailed information regarding the purposes and practicality of the loan, but also must have a clear understanding with Treasury, Eximbank and Congressional leaders before we can make any such commitment as the Chinese Ambassador requests.

I recommend that the attached memorandum be referred to Assistant Secretary Thorp's office for study and that the Chinese Ambassador be informed orally that the Department is not in a position to make the commitment he desires, but that we are prepared to receive and give careful study to an informal memorandum from the Chinese Government setting forth and supporting in detail the purposes for which it wishes to borrow the \$1,000,000,000.⁶¹

J[OHN] C[ARTER] V[INCENT]

⁶⁰ *Supra.*

⁶¹ Marginal notation: "Mr. Vincent: The Secretary concurs in your recommendations. I assume you will notify A-T [Assistant Secretary Thorp's office]. Humelsine"

102.1/5-2147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 21, 1947—5 p. m.

[Received May 21—7:10 a. m.]

1109. To Secretary Treasury from Adler. Left Nanking for Shanghai May 12 expecting consummation of arrangement would take day or two, re urtel 571 of May 13 and Embtel 1022 of May 11, but found Chinese authorities evasive when it came to formalization. It was only late on May 15 after 4 days of lengthy negotiations that they again accepted formula agreed upon May 10. On afternoon of May 16 at my suggestion Butterworth and Monnett Davis, whose whole-hearted cooperation has throughout been most helpful, saw Chang Kia-ngau, who had come up to Nanking for week-end to ensure no further attempts at evasion.

[1.] I returned to Nanking late on May 16 and left again for Shanghai May 17. All major difficulties have now been ironed out with one exception. I proposed that exchange of letters should state that "arrangement is subject to review by both parties from time to time in light of changing circumstances". Chinese proposed replace "by both parties" to "by either party". While prepared to omit reference whether to both parties or to either party, am reluctant to accede to Chinese proposal, as it would leave them free to terminate arrangement unilaterally in event, for example, of adjustment in official rate, in which case appropriate arrangement would have to be renegotiated anew. I informed Central Bank that I would have to cable Treasury instructions on this point and recommend answer to effect that inclusion of "by both parties" would be preferred, failing which I am authorized to go ahead with compromise proposal of omission of reference whether to both parties or to either party. This compromise should be adequate protection against Chinese unilateral action.

2. For your information in proposed exchanges of letters, it is stated that arrangement is to go into effect as of May 15. Reason for this change is that at my request Army and Navy deferred making any CN dollars purchases in period when Chinese were being difficult, and only on May 15 when it was clear that they were accepting Hong Kong cross-rate formula did I tell Navy Disbursing Officer in Shanghai to proceed with his purchase of CN dollars. This and other subsequent transactions by U. S. Government agencies have been made on basis of Hong Kong cross-rate.

3. We have also agreed that Hong Kong cross-rate to be used is selling rate as of close of business on day prior to purchase of CN dol-

lars. Main advantage is that payment can be made for CN dollars immediately on purchase, and it is hoped to avoid use of no-rate advances. There have been one or two slight discrepancies between rate Central Bank as cabled from Hong Kong and rate Hong Kong Consul General⁶² cables U. S.; check is being made both by Central Bank and U. S. to ascertain cause of discrepancy, which should not be difficult as Hong Kong market wide. But if necessary Casaday or I will make short trip to Hong Kong to clear matter up.

4. Returned Nanking May 21. Your early reply to inquiry in 1. above would be appreciated, as I could then proceed Shanghai for completion of exchange of letters. [Adler.]

STUART

124.935 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 22, 1947—4 p. m.

607. Reports received by Dept from Shanghai, Peiping, Tientsin and Hankow indicate urgent need for securing reasonable exchange rate for CNC for salaries both alien and American personnel as well as all U. S. Govt operating expenditures in China. Immediate reply to Deptel 578, May 14,⁶³ requested. If arrangements for drawing CNC under surplus property agreement at Hong Kong rate cannot be completed immediately, suggest Emb request Central Bank and its branches give Hong Kong rate on all official drafts and checks presented by U. S. Govt disbursing officers pending completion surplus currency arrangements.

Emb may explain to Chinese authorities that Dept desires do everything feasible to channel all dollar exchange transactions through Chinese Govt, and has in past sustained substantial financial losses in doing so, but under conditions now existing in China it is no longer administratively or financially feasible for Dept to meet problems its employees by salary and allowance adjustments. If Dept is to continue using official channels, reasonable rate continuously reflecting real value CNC must be made available.

Inform Consular offices under your jurisdiction.

MARSHALL

⁶² George D. Hopper.

⁶³ Not printed; it inquired whether the Hong Kong crossrate would apply to surplus property yuan drawn by the Embassy as well as to expenditures by the Army and Navy if it were accepted by the Chinese. In telegram No. 1101, May 21, 8 a. m., the Embassy reported agreement with the Governor of the Central Bank to apply this rate to property acquired under the Surplus Property Agreement (811.5293/5-2147).

102.1/5-2247: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 22, 1947—6 p. m.

608. To Adler from Treasury. Authorize compromise omission of reference to "both parties" or "either party," preferring, however, inclusion following in exchange of letters: "arrangement is subject to review by both parties from time to time in light of changing circumstances." If necessary to reach agreement authorize acceptance Chinese position on this point. [Treasury.]

MARSHALL

893.51/5-2347

Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

[WASHINGTON,] May 23, 1947.

Dr. Tan Shao-hwa, Minister of the Chinese Embassy, called at his request at 12:30 p. m. May 22, 1947. He referred to a previous conversation with me⁶⁴ regarding possible publicity out of Nanking on a Chinese request for American financial assistance and said that the Chinese Foreign Minister had directed the Embassy to inform us that the Chinese Government did not desire publicity on the matter at this time but that questions might be asked the Foreign Minister on the subject at the current session of the People's Political Council. The Foreign Minister would reply that the Chinese Government was giving careful consideration to the matter of foreign financial assistance; that all parties now participating in the Chinese Government would be informed and consulted with regard to this matter; and that the Chinese Government was having informal exploratory discussions with American officials in regard to the matter of assistance. Dr. Tan asked that I convey this information to you.

I took advantage of Dr. Tan's call to carry out your instructions regarding the desire of the Chinese Government, as stated in the memorandum submitted by Ambassador Koo under cover of his letter of May 13, that this Government indicate that the Chinese Government request for a loan of \$1,000,000,000 is "acceptable in principle" to the United States Government. I told Dr. Tan that we were not in a position to make a commitment of the kind desired for reasons which I believed would be apparent to Ambassador Koo but that we were prepared to receive and give careful study to an informal memorandum from the Chinese Government, setting forth and supporting in detail the purposes for which it desired to obtain

⁶⁴ Memorandum of May 14, not printed.

credit. Dr. Tan stated that he would convey my exact language to the Ambassador as coming from the Secretary of State through me.

J[OHN] C[ARTER] V[VINCENT]

893.51/5-2647

*Memorandum by the Director of the Office of Far Eastern Affairs
(Vincent)*

[WASHINGTON,] May 26, 1947.

Following are directions given by the Secretary in regard to economic assistance to China at meeting with him at 10:30 a. m., May 26, 1947:

The Secretary desires that the necessary steps be taken to have the half-billion dollar Eximbank credit re-earmarked. He does not want the amount reduced and feels emphatically that failure to renew earmarking will have a bad psychological effect in China. He is not impressed with argument that funds would be available for credits to China even though not specifically earmarked.

The Secretary desires that we move forward as quickly as possible in getting some credits extended to China from the \$500,000,000. He feels that there is much to be said for positive action on specific, although limited, projects; that action along this line would be preferable to consideration of some broad over-all program. He does not feel it would be practicable to go to Congress for funds for China. He desires that we prepare a list of projects for which the Bank might extend loans aggregating \$100,000,000. He has in mind projects (1) that would result in the creation of foreign exchange for China; (2) that would result in the production of goods in China and thereby relieve demands upon China's foreign exchange resources; and (3) that would create an early improvement in general economic conditions in China and thereby promote indirectly a healthy revival of foreign trade relations. Projects mentioned were the Canton-Hankow Railway, coal mining, consumer goods industries in Formosa and China proper, power development at Shanghai and possibly elsewhere, and credits for purchase of cotton and possibly similar commodities in the United States.

On the basis of a project report such as that envisaged in the foregoing paragraph, the Secretary would consider having the President arrange for a conference with the Directors of the Eximbank. The Secretary would attend the conference, and the Directors would be informed that the President and Secretary consider the situation in China as having developed along lines which make it highly advisable to consider favorably credits aggregating \$100,000,000.

JOHN CARTER VINCENT

102.1/5-2747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 27, 1947—2 p. m.

[Received May 27—5:45 a. m.]

1150. To Secretary of Treasury from Adler: Reference your telegram 608 of May 22. Exchange of letters finally consummated Saturday May 24. With reference to inclusion of "by either party" Chinese were obstinate and I finally accepted their position on this point. Chinese also wanted to substitute "revision" for "review", and as in light of probable trend of economic situation this change tends to strengthen rather than to weaken our position, I agreed to this change. Pertinent sentence now reads, "The above arrangement is to go into effect as of May 15 and is to be subject to revision by either party from time to time in the light of changing circumstances". [Adler.]

STUART

893.51/5-2747

Memorandum by the Chinese Embassy

THE CHINESE GOVERNMENT'S PLAN REGARDING ITS PROPOSAL FOR A
LOAN FOR CHINA'S ECONOMIC REHABILITATION AND RECONSTRUCTION

I. A FUNDAMENTAL CONSIDERATION

Realizing fully that China's own stability and progress are factors vital to the peace of the Far East and the world, the Chinese Government feels that steps must be taken to stabilize and improve both the political and economic conditions of the country, so that she may make her full contribution as a stabilizing force in world politics and peace. So strongly does the Government feel the necessity and urgency of such steps that it can no longer wait to take action until a settlement is reached with the Chinese Communists. It has accordingly embarked upon a political program which will lead to the early realization of full constitutional government as envisaged by Dr. Sun Yat-sen. While political changes are in progress, the Government must strive to launch, without delay, a program of economic rehabilitation and reconstruction in the vast areas where such work is necessary and feasible, so that the economic life of the people may be improved and made secure.

The United States today shoulders to an unprecedented degree the great responsibility for the promotion and preservation of world peace. Her relations with China are bound by ties of long friendship.

Stability and progress in the Far East are as much the concern of the United States as they are that of China. It is the earnest hope of the Chinese Government that the United States will extend to her at this formative stage of her political and economic reconstruction the necessary financial aid in the interest of world peace and prosperity as well as the furtherance of Sino-American friendship.

II. NATURE OF THE PROPOSED LOAN

As to the nature of the loan, which the Chinese Government is requesting, it will be used entirely for the rehabilitation and reconstruction of China's post-war economy. It is not the intention of the Chinese Government to balance its current budget deficit with foreign loans. Such deficit will be met by internal loans, which are being launched, by the gradual increase of internal revenue, and by a policy of retrenchment in non-productive expenditures.

The loan of U. S. \$500,000,000 for which preliminary arrangements were made with the Export-Import Bank in April last year through the good offices of the Honorable George C. Marshall in his capacity as the United States Special Envoy to China, was intended for the same purpose as the one here proposed. But the principal scope of that loan was only to cover the supply of American material and equipment. Under that plan, the Chinese Government would have to find considerable additional funds to meet the various costs to be incurred in China in the installation of the material and equipment supplied. This would heavily increase the expenditure of the Government and consequently its note issue, which in turn would bear most unfavorably upon commodity prices and further depreciate the value of the Chinese dollar. It is imperative, therefore, that while supplying China with the much-needed material and equipment, such a loan should not cause further inflation of the currency. In other words, the amount of the loan must be adequate to cover the entire expenditure of the program for which it is intended, including not only purchases from abroad but also such costs as wages and domestic purchases to be incurred in China. These internal costs can best be met by the government sale in China of commodities purchased in the United States with part of the loan.

III. USES OF THE LOAN

It is the plan of the Chinese Government to confine the use of the proposed loan to:

- 1) the restoration and construction of communications;
 - 2) the development of electric power, certain mines and industries;
- and

3) the improvement in agriculture with emphasis on river conservancy and the manufacture of fertilizers.

IV. TOTAL SUM OF THE LOAN AND ITS DISBURSEMENTS

In view of the foregoing considerations, the Chinese Government requests a loan of U. S. \$1,000,000,000. Half of this sum will be used for the purchase of equipment and material required, while the remaining half will be used for the purchase in the United States of certain commodities such as cotton, wheat and petroleum.

These commodities will be sold by the Government in China to recover an amount of notes which otherwise would have to be further issued, in order to meet the necessary internal costs referred to above. It is believed that only by such an arrangement can full and prompt execution of the plans for rehabilitation and reconstruction under this proposed loan be ensured. It is certain that the importation of such commodities will also help to maintain and increase China's current industrial production. Furthermore, this arrangement will serve to improve China's position in regard to the balance of her international payments. In short, the proposed loan will not only give China the benefit of its future fruits, but will have an immediate wholesome effect on the general economy of the country.

V. TERMS OF THE LOAN

It is proposed that the loan can be drawn upon within three years. As regards the terms governing the rate of interest and repayment, China hopes to be given the same treatment as was accorded to the United Kingdom in the Anglo-American Loan Agreement of December 1945.⁶⁵

VI. SUGGESTED PROCEDURE FOR AGREEMENT

It is proposed that an immediate understanding be reached between the United States Government and the Chinese Government on the total sum of U. S. \$1,000,000,000, including the U. S. \$500,000,000 already earmarked for China in the Export-Import Bank. Should a formal agreement on the total sum require congressional authorization and therefore cause possible delay, it is suggested that a formal agreement on the earmarked sum of U. S. \$500,000,000 shall be concluded before June 30, 1947, with the understanding that the United States Government will submit immediately the remaining half of the proposed loan for the consideration and approval of Congress.

⁶⁵ Signed at Washington, December 6, 1945; Department of State Treaties and Other International Acts Series No. 1545, or 60 Stat. (pt. 2) 1841.

VII. ENCLOSURE

Attached herewith is a detailed plan ⁶⁶ comprising:

- (1) Appendix A: List of specific projects for the utilization of the proposed loan (with estimated total cost of each project); and
- (2) Appendix B: List of commodities to be imported to cover internal costs (with estimated amount of each commodity required for 1947, 1948 and 1949).

[WASHINGTON,] May 27, 1947.

893.24/5-2947

*The Chairman of the Chinese Supply Commission (Wang) to the
Director of the Office of Financial and Development Policy (Ness)*

No. S-2305

WASHINGTON, May 29, 1947.

DEAR MR. NESS: The Agreement between the Governments of the United States and the Republic of China on the Disposition of Lend-Lease Supplies in Inventory or Procurement in the United States, signed June 14, 1946,⁶⁷ provides that the terms of payment set forth in the Agreement, including rate of interest, may be altered by mutual agreement at the time of the final settlement for lend-lease aid. The Agreement also provides for the postponement of payment of a due installment where it is determined by agreement of both governments that, because of extraordinary and adverse conditions arising during the course of payment, payment would not be in their joint interest.

The Governments of the United States and of the Republic of China are about to start negotiations for a final settlement covering lend-lease aid and related matters. Since the Agreement of June 14, 1946, contemplates a review of the terms of payment during the course of such negotiations, and since the exact amount of the first installment due under the Agreement cannot be determined for lack of complete information as to quantities shipped, it would seem preferable to postpone payment of the installment due on July 1, 1947, without prejudice to the interests of either party, until after the conclusion of the aforesaid negotiations, when the matter can have been examined in detail. We propose, therefore, that this payment be postponed accordingly.

I hope that you will agree that the reasons outlined fully justify this step.

Yours very truly,

SHOU-CHIN WANG

⁶⁶ Not printed.

⁶⁷ Signed at Washington, Department of State Treaties and Other International Act Series No. 1533, or 60 Stat. (pt. 2) 1760. For previous correspondence on this subject, see *Foreign Relations*, 1946, vol. x, p. 724.

893.51/6-447

Memorandum by the Director of the Office of Financial and Development Policy (Ness) to the Under Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] June 4, 1947.

On May 26 Secretary Marshall indicated to Mr. Vincent that (1) he wished to secure the extension of the present \$500 million earmarked for China, and (2) he wished to have prepared a list of projects aggregating \$100 million upon which the Eximbank might act shortly.

Mr. Thorp has acquainted you with the results of our conversation yesterday with Mr. Martin concerning, primarily, the extension of the earmark. Mr. Thorp has informed me that you wish to speak to the Secretary about his proposals and that for this purpose you will wish to have available the list of projects to which I have referred.

I attach hereto a proposed memorandum from Mr. Vincent and myself to the Secretary. It covers a list of projects aggregating in all about \$135 million. I have asked that the list reach this larger figure in the thoughts (a) that individual amounts will be pared down in further negotiations with the Bank, and (b) some projects may be unacceptable either to the Secretary or the Bank. I wish particularly to emphasize that the preparation of this list does not of itself indicate that we are urging a credit of \$100 million to China at this time. It is drawn in response to the Secretary's directive. It is, however, a good list, although I have some reservation concerning the Yellow River bridge project.

There is one matter to which I wish to draw your particular attention. I understand that at about the same time the Secretary made his request for this list he indicated also that the existing restrictions upon the purchase in this country of arms and armaments should be relaxed. I do not know whether it was the Secretary's intention that the proposed financing should permit the Chinese, by the release of resources presently committed or necessary for the purchase of imports, to finance in effect a rearmament program. If so, the attached list will not completely serve his purposes. Except for the cotton-purchase program, the individual projects can be construed as additional, in the sense that they would not be undertaken in the absence of such financing. I think it might be well to keep this aspect of any contemplated financing of the Chinese firmly in mind as you discuss this matter with the Secretary.

The attached memorandum has been submitted to Mr. Vincent for his concurrence before presentation to the Secretary, but I have not yet heard from him.

[Annex]

Proposed Memorandum by the Director of the Office of Financial and Development Policy (Ness) and the Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

[WASHINGTON,] June 4, 1947.

Discussion:

Attached is a list of selected projects⁶⁸ upon the basis of which the Export-Import Bank might extend loans to China aggregating \$100 million. The projects listed have been selected from those which have been officially submitted by representatives of the Chinese Government to the Export-Import Bank since April 1946, or which have been discussed by them with officials of the Export-Import Bank and/or of the Embassy and the Department of State.

In the aggregate, the projects enumerated herewith amount approximately to \$135,000,000. However, decisions as to the particular projects to be selected and the amounts finally to be approved can only be reached in subsequent negotiations between the Chinese Government and the Export-Import Bank, on the basis of the Bank's technical and engineering appraisals of the projects submitted. The amounts of the loans involved in the individual projects are as requested in the Chinese letters of application in each instance in which a formal request has been made.

The projects are all of an economically-productive character, and relate to such basic needs as railroad transportation, harbor development, airport facilities, coal mining, electric power, artificial fertilizer, and the cotton textile industry. They would help improve China's foreign exchange position and would contribute to general economic development and recovery. Furthermore, they would facilitate exports and imports and the exchange of commodities between the United States and China as required by the policies of the Export-Import Bank. Two of the projects listed contemplate participation by American companies, either in capital investment or through the provisions of technical and managerial services. It is assumed that in all cases suitable provision will be made for sound management and competent technical services, and wherever feasible for participation by private capital, Chinese or American, in the projects supported.

It is expected that the Chinese will shortly present this Government with a list of projects for which credits are desired. Included therein may be some, in addition to those selected in the attached list, which can merit early consideration by the Export-Import Bank.

⁶⁸ Not attached to file copy. The projects, as modified by further discussions in the Department, were cited in telegram No. 736, June 17, 9 p. m., to the Ambassador in China, p. 1140.

Recommendation:

The attached list is recommended as a list of possible projects which the Department would wish the Export-Import Bank to consider with a view to arrangement of credits for China in the near future, aggregating at least \$100 million.

893.51/6-1147

*Memorandum of Conversation, by the Director of the Office of
Financial and Development Policy (Ness)*

[WASHINGTON,] June 11, 1947.

Participants: Secretary Marshall
Under Secretary Clayton
Assistant Secretary Thorp
Mr. John Carter Vincent, FE
Mr. Norman T. Ness, OFD

I. At the request of Mr. Clayton there were considered with the Secretary the problems involved in (a) an undertaking to secure the re-earmarking of the \$500 million line of credit at the Export-Import Bank and (b) an attempt to secure shortly advances on specific projects aggregating \$100 million.

Mr. Clayton expressed his misgivings about an effort to secure the re-earmarking of the \$500 million on the grounds (a) that such an undertaking would meet with the firm opposition of the members of the Board of Directors of the Export-Import Bank, and (b) that such a course, if successfully undertaken, might well prejudice our freedom of action should urgent demands develop elsewhere, as in Europe.

Judgment was expressed that while the National Advisory Council might give a majority vote approving such re-earmarking for the consideration of the Export-Import Bank, the Bank Board would nonetheless take a firm line of opposition and might indeed flatly refuse to consider it at all. With respect to the importance of retaining freedom of action, Mr. Clayton drew particular attention to recent communications from Italy reporting that support of the Italian economy during the remainder of 1947 would require not only the use of the existing \$100 million earmark but the allocation of an additional \$100 million as well. There was, he observed, some suggestion that the Eximbank might now be more inclined to consider such a proposal than it would have been, say, four months ago.

Mr. Vincent, upon inquiry from the Secretary, indicated that while he recognized the force of the considerations cited, he thought the ideal

solution would be a re-earmarking of the credit and the immediate granting of individual small projects. He expressed further his solicitude lest the dropping of the earmark involve the commitment elsewhere of resources which might later prove necessary for China. Mr. Thorp indicated that in his opinion there were really only two alternatives: continuation of the earmark or its quiet lapse on June 30.

Mr. Ness reported briefly on the resources of the Bank, pointing out that at the present time the resources apart from the Chinese earmark are so far restricted as to lend justification to the Bank's contention that it has no funds for substantial credits. He added that there is no realistic prospect of China receiving \$500 million in actual advances during the course of the next fiscal year in any event, and that the net effect of a re-earmarking would therefore be the sterilization of funds for which we may otherwise have genuine need.

The Secretary indicated his growing concern with the development of events in China, and indicated his conviction that this country must in its own interest do something to arrest the course of developments there. He said that he would not, frankly, know precisely what should be done. He felt certain only that something must be done shortly.

Mr. Clayton then offered the suggestion that (*a*) no effort be made to secure the re-earmarking of the present credit, (*b*) that we undertake to secure shortly the advance of credits on the basis of the memorandum submitted with the concurrence of Messrs. Vincent and Ness,⁶⁹ and (*c*) that we consider an approach to Congress for such funds as may prove necessary for the general financial assistance of China. With respect to the last, the Secretary remarked that of course such a program could not possibly be brought to Congress at its present session. Discussion was concluded with the Secretary's decision that we should not give further thought to the proposal for re-earmarking at the Export-Import Bank but that we should pursue at once the proposal for credits on a project basis.

II. Mr. Clayton explained to the Secretary that the next NAC meeting may involve the question whether the NAC should undertake responsibility for the formulation of this country's foreign financial program. He explained that the issue had been raised by Messrs. Eccles⁷⁰ and Martin, both of whom opposed the undertaking, but that primary emphasis had been laid upon it by Secretary Harriman.⁷¹ It was explained that Secretary Harriman specifically suggested that we secure the views of Secretary Marshall. He had added that if it

⁶⁹ Memorandum of June 4, p. 1131.

⁷⁰ Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System.

⁷¹ W. Averell Harriman, Secretary of Commerce.

is decided that NAC should proceed, we ought to approach the President concerning the propriety of NAC action along this line. After some discussion turning on the importance of political and military consideration in the formulation of such a program, and after the Secretary had been assured that NAC would be consulted, the Secretary indicated that he was prepared to support the contention of Mr. Clayton that this responsibility should remain clearly in the province of the Department of State.

NORMAN T. HESS

102.1/6-1447: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 14, 1947—noon.

[Received June 14—8:53 a. m.]

1301. For State and Treasury from Adler. In a series of conversations with me in Nanking this week Gov. of Central Bank informally raised possibility of silver loan to China. He first sent Li Ming, member of National Economic Council, Vice-Chairman of Import Advisory Board of Central Bank, and Chairman of Chekiang Industrial Bank, to broach subject with me. (K. P. Chen and Li Ming, the two leading private bankers in Shanghai, are the men Chang Kia-ngau relies on most heavily for advice and support in financial and economic matters.) Li Ming informed me that both Governor of Central Bank and Minister of Finance had informed Premier in his presence earlier in the week that even putting aside the politico-military situation the economic and social fabric of China was being threatened by the hyperinflation and that some currency measure was needed to arrest this threat. While it was true that currency stabilization was premature, some measure of "partial" or "intermediate" stabilization was required, which would both ease immediate pressure of currency depreciation not only on economic fabric but also on national finances and at same time facilitate movement towards eventual balancing of budget and stabilization of currency. Governor of Central Bank had accordingly suggested to Premier possibility of using silver to be obtained from U. S. for this purpose. Silver would also have additional advantage that it could be used as subsidiary coinage with eventual currency stabilization.

2. Governor in his subsequent discussions with me elaborated above without, however, adding much detail. He admitted that farmers had not yet refused to accept *fapi* for their food and that while gold would be even better for intended purposes he preferred to sound U. S. out on silver because of China's past record in handling gold obtained

from U. S. and because of greater value of gold to U. S. While, of course, making no comment on the political implications and problems of his informal request, I did make one or two purely technical comments to the following effect:

(a) The monetary use of silver might accentuate the flight from *fapi*.

(b) While it might be his intention to introduce silver gradually, first for purchase of food from farmer, then for payment of wages to industrial workers, and then for payment of salaries to Govt employees, he might well be confronted at the beginning of his experiment with strong pressure from the army for payment of troops in silver.

(c) The monetary habits of the people had to be reckoned with. The fact that silver had been withdrawn from circulation in 1935, that the people had become accustomed to paper currency, and that in times of pressure farmers and other groups in the lower Yangtze valley had been able to obtain gold for some of their products or services, first from the Japs and then from the Central Bank, might militate against the acceptability of silver at a price which would make it a worthwhile proposition for the Govt. As a result of this comment Governor made inquiries through Post Office and Postal Savings Bank and discovered that in fact silver was now readily acceptable in relatively backward rural areas in Szechuan, Kansu, Yunnan and Sikang, and also in Manchuria, but that there was little available information on its acceptability in the lower Yangtze valley. On the other hand, it must be noted that in view of the rapidity with which prices are rising there is a strong probability that silver could easily become an acceptable medium even in the more advanced parts of the country.

(d) In view of (a) above, the Governor had to decide whether his proposal was designed to meet an imminent collapse of the currency so that accentuation of flight from *fapi* as a result of introduction of silver would not make any substantial difference, or whether his proposal was designed as a measure of so to speak intermediate stabilization. Governor did not commit himself on these alternatives but on whole seemed favor latter. Actually his case would be stronger on basis of former alternative.

(e) Was it intended to have a fixed or a flexible price for silver in terms of *fapi*? Governor on whole favored latter.

3. Governor emphasized throughout discussions that whole proposal was purely tentative and informal, that no detailed plans had been worked out, and that he would prefer to await Washington's informal response before drawing up more specific plans. In our final conversation on evening of June 13 [12], he gave me an undated and unsigned "memorandum on the Chinese currency" for transmittal.⁷² Memorandum, substance of which is being forwarded by pouch, is a hasty

⁷² Copies of this memorandum and of Mr. Adler's comments were transmitted to the chief of the Division of Chinese Affairs by David Jenkins of the Treasury Department on July 8. The memorandum was summarized in Embassy's telegram No. 1302, June 14, 1 p. m., not printed.

and rough job which somewhat cursorily disposes of some of technical comments I raised. It is suggested that your reply to Governor's request for an informal response be on lines that it is preferred to withhold comment until a detailed plan is submitted. At same time while it is difficult in Nanking to assess implication for U. S. domestic and international monetary policy of Governor's proposal, it is suggested that in view of deterioration in Chinese currency situation careful consideration be given to any reasoned proposal concerning use of silver which Governor advances. [Adler.]

STUART

893.51/6-1747

Memorandum of Conversation, by the Director of the Office of Financial and Development Policy (Ness)

[WASHINGTON,] June 17, 1947.

Participants: Dr. V. K. Wellington Koo, Chinese Ambassador
 Dr. Shao-Hwa Tan, Minister Plenipotentiary, Chinese Embassy
 Mr. Clayton, State Department
 Mr. Ness, State Department

During the course of his remarks the Ambassador referred to three matters: I. financial assistance; II. Japanese reparations; and III. Post-UNRRA relief.

I. *Financial Assistance*

The Ambassador, having been referred to Mr. Clayton by the Secretary, alluded to an earlier conversation with Mr. Marshall in which he had broached the subject of \$1 billion of financial assistance for China.⁷³ He said that he had subsequently been informed that while the United States Government was not in principle prepared to commit itself to such an undertaking, it was interested to have an outline of the way in which this sum would be employed.⁷⁴ As a result, the Ambassador remarked, he had submitted to the Department his memorandum of May 27, 1947.

In this memorandum, the Ambassador continued, it was proposed that \$500 million be made available for the purchase in the United States of equipment necessary for rehabilitation and reconstruction in China. The additional \$500 million would be used to purchase raw materials, such as cotton, wheat and petroleum, which could be sold within China for yuan which would then be available for financing

⁷³ See memorandum by the Secretary of State, May 8, p. 1113.

⁷⁴ See memorandum by the Director of the Office of Far Eastern Affairs, May 23, p. 1124.

the local costs associated with the installation and operation of the equipment first mentioned.

The Ambassador lay particular emphasis upon the urgent character of Chinese needs. He said there were three aspects of this urgency: the economic, the political and the international.

Mr. Koo said that the economic system was so far deteriorated as to require the sort of facilities for which the request was being made, and that the price-scarcity situation called for the raw material program involved within the second \$500 million. He was inclined, in general, to emphasize this second aspect even more than the first.

The Ambassador then undertook to stress the point that the Chinese Government was dedicated to democracy. He spoke of the existing government as the only "coalition" government in Chinese experience, and described its role as that of preparing for elections to be held this fall with the purpose of establishing a new government under the constitution by the beginning of 1948. This consummation, which he implied we ought to promote, was said to be difficult if not impossible in the presence of an economic situation such as that which presently prevails in China.

He went on to pay attention to the disturbances occasioned by Communist activities in the North. He recalled that American financial policy toward China was contingent upon "unity and peace," but observed that this was an outcome which required the cooperation of all elements within the population of China—a cooperation which the Communists were patently unwilling to give. In these circumstances, he said, it was necessary to urge financial assistance even with the present conditions prevailing in China.

The Ambassador having concluded his remarks, Mr. Clayton indicated that he was familiar with the memorandum to which reference had been made. He said it was his understanding that there was involved a proposal to re-earmark the \$500 million presently set aside for possible credits to China at the Eximbank and that the second \$500 million was, according to the Chinese suggestion, to be obtained from Congress either as a grant or as a loan. (It may be observed that at no time thereafter did the Ambassador recur to the idea of a grant, instead he consistently referred to it as a loan.)

Mr. Clayton indicated that, first of all, it had been decided, following conversations which included the Secretary, that it would not be appropriate at this time to request re-earmarking the \$500 million at Eximbank. He said definitely that such a proposal was "out." He added that in his opinion, China would in any case be unable to absorb as much as \$500 million in projects within any such period as a year. In this opinion Mr. Ness concurred. Mr. Clayton went on to indicate.

however, that the Chinese knew well the solicitude and concern of this Government and of the Secretary for China. He indicated, in particular, that we would be prepared to confer with the Eximbank with the view of securing at an early juncture the grant of individual credits on a project basis.

Mr. Clayton then said that he was sure the Ambassador understood that the Congress of the United States would not, at this time, be prepared to consider a project for financial assistance of the sort mentioned in the memorandum. He pointed, in particular, to the concern of Congress that any such requests should be accompanied by reasonable assurance of the successful attainment of the purposes set forth. He referred to the activity aroused in Europe as a result of the Secretary's speech at Harvard,⁷⁵ and indicated that it was incumbent upon any applicant for assistance to come forward with a reasonable plan which would (a) indicate the extent to which the country could, by the use of its own resources, accomplish its purposes, and (b) the minimum assistance required from the United States. He (in my opinion) left with the Chinese a reasonable basis for inference that this recourse was open to them provided they were able to meet the conditions he had indicated.

Following this statement of position by Mr. Clayton, the Ambassador made a number of specific inquiries. With respect to the granting of specific project credits by the Eximbank, he asked what the Chinese ought to do to expedite matters. It was suggested that Mr. S. C. Wang ought promptly to get in touch with Mr. Ness to consider procedures on this point. In this connection, the Ambassador asked whether it would be possible to secure action upon specific projects before June 30. He was told both by Mr. Clayton and Mr. Ness that this was extremely unlikely if not simply impossible.

This last reply led the Ambassador to observe that a cessation of earmark would have adverse psychological effects in China and to point out that the announcement of specific action on loan applications would go far to offset such an adverse effect. The significance of his observation was recognized both by Mr. Clayton and Mr. Ness, and it was indicated to the Ambassador that serious consideration would be given to means whereby such an event could be offset or counteracted.

The Ambassador then inquired whether the term "specific project" could be interpreted to include commodity credits. He recurred to his earlier emphasis upon the availability of raw materials to China,

⁷⁵ Delivered on June 5, 1947; for text, see Department of State *Bulletin*, June 15, 1947, p. 1159.

including the sale of their products within the country for yuan, and questioned somewhat the adequacy of a project approach if narrowly interpreted. Mr. Clayton replied, first, that he doubted very much if the kinds of projects available for consideration by Eximbank would contribute greatly to China's more immediate problem and, secondly, that as a matter of fact he had had in mind some provision of commodity credit, as, for example, the cotton. In this connection the Ambassador volunteered the observation that his government would be quite prepared to accept the requirement that some portion of the textiles produced from cotton imports should be sold abroad to obtain foreign exchange. Having heard Mr. Clayton's observation on cotton, the Ambassador went on to inquire whether the same facilities could be available with respect to petroleum and wheat. He was answered in the negative, on the ground that neither of these products gave any promise of additional supply of exports.

Mr. Koo then turned to the possibility of Congressional action, and asked what China should do to anticipate the possibility of such assistance. Mr. Clayton reiterated his earlier observations concerning the necessity of preparing carefully a statement of what the country itself might do and what its remaining needs might be. Mr. Koo inquired whether there would be any objection to the retention of American technical experts to undertake this study, and was informed that there would be no objection provided such Americans were definitely technical experts only.

II. *Reparations*

Mr. Koo then turned to the first of two subjects which he wished to bring up incidentally. He referred to the reliance which China had placed upon the availability of reparations from Japan, and pointed out that the Far Eastern Commission had recently undertaken to allocate available reparations among the claimant nations. He pointed out that as a first step each claimant had been asked to indicate its idea of its own proper share of such reparations, and observed that the total came to something over 200% of what was available. He noted that the United States representatives, when putting forth their conception of a proper overall allocation of reparations, had set China down at 28 or 29%. The Ambassador reminded Mr. Clayton that China had long taken the position that it was entitled to 40%, and he urged upon the Under Secretary that the U. S. support this figure for China. Mr. Clayton indicated that he was not immediately familiar with the matter under discussion but would refer the Ambassador's remarks to the appropriate authorities within the Department.

III. *Post-UNRRA Aid*

Mr. Koo said that upon instructions of his government he was asking that \$100 million be made available to China from the \$350 million recently authorized by Congress for Post-UNRRA assistance.⁷⁶ Mr. Clayton said that this figure was quite outside the range of possibility but added, upon inquiry, that to his knowledge there was no agreement in legislative form. The Ambassador asked whether the shares of the several recipient nations were in any sense frozen or pre-determined. Mr. Clayton answered in the negative. The Ambassador went on to report that there had been a meeting between Chinese Government and U. S. Embassy officials in China concerning Chinese relief needs. Out of this meeting, he reported, there had come the judgment that China needed 370 thousand tons of wheat and rice. It had been suggested by the U. S. Embassy, he went on to say, that China should request assistance for no more than 100 thousand tons, leaving the balance to be financed out of its own resources. Mr. Clayton again indicated that this was material with which he had not continued to keep in touch, and that he would undertake to refer the Ambassador's remarks to the proper officials of the Department.

NORMAN T. NESS

893.51/6-1747: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 17, 1947—9 p. m.

736. In executive session June 11 Board Directors Eximbank, President Martin raised question of status after June 30, 1947 of earmark of \$500 mil. for possible future credits to China. Dept representative Thorp said this was matter he had wished to discuss with Bank's directors for some time but that in fact the Dept's decision had only recently been taken. Dept will not, he stated, press for extension \$500 mil. earmark beyond June 30. Dept will support, however, early favorable action on Chinese applications for individual projects which can qualify for Eximbank financing.

Reason for Secy's decision re extension Eximbank earmark is necessity to avoid sterilization \$500 mil. of Bank's funds in view of competing needs, as in Europe, and fact that there appears no realistic prospect of China's receiving that amount in actual advances during next fiscal year. While NAC might give a majority vote approving re-earmarking for the consideration of Eximbank, Dept is convinced that Bank board would nonetheless take a firm line of opposition. Absence of earmark will not prejudice, and in Dept's view, may facili-

⁷⁶ Public Law 84, approved May 31, 1947; 61 Stat. 125.

tate favorable action on individual projects after June 30. Dept's decision will be communicated to Chinese Ambassador in Washington,⁷⁷ and you will be advised.⁷⁸

The Sec'y has indicated his growing concern with development of events in China, and has expressed conviction that US must in its own interest do something to arrest the course of developments there. In conference re Eximbank earmark extension it was consensus that Dept should consider approach to Congress for such funds as may prove necessary for general financial assistance of China although, as the Sec'y pointed out, such program could not possibly be brought to Congress at its present session.

Dept has recently prepared list of projects ⁷⁹ aggregating \$135 mil. as basis of which in its view Eximbank might extend loans aggregating approx. \$100 mil. Sums specified for individual projects are as requested in original Chinese applications, and are subject to revision in subsequent appraisals by Eximbank. Projects listed are as follows:

1. Railroads: Hankow-Canton-Kowloon Railroad, \$42,654,000; Yellow River Bridge, \$4,500,000.
2. Harbor Development: Tang-Ku Harbor, \$16,750,000.
3. Coal Mining: Fuhsin, \$6,385,000; Peipiao, \$1,350,000.
4. Electric Power: United Power Co., \$7 mil.
5. Airport Facilities: China Aeronautical Services, Inc., \$5-10 mil.
6. Cotton: Cotton credit, \$40 mil.

Dept's list also included \$8,400,000 for artificial fertilizer plants (reDeptel 735 ⁸⁰) but status this project not now promising. Feasibility Yellow River Bridge project necessarily depends on extent Natl Govs control of territory—Hankow to Peiping. Dept regards Canton-Hankow-Kowloon project as perhaps of first priority, but the sum requested is generally viewed as excessive. Formal applications have not been received by Eximbank for two of above projects, i. e. United Power Co and China Aero. Services, Inc., and these are accordingly only tentatively included. Dept regards them as important to China economically, however, and as promising in their provision for participation by American companies. With respect to all above projects Dept assumes that suitable provisions would be made for sound management and competent technical services, and wherever feasible for participation by private capital, Chinese or American.

⁷⁷ See memorandum *supra*.

⁷⁸ See Department's telegram No. 754, June 20, 8 p. m., p. 1142.

⁷⁹ See memorandum by Messrs. Ness and Vincent, June 4, p. 1131.

⁸⁰ Not printed.

Emb's comments and suggestions concerning above list are urgently desired. Under present circumstances would Emb recommend other coal mines than Fuhsin and Peipiao which are two mines for which Chinese have applied for Eximbank loans.

MARSHALL

893.51/6-1447

Memorandum by the Secretary of State to the Secretary of the Treasury (Snyder)

WASHINGTON, June 18, 1947.

DEAR SNYDER: I am attaching a radio from your Treasury expert with the American Embassy in Nanking⁸¹ with regard to a possible "silver" loan to China.

I am not now proposing a loan and I have no idea that any such loan would be favorably considered by this session of Congress even were I to favor such action at this time.

What I would like is to have some of your experts analyze this to give us an opinion as to whether or not a "silver" loan is practical without regard to Congressional possibilities. I would like to have it examined to find out how such a loan might be managed. I would like to get the view of your people as to whether or not they thought such a loan would have a good effect in the establishing among the people of China their former confidence in the silver dollar to offset their present lack of confidence in any denomination of paper money.

I repeat again that I have not in mind at all the proposal of a Chinese loan. I am merely endeavoring to clarify for myself the various possibilities.

G. C. MARSHALL

893.51/6-2047 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 20, 1947—8 p. m.

754. In informal memo dated May 13 Chinese Amb summarized his statements to Secy on May 8 re financial aid to China, and raised question whether Chinese request for loan of US \$1 billion would be "acceptable in principle" to U. S. Govt. On May 22 Minister Chinese Emb was informed⁸² on behalf of Secy that we were not in position make commitment of kind desired, but that were prepared to receive

⁸¹ Telegram No. 1301, June 14, noon, p. 1134.

⁸² See memorandum by the Director of the Office of Far Eastern Affairs May 23, p. 1124.

and give careful study to informal memo from Chinese Govt which would set forth and support in detail purposes for which it desired obtain credit. On May 27 Chinese Emb submitted memo re plan for utilization US \$1 bil loan for economic rehabilitation and reconstruction. It requested \$500 mil be secured from presently earmarked funds in Eximbank for purchase in U. S. of reconstruction equipment and materials for projects enumerated, and remaining \$500 mil be obtained from Congress to be used in U. S. during years 1947-1949 for purchase certain commodities such as cotton, wheat and petroleum which upon sale in China would provide yuan currency necessary meet internal costs of Chinese reconstruction program. Memo suggested that should formal agreement on total sum require Congressional authorization and therefore cause possible delay, formal agreement on Eximbank earmarked sum of \$500 mil should be concluded before June 30 with understanding U. S. Govt would immediately submit remaining half proposed loan for consideration and approval of Congress.

On June 17 UnderSecy of Econ. Affairs informed Chinese Amb that Dept will support early favorable consideration by Eximbank of loans for individual reconstruction projects, but that Dept is not prepared press for extension existing Eximbank \$500 mil earmark. He stated it is this Gov's earnest and continuing desire assist China in meeting its reconstruction problems, but in present situation there does not appear realistic prospect that China could receive or effectively utilize \$500 mil in actual Eximbank advances during next fiscal year.

With respect request that US Gov endeavor to secure Congressional approval \$500 mil loan, UnderSecy indicated further requests for foreign aid to present session Congress are not contemplated. He added in effect American people presently seem inclined support proposals for financial assistance to foreign countries only if they can be assured aid extended can successfully accomplish its intended purposes.

UnderSecy did not indicate to Chinese magnitude of possible credits for which Dept will support favorable Eximbank action. In response to Amb. Koo's specific inquiry he indicated cotton loan might be among those to which Dept would be inclined to give favorable consideration, provided there were some assurance concerning repayment prospects perhaps by permitting cotton textile exports from China. Amb. inquired whether it would be possible conclude any specific loans prior June 30, in which case unfavorable psychological reaction to expiration of earmark would be largely offset. UnderSecy replied in his opinion such would not be possible in short time before June 30,

but Amb. was assured that in any public announcement we would seek minimize adverse reaction.

MARSHALL

893.51/6-2147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 21, 1947—7 p. m.

[Received June 21—8:23 a. m.]

1369. ReDeptel 736, June 17, 9 p. m. General approach and conclusions of Dept fully concurred in by Embassy. Embassy wishes to stress fact that announcement of non-extension of dollars 500 million beyond June 30 would undoubtedly serve to weaken National Govt internally, unless announcement makes mention of certain projects which are to go to Export-Import Bank for approval and also includes statement to effect that absence of earmark will not prejudice but in fact facilitate favorable action on individual projects after June 30 and that such projects will be designed for economic rehabilitation of China. Embassy accordingly recommends that any announcement of non-extension be on above lines.

With respect to specific projects listed in Deptel 736:

1. Hankow-Canton-Kowloon railroad approved; according to latest information railroad is in bad shape and will need considerable rehabilitation work. In connection with Hankow-Canton-Kowloon railroad it is suggested that Dept and Export-Import Bank strongly recommend to Chinese that port of Hankow be thrown open to foreign shipping. Chinese have confused coastal traffic issue with question of designation of ports open to foreign shipping. Opening of Hankow to foreign shipping is concomitant of and, incidentally, would facilitate improvement of Canton-Hankow railway. Minister-Counselor on recent visit to Hankow was informed by local Chinese commercial circles that they would welcome such a move which will probably only be adopted under friendly and disinterested persuasion. Desirability of Yellow River bridge project appears dubious at this juncture. But see 2.

2. Announcement of project approved for political reason that it is desirable to include at least one and possibly two projects for North China, or it might otherwise appear that we are already resigned to loss of China north of Yellow River to Communists. Whether or not project should be carried out at this time is another question on which there is no need for immediate formal decision.

3. Embassy does not approve of Fushin or Peipiao projects. Nationalist hold on Fushin tenuous and Communists reported to have already captured two of Peipiao mines. Embassy informed that

National Economic Council reviewed whole coal situation at meeting yesterday from which conclusions emerged that Manchurian production can no longer be counted on, that Kailan and Mentoukow supplies are safe at present though transportation subject to temporary interruption by Communist raids, and that production in Honan, Anhwei, Hunan, Kiangsi, and Kwangtung must be revived or increased. There seem to be a number of feasible coal projects alternative to Fushin and Peipiao, such as Hsing Tang in Hunan and Ping Hsiang in Kiangsi, both of which according to Chinese have been surveyed by Pierce⁸³ with projects submitted in Washington, and I. Yang in Honan, south of Loyang.

Four, five, and six approved.

STUART

893.24/5-2947

The Director of the Office of Financial and Development Policy (Ness) to the Chairman of the Chinese Supply Commission (Wang)

WASHINGTON, June 21, 1947.

MY DEAR DR. WANG: I have your letter of May 29, 1947 asking for a postponement of the first interest payment due July 1, 1947 under the agreement of June 14, 1946.

It is my understanding that agreement has been reached between representatives of your Government and the U. S. Treasury representatives under which the Chinese Government has been billed on an estimated value of the supplies furnished and to be furnished under the agreement of June 14, 1946 in the amount of \$51,750,000. I understand that interest and principal payable July 1, 1947 has been billed to your Government in the amount of \$2,820,020.32.

The pipeline agreement has already settled a portion of the lend-lease aid furnished to China. It would not be our policy to consider alteration of the payment terms at this time.

Sincerely yours,

NORMAN T. NESS

811.516 Export-Import Bank/6-2347

Memorandum of Conversation, by the Director of the Office of Financial and Development Policy (Ness)

[WASHINGTON,] June 23, 1947.

By appointment arranged at his request Mr. Tan⁸⁴ called at my office on Monday, June 23, concerning the steps which might be taken

⁸³ The Pierce Management Co., an American firm, was retained by China to survey its coal mining facilities and requirements.

⁸⁴ Shao-Hwa Tan, Chinese Minister.

to counteract what he regarded as the inevitable psychological effects of the failure to renew the earmark of \$500 million for China at the Export-Import Bank. He lay particular emphasis upon the proposition that while the significance of this act would be clearly appraised by those expert at such matters, the effects upon general public opinion in China would be serious. He proposed, therefore, that this Government (and by implication the Department rather than the Bank itself) should issue a reassuring statement at the time the earmark expires. He asked in particular that emphasis be laid upon the continued willingness of this Government to supply financial assistance to China and upon the way in which the Export-Import Bank might operate consistently with its established rules and policies.

I reminded Mr. Tan that the matter he had brought to my attention had been mentioned in the conversation between Mr. Clayton and Ambassador Koo,⁸⁵ said that I had been giving attention to the matter and would continue to do so.

I took the occasion to urge upon Mr. Tan the importance of having the Chinese Government representatives here proceed with the Export-Import Bank according to the ordinary rules and regulations of that institution. I emphasized particularly the importance of supplying to the Bank the information it requested for purposes of its study and analysis. Mr. Tan said he would urge this upon his colleagues.

NORMAN T. NESS

893.51/6-2547

The Chinese Embassy to the Department of State

AIDE-MÉMOIRE

(1) The Chinese Government earnestly desires that credits to the total of \$500,000,000 intended to be made available to China by the United States Government through the Export-Import Bank of Washington proposed in April 1946, be re-earmarked for China and that Notes to this effect be exchanged between the two Governments before June 30th. Projects for the development of which the credits are to be devoted should be studied and mutually agreed on as soon as possible.

(2) The Chinese Government hopes that a sum of \$200,000,000 may be allocated for the purchase of cotton in the United States. This sum is urgently needed, as the China program of UNRRA will soon be terminated and no more cotton will be supplied from that source thereafter, and especially in view of the difficulty in allocating credits

⁸⁵ See memorandum by the Director of the Office of Financial and Development Policy, June 17, p. 1136.

for the purchase of other equally urgently needed commodities such as wheat, rice and petroleum.

(3) It is hoped that, as regards the other \$500,000,000 of the loan requested by the Chinese Government in the Memorandum of May 27th, 1947, and additional aid needed for a long-term program of reconstruction and development, the United States Government will, in line with the plan proposed by the Secretary of State with reference to Europe, find it feasible to make an announcement of its desire to be of assistance to China as part of its policy to promote world economic recovery and reconstruction.

WASHINGTON, June 25, 1947.

893.51/6-2547

*Memorandum of Conversation, by the Secretary of State*⁸⁶

[WASHINGTON,] June 25, 1947.

Participants: Dr. Wellington Koo, Chinese Ambassador
Secretary George Marshall
Willard L. Thorp, A-T
John Carter Vincent, FE

The Chinese Ambassador called on me at his request and presented the attached *aide-mémoire*.⁸⁷ I asked Mr. Thorp to comment on it.

As to the first item in the *aide-mémoire*, Mr. Thorp said there was substantial misunderstanding concerning the significance of the lapsing of the earmarked funds, that the earmarking had been a temporary arrangement established until the time when it could be expected the International Bank would be in operation and that its lapse in no way indicated an unwillingness on the part of the Export-Import Bank to consider sympathetically specific projects which might be presented. I described the origin of the earmarking, pointing out that it was done at my request. I reminded Mr. Koo it was because of certain statements made in China that the proposed exchange of notes was not consummated. I said that the decision with respect to the earmarking had been made and a statement was being worked out which would be made by the Export-Import Bank which would clearly state that this was an automatic development not to be interpreted as indicating an unwillingness to consider specific projects.

Mr. Koo stated there were some sixty projects in his hands, that he had picked out the fifteen which were best documented and which totaled about \$240 millions. These projects were also located in areas

⁸⁶ Drafted by the Assistant Secretary of State for Economic Affairs (Thorp).

⁸⁷ *Supra*.

not likely to be subject to military operations. Mr. Thorp stated he felt it was important that Mr. Koo consider not only the Export-Import Bank as a source of funds but also the International Bank which was now definitely in operation and should be considered as a possible source of assistance. He then emphasized the fact that it seemed more important to get some projects started than to drive for a large amount at the beginning. He suggested that the very best projects be picked out for submission to both institutions and that once some project had been approved, it would be much easier to move along with the broader program. Mr. Vincent emphasized the importance of limiting the initial approach to the most likely project. I also emphasized the importance of picking out the best projects and proceeding with them. Mr. Thorp suggested that the Chinese representatives go over the projects with Norman Ness (OFD) and his assistants who might be able to be of help in determining which were the most likely of success. He pointed out, however, that the State Department could not act as sponsor for any particular projects but would be glad to assist at this stage in an informal way.

Mr. Koo then reverted to the problem of the earmark pointing out that assistance had been given to both the British and the French in forms other than that of specific projects. Mr. Thorp commented on the fact that these were done prior to the time when the International Bank was in operation, that if at that time the \$500 million project for China had been consummated, it might have taken some such general form but that circumstances now have changed and the operations of the Export-Import Bank are limited entirely to specific projects.

With respect to item 2 of the *aide-mémoire*, Mr. Thorp said that a cotton loan might well receive favorable consideration by the Export-Import Bank although the suggested sum of \$200 million was probably much greater than would be made at any one time. He suggested this also be discussed with Mr. Ness.

With respect to point 3 in the *aide-mémoire*, Mr. Koo urged that some general statement be made to indicate that the U. S. Government is not completely preoccupied with the problems of Europe. Mr. Thorp remarked that statements of concern with the problems of China had been made even prior to statements of concern over Europe and there ought to be no misunderstanding on this score. Mr. Koo said he felt a statement would be very helpful. I pointed out that we had already indicated that a statement would be made with reference to the lapsing of the earmark and I would take under advisement the question of any further general statement.

Mr. Vincent then inquired from Mr. Koo whether the Chinese Government was aware of the feeling in American business circles that they were being discriminated against in China and that the assistance

which could be given through private channels was being discouraged by various acts of the Chinese Government and its administration. Mr. Koo said that the Embassy was quite aware of this situation and had called it to the attention of the government repeatedly. Mr. Vincent reiterated this was a matter of major importance and that the attitude of the business community would have an important bearing on the whole problem.

Mr. Koo then said he had certain non-economic matters to discuss. (These are covered by Mr. Vincent.⁸⁸)

893.51/6-1347

The Under Secretary of State (Acheson) to Senator Homer Ferguson

WASHINGTON, June 27, 1947.

MY DEAR SENATOR FERGUSON: With reference to your letter of June 13⁸⁹ on the subject of the disposition of the \$500,000,000 loan to China, it is suggested that you may wish to reply to your correspondent along the following lines:

This Government has no information which would support the statement that China used a portion of the United States \$500,000,000 loan to pay off interest and some principal on a British railway loan. The records of the Government indicate that as the Chinese Government made successive withdrawals against the credit we were informed of the manner in which such funds were to be used. A recapitulation indicates that the \$500,000,000 credit was distributed for the following uses:

	<i>\$ Million</i>
Redemption of United States dollar security issues	\$200
Gold purchase	220
Purchase of bank notes	55
Purchase of raw cotton	13. 5
Purchase of textiles	11. 5
	<hr/>
	\$500. 0

Sincerely yours,

DEAN ACHESON

893.51/6-2747

The Chinese Ambassador (Koo) to the Assistant Secretary of State for Economic Affairs (Thorp)

WASHINGTON, June 27, 1947.

DEAR MR. THORP: Pursuant to the conversation I had with you and the Secretary of State on June 25th, I am sending you herewith copies

⁸⁸ See memorandum by the Secretary of State, June 27, p. 852.

⁸⁹ Not printed.

of a number of projects, with documentation,⁹⁰ which the National Government of the Republic of China intends to submit to the Export-Import Bank of Washington. I also enclose a copy of my letter which will accompany the projects requesting credits to meet the necessary dollar expenditure needed for each of them.

We shall be glad to confer with you and your advisers about these projects for a general examination at any time convenient to you, with the hope, however, that it will be possible for us to submit this material to the Bank within the next few days.

Sincerely yours,

V. K. WELLINGTON KOO

[Enclosure]

The Chinese Ambassador (Koo) to the President and Chairman of the Board of Directors of the Export-Import Bank of Washington (Martin)

WASHINGTON, June 27, 1947.

DEAR MR. MARTIN: On behalf of my Government, I am submitting the enclosed projects on (a) Communications, (b) Power, Mining and Industry and (c) Improvement of Agricultural Economy, to you with the request that the Export-Import Bank grant credits to finance the purchase in the United States of materials, equipment and services required for each project. These projects will aid China's economic recovery and will facilitate trade between the United States and China. They are listed on the attached summary sheet⁹¹ together with the amount required for each of them.

The projects have been selected from a general outline which has been transmitted to the United States Government. In making the selection, careful attention has been given to a number of factors, including the bearing which the completion of the project will have on China's foreign trade position, the establishment of a stable economy which in itself will have a direct effect on China's trade with other nations, and the production of revenue by the individual projects, so that the repayment of the credit advanced to finance its construction can be effectuated from the project itself and will not be a burden on the general economy of the nation.

The importance of improving the system of internal communications cannot be over-emphasized. The Canton-Hankow Railroad and the Chekiang-Kiangsi Railroad, both of which traverse areas not served adequately by other means of transportation, are given first priority among the many railroads in need of rehabilitation. Funds

⁹⁰ Attached list of projects and index of documentation not printed; documents listed not found in Department files.

⁹¹ Not printed.

for materials for the repair of rolling stock are also included so that China may get as much use as possible out of its existing equipment that can be salvaged.

In connection with these projects it should be noted that the passenger cars China would like to purchase from the War Assets Administration, with Export-Import Bank assistance, described in a letter to you from the Chinese Supply Commission of April 30, 1947, will form an economical substitute for the immediate need for additional passenger cars on the Chinese railroads, and if we are successful in arranging the purchase of these cars, the funds required for the Chekiang-Kiangsi Railroad project, which includes rolling stock, may be reduced accordingly.

The development of the Tangku, Shanghai and Canton harbors holds the key to the volume and shipping cost of export and import trade of the northern, central and southern regions of China. These projects are urgent because they take time to develop and harbors there form the firstline bottleneck of any modernization of the Chinese economy, where substantial tonnages will have to flow into and out of China or coastwise. The Shanghai harbor has suffered badly from the lack of dredging and proper maintenance during the Japanese occupation and their capacity has been materially lowered. The high cost of both exports and imports that have moved in and out of Shanghai since the defeat of Japan as the result of congestion and delays at that port accentuates the need for harbor improvements.

The supply of electric power is equally important and urgent. In regions like Shanghai and Tientsin it has been impossible to utilize all existing productive industrial equipment because of a shortage of power. The production of textiles and other essential consumer goods has suffered for this reason, accentuating the shortage of such goods in China, forcing prices up, and requiring the importation of supplies which should be produced domestically. In other centers this lack is as great, and hinders the establishment of even small new local industries.

Coal is essential both for power and the railroads as well as for water transport. The coal mines, when restored and developed, will in addition provide certain exportable surplus not obtainable otherwise in the Far East and will, to some extent, reduce the need for Chinese imports of petroleum products. Similarly the other mining projects listed—antimony, tungsten and tin, all of which are minerals for export—will provide China with needed foreign exchange and ease a worldwide short supply of these products.

Other projects are designed to increase China's agricultural production and thus avoid the necessity of importing foodstuffs from

abroad. The fertilizer plants are particularly important. We have previously described, in a letter from the Chinese Supply Commission of April 30, 1947, referring to a proposed purchase of surplus fertilizer plants from the War Assets Administration then under discussion but now withdrawn by WAA, the need for an increased supply of chemical fertilizers and the part it would play in providing larger supplies of foodstuffs. We also referred there to the interest shown in this subject by the Sino-American Agricultural Mission under Dean Hutchinson's leadership.⁹² Even if it were possible for China to obtain sufficient fertilizers from the world's present short supply, obviously China could not afford the foreign exchange that would be necessary.

Like the export metals, the vegetable oils and sugar projects in addition to providing for China's own needs, will provide goods for export to other countries.

The cement industries included in this list of projects will fill a basic need for this important construction material and reduce the uneconomical demands of foreign exchange for importing and shipping large supplies of cement needed for reconstruction work.

The mechanical and electrical industries provide equipment needed for the industrial development of China. A large part of their product will find its use in the basic transportation, communication and power industries as well as direct consumer uses.

Most of these projects have been prepared on the basis of surveys made by American engineering firms, and it is contemplated in most cases to engage American technical assistance in the construction of the various projects and in their initial operation.

In addition to the projects enclosed herewith, others are in the course of preparation, and in part await the receipt of further technical information. When in proper shape, they will be submitted to the Bank.

We should be glad to have the opportunity of discussing these projects with you in detail and of answering any questions that you may have. The members of my staff will be available at all times for discussion with the Bank's technicians and experts.

I should like to express the hope that, in view of the importance of these projects to the economic recovery of China and to the well-being of the Chinese people as well as to the development of trade between China and the United States, we may have an early and favorable answer to this request for credits.

I remain,

Sincerely yours,

[File copy not signed.]

⁹² See *Foreign Relations*, 1946, vol. x, pp. 1268 ff.

811.516 Export-Import Bank/7-147 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 1, 1947.

818. Following statement released to press June 27 by Eximbank:

"William McChesney Martin, Jr., Chairman of the Board of Directors of the Export-Import Bank of Washington, stated today that the Bank is prepared to consider the extension of credits for specific projects in China notwithstanding the expiration on June 30 of the earmarking of \$500 million of the Bank's funds in April 1946 for possible further credits to Chinese Government agencies and private enterprises.

"The Bank has heretofore taken action to bring to an end its program of large emergency reconstruction credits and is reverting to its primary objective of financing and facilitating specific Amer. exports and imports, including the financing of Amer. equipment and technical services for productive enterprises abroad which will contribute generally to foreign trade expansion.

"In its consideration of any application, the Bank will observe the basic principles which guide its lending activities in all areas of the world. In pursuance of the policy laid down by Congress, the Bank will make only loans which serve to promote the export and import trade of the United States, which do not compete with private capital but rather supplement and encourage it, which are for specific purposes, and which, in the judgment of the Board of Directors, offer reasonable assurance of repayment. As a general rule, the Bank extends credit only to finance purchases of materials and equipment produced or manufactured in the United States and technical services of American firms and individuals, as distinguished from outlays for materials and labor in the borrowing country."

Sent to Nanking, rptd to Shanghai as no. 1092 and to Tientsin as no. 110.

MARSHALL

893.24/7-147

The Chairman of the Chinese Supply Commission (Wang) to the Director of the Office of Financial and Development Policy (Ness)

No. S-2405

WASHINGTON, July 1, 1947.

DEAR MR. NESS: We enclose the check of the Chinese Supply Commission No. 1447, dated July 1, 1947, drawn on and certified by the Bank of China, New York Agency, in the amount of \$2,820,020.32. This is the amount of the first payment of principal and interest due from the Republic of China under the terms of the "Agreement between the Governments of the United States and the Republic of China on the Disposition of Lend-Lease Supplies in Inventory or Procurement in the United States", dated June 14, 1946, known as the

"Pipeline" Agreement. Because of the unavailability of the supporting documents on the part of the U. S. Treasury, it has not been possible to determine precisely the exact amount due at this time. However, this amount has been agreed upon between representatives of the United States Treasury Department and members of our staff as being approximately correct, subject to later adjustment when precise figures are available.

As I pointed out in my letter to you of May 29, 1947, it is provided in the Pipeline Agreement that the terms of payment, including rate of interest, may be altered by mutual agreement at the time of final settlement for lend-lease aid received by China. Negotiations looking to such settlement are now going forward. It is our view that during these negotiations many of the considerations and developments which entered into the making of the Pipeline Agreement or came up thereafter will need reexamination. Because of the spirit of the Agreement, as evidenced in part by the provision referred to, and because of the friendly attitude shown by the United States toward China, we suggest that this check be held by you as evidence of our good faith and not be turned in to the United States Treasury until the conclusion of the final lend-lease settlement. In this way no subsequent decision will be affected by this action. We would welcome any alternative suggestion you may make for handling the matter which would likewise avoid committing the above as a firm payment or setting a precedent for future payments.

In any event we wish to place these funds in your hands without delay.

Sincerely yours,

SHOU-CHIN WANG

102.1/7-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 4, 1947—9 p. m.

[Received July 5—4: 57 a. m.]

1463. To State and Treasury from Adler. Reference Embassy's telegrams 1301 and 1302 of June 14.⁹³ Governor of Central Bank called on me yesterday to resume discussion of his silver project. He recapitulated the advice he has been pressing on the Generalissimo for the need to introduce sharp line of demarcation between the military zone in North China and Manchuria which should rightly be under military control and a civil zone in south or central China in which military influence should be curtailed and in which there should be a concentrated attempt at economic rehabilitation and relative self-

⁹³ Latter not printed.

sufficiency. He was also pressing the Generalissimo to reduce expenditures, but the Generalissimo replied that while he agreed on the need, it was impossible to do so as long as prices rise. Therefore, the Governor concluded, with respect both to internal fiscal policy and foreign exchange policy, where he would like to go ahead with adjustment of exchange rate and export-import linking program but cannot because of unsettled conditions, he is confronted with the need for a new unit of account. He said he needed at least 200 million ounces of silver to give him an umbrella for this operation.

Apparently giving up the prospect of an undisguised loan, he raised the possibility of China's purchasing this amount of silver from the United States and asked me to convey to you a request for the possible terms on which such a purchase might be made. With respect to price, he was not specific but called attention to the fact that the Mexican price was lower than the New York price.

With respect to other terms, he alluded to the possibility of a credit, but in general he took the position that he would prefer the seller to indicate terms.

When asked what the Central Bank's foreign exchange position was, Governor replied that it had equivalent of US \$350,000,000 in gold, United States dollars and sterling area currencies, of which I believe \$60,000,000 is committed to the National City Bank, Chase and the Bank of China for first and second quarters 1947 cotton quotas. [Adler.]

STUART

102.1/6-1447 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 9, 1947—7 p. m.

845. For Adler from State and Treas. It is thought that a loan for currency stabilization is not possible at this stage, re Embtel 1301, June 14. Such a loan would, in any case, require Congressional action. Recognized here that reintroduction [of] silver coins may ultimately provide means of achieving stabilization, but considered that (1) no monetary measure could have appreciable effect in the face of continued massive deficit spending, and, (2) as proposal sketched in Central Bank Governor's memorandum⁹⁴ indicates, if adopted flight from *fapi* might be more seriously accentuated. Your comments requested. [State and Treasury.]

MARSHALL

⁹⁴ See footnote 72, p. 1135.

893.51/7-1147

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Vincent)

WASHINGTON, July 11, 1947.

Subject: Attached memorandum⁹⁵ presented to Adler by Governor Chang Concerning a Silver Loan

As suggested by Mr. Adler in paragraph 2 of his comments⁹⁵ on the subject memorandum, the Chinese request for a silver loan as presently outlined can be considered merely as a request for financial assistance required to reduce social and economic chaos during the next six months to a year.

The Chinese memorandum does not provide any hope that a silver loan at this time would be effective in producing even a moderate degree of stability in the Chinese currency. It appears to me, therefore, that our considerations should be as to whether or not we wish to extend a general credit to alleviate the immediate situation.

In order to provide a new currency equal in total value to the present amount of currency in circulation (10 trillion CN) at a ratio of 25,000 to 1, the new currency would have to total CN400,000,000. As the Chinese propose a ratio of 5/7 ounces of silver per yuan, this would require approximately 286 million ounces of silver. At the present US price of approximately 70 cents an ounce, this would require \$US200 million. However, if China were to acquire this amount of silver in a comparatively short period of time, the price might well rise to 91 cents an ounce, in which case the total cost would be \$US260 million. The figure of \$369 million mentioned in the penultimate sentence of paragraph 1, page 2, of the memorandum is incorrect in that it is based on the US Treasury evaluation of \$1.29 per ounce, which figure would not be the purchase price for the Chinese. It is not clear from the memorandum whether the Chinese would wish to introduce at the outset 100 million or 400 million new units of currency. One hundred million 5/7 ounce units would cost \$50 million at 70 cents and \$65 million at 91 cents.

The statements in the memorandum with respect to seignorage can be disregarded in view of the fact that there has been a further deterioration in the value of the yuan, both internally and externally.

⁹⁵ Not printed ; see footnote 72, p. 1135.

893.50/7-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 12, 1947—2 p. m.

[Received July 12—11:45 a. m.]

1518. Plan now being studied by National Economic Council is economic reform plan adopted March 23, 1947 by Central Executive Committee of Kuomintang described Embassy's despatches 652, April 21 and 665, April 25.⁹⁶ (ReDeptel 1112, July 7, sent Shanghai,⁹⁷ repeated Nanking 831, Tientsin 114, Geneva 735.)

Embassy officer July 9 discussed with Chen Li-fu,⁹⁸ whose proposals for economic reform are embodied in plan now being discussed by NEC, present status that plan. He said that plan, while containing basic objectives stated Embdes 652, has been redrafted; that it contains 87 articles grouped under 3 major headings including (1) economic projects already undertaken but not vigorously carried out; (2) projects for which Ministries concerned will be instructed to draft detailed plans for early execution; and (3) projects of long-range nature not presently considered urgent.

Chen stated that "only defect" of plan is that it does not take up in detail question of land problems; that plan as now drafted contains about 95% of his original proposals for economic reform (Embdes 665, April 25); that it has no connection with 5-year industrial plan (Embdes 473, February 4⁹⁷) which continues to be shelved; that part of emergency economic measures promulgated February 17 [16]⁹⁹ are included in plan; and that NEC currently discussing inclusion of recently announced general mobilization measures in economic plan.

Other meetings with Chen will be held soon and efforts will be made to obtain full text of redrafted plan and additional information on proposals affecting foreign trade. Plan adopted March 23 by Kuomintang includes following recommendations:

"For international trade, restrictions should be applied to importation those articles other than production tools, raw materials, books and scientific research equipment so as to save our foreign exchange—encouragement should be given to all exporting trades. To stimulate business of export and import, exporters may use their foreign exchange for importations. To improve export trade, efforts should be made to standardize manufacture of different native products.

⁹⁶ Latter not printed.

⁹⁷ Not printed.

⁹⁸ Vice Chairman of the National Economic Council.

⁹⁹ See telegram No. 299, February 17, from the Ambassador in China, p. 1071.

Handicrafts should be organized in the form of cooperatives with aim of expediting export. National commodity supply cooperative should be charged with responsibility of contacting international cooperative and trade committee of international cooperative union and wholesale cooperatives all over the world and trying barter system.”

Embassy withholding comment on points raised Deptel pending receipt of further information from Chen Li-fu with whom those points will be discussed. Meanwhile, impression gained in talks with Chen and several of his associates that he is optimistic regarding adoption economic reform plan by NEC and that development described Embdes 830, June 25 [23]², only temporary reversal. Chen stated that [he?] had been appointed Vice Chairman of NEC and, in absence of Premier Chang Chun, had alternated with Hsu Kan, Director General of Office of Comptroller-General, as temporary Chairman.³

Sent Department 1518; repeated Shanghai 623, Tientsin 86. Department please pass to Geneva USDel ITO.⁴

STUART

102.1/7-1547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 15, 1947—8 p. m.
[Received July 16—4:08 a. m.]

1532. To State and Treasury from Adler. ReEmbtel 1463, July 4 and Urtel 845 of July 9. Arrived Shanghai July 8, returned July 15. On July 10 I had a further long discussion with Governor of Central Bank on silver, in which he informed me that he, K. P. Chen, Li Ming and Tsuyee Pei, who is now acting as Governor's adviser, had been reviewing the whole financial situation and had decided that they must take steps to have a stock of silver coins on hand within approximately 3 months. He asked me to transmit the following formal request:

“In view of the time which will be necessary for making the dies and for the completion of other processes of coinage, would you be kind enough to inform the United States Mint to start at once the preparation for the coinage of our new silver money against a silver deposit with the National City Bank of New York, Shanghai? The initial installment of coinage will amount to 45 million ounces of fine silver. The new coin, I hope, will have on one side a portrait of Doctor

² Not printed; this despatch indicated that Dr. Chen had not realized his ambition to attain control of top economic positions in the Chinese Government (893.50/6-2347).

³ For discussion of the plan, see memorandum of July 23 by the Assistant Commercial Attaché in China, p. 661.

⁴ United States Delegation to the International Trade Organization.

Sun Yat-sen and on the other side the Chinese equivalent for one yuan encircled by patterns including that of our national emblem of the 12-pointed star. The portrait of Doctor Sun is available at the American Bank Note Company in the United States.”

The coin's specifications are: gross weight of 14 grams or .45 ounces, .720 fineness, net silver content of 10.08 grams or .324 ounces, copper 3.92 grams or .126 ounces and a diameter of approximately 31 millimeters. It was further suggested that if in the Mint's opinion the fineness can be reduced without changing its color and without necessitating use of nickel and zinc a larger coin with the same net silver content would be preferred.

The Governor said the Central Bank had 45 million ounces of silver on hand which it could turn over to National City Bank, Shanghai, for transfer to Treasury to replace the silver advanced by Treasury. He added that the whole matter was one of some urgency and that Central Bank would like to have the first installment on hand in Shanghai within 3 months. He indicated that the Central Bank would of course pay all cost involved.

He admitted that 45 million ounces would be far from sufficient to provide the requisite coinage for the new currency and asked if the Treasury could facilitate the acquisition by China from Mexico of 50 million ounces of silver which the Bank of Mexico now has in its vaults and the 60 million ounces the Bank of Mexico expects to obtain within the next 6 months from current production. When I asked what terms he contemplated for this transaction in view of fact that Mexico would not sell silver except for cash, he became vague. (For your information I learned later that Governor has asked Urquidi [of] Bank of Mexico who recently visited China to cable Mexico on possibility of a Mexican credit to China for purchase of silver and that Mexico turned down Chinese request.) He also repeated possibility reported in Embtel 1463 of July 4 of a “purchase” of 100 million ounces from the United States, suggesting that China make her payment for the silver over a period of 10 years, and that part of payment be made in Yunnan tin.

Governor then informed me that S. D. Ren, vice president of Universal Trading Corporation,⁵ was leaving for United States in the next day or two and would phone Treasury long distance from San Francisco to ascertain whether he should come to Washington immediately for consultation on design of new coinage.

I pointed out to Governor that step he was taking was a very serious

⁵ An official Chinese agency incorporated under the laws of the State of New York on October 18, 1933. Its chief functions were to market tung oil and other Chinese products in the United States and to act as purchasing agency in the United States against Export-Import Bank credits to China.

one and that further discussions with him and his advisers were desirable before I transmit his formal request to Washington, with which suggestion he readily agreed. [Adler.]

STUART

102.1/7-1647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 16, 1947—4 p. m.

[Received July 16—9 a. m.]

1535. To State and Treasury from Adler. RefEmbtel 1532, July 15, 8 p. m. Saw K. P. Chen on morning of July 11 and in reviewing the proposal to introduce a new silver currency he admitted it would be a gamble and a move undertaken out of desperation.

He further admitted many of the longer run disadvantages of the proposal, as for instance the dubious value of silver as a means for settlement of international balances. However, he claimed that one great advantage was that the peasants would use silver coin instead of food as a hoarding medium and thus the injection of silver coin into circulation would fulfill the same function as the gold-selling policy in 1946. Between 300 and 400 million ounces of silver would be needed.

(For your information K. P. Chen made following observation.) The Generalissimo is hemmed in and has had little freedom of political maneuver. In the period when the British were the dominant power on the lower Yangtze valley, they were realistic and did not ask him to do things which it was impossible for him to carry out. "You Americans are straightforward and direct" and are asking him to do the impossible. He was obviously alluding to United States antipathy to the extreme reactionaries. I replied that the United States is realistic in its awareness that Generalissimo cannot save himself unless he moves on certain lines, however difficult it is for him to do so.

Evening of July 11 I attended a 3-hour conference with Governor,⁶ K. P. Chen, Li Ming and Tsuyee Pei. Conference was discouraging as it revealed their inability as a group to face up to unpleasant facts which as individuals and privately they readily acknowledge. Pei acted as spokesman and built up a rosy picture with only tenuous relations to the actual situation, though he did reveal that Generalissimo wants restoration of silver dollar. Pei argued that China is faced with two major economic problems: its unbalanced budget and the deficit in its balance of payments. As the former could not be tackled now, it was best to concentrate on the latter. Rectification of deficit could, he claimed, be achieved by institution of a free exchange

⁶ Chang Kia-ngau.

market, with Central Bank only granting exchange at official rate for good cotton and Government imports; for rest importers would have to get exchange themselves at free market price as best they could. He admitted that free exchange market would necessitate tightening of trade controls and elimination of current large-scale smuggling, but argued nevertheless that consequent increase in exports and inflow of overseas remittances would bring China's international payments approximately in balance in about 3 months.

Then would [be] propitious time for introduction of silver coinage, especially if there had been one or two military victories, as some confidence in Government would have been restored. China would need between 200 and 250 million ounces of silver, in addition to the 45 million ounce stock in her possession. It would be best if she could have around 150 million ounces of silver coin on hand at time of its introduction, but there might not be time for that. He would like to see the silver coin introduced as unlimited legal tender, but there would not be enough on hand and it would have to be injected gradually through the main financial centers. The introduction of silver coin would be conditional on the Generalissimo's taking measures to reduce expenditures so that it would be utilized to move toward a balanced budget. I then proceeded to raise a number of questions:

1. The establishment of free exchange market would accentuate the flight of capital. Moreover, prevention of smuggling would be a major political problem, as most smuggling is via Hong Kong, which depends on entrepôt trade for its existence, and Kwangtung, where it would be hazardous for Central Govt to try to strengthen its political authority at this time.

2. The Central Govt would run the risk of rapid depletion of its stock of silver coin if it started with only 45 million ounces of silver coin. It was admitted that around another 100 million ounces would be needed, upon which I asked where this 100 million ounces and the balance needed eventually to make up the 250 million ounces would come from. The Governor again alluded to the possibility of an arrangement with Mexico through American good offices and to a purchase of silver from the United States. With respect to Mexican silver I tried unsuccessfully to pin him down on possible terms. With respect to U. S. silver he indicated that he had a 10-year credit in mind, and K. P. Chen suggested that repayment might be in the form of commodities such as tin and wolfram ore, with repayment to begin 3 or 4 years from now. When I pointed out that such an arrangement would in fact be a loan, this was generally agreed to. When I mentioned the obstacles in the way of a loan, K. P. Chen intimated that the "silver bloc" might support such a loan, citing the late Senator Pittman who said to him 11 years ago: "Come to U. S. 6 years from now and we will give you all the silver you want." However, he confessed that the silver bloc might raise certain difficulties as to price. Another suggestion was that China might make an arrangement simi-

lar to that made by the United Kingdom and India during the war, when we lend-leased silver to them on condition that repayment be made in silver.

3. Would the silver coin be maintained at a fixed or a fluctuating price in terms of *fapi*? After some discussion of the advantages and disadvantages of both courses, Pei said it would be best to regulate the price of silver coin in such a way that it would exceed the value of its silver content in terms of the free market exchange rate, but no definite answer to the question was given.

4. The introduction of silver coin would accentuate the flight from *fapi* and significantly increase its velocity of circulation.

5. How would it be possible to resist pressure of military to obtain silver coin for their appropriations?

6. Finally, judging from Pei's analysis it would appear that silver coin was going to be introduced on the basis of the expectation that the economic situation was going to improve and not deteriorate. K. P. Chen speaking for the group as a whole said that was correct.

After further discussion Governor asked me to transmit over the week-end request contained in section 1.⁷

Saw Li Ming on July 12. He confessed that Pei had been too optimistic in his analysis of the impact of a free exchange market and that the silver proposal was the product of a desperate situation but claimed that hard money would act as a curb on military extravagance and contribute to fiscal sanity. K. P. Chen later joined us and also confessed that the establishment of a free exchange market, which he has supported for some time, would be a gamble. [Adler.]

STUART

102.1/7-1647: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 16, 1947—7 p. m.

874. For Adler from State and Treas. Navy reports July 8 that Shao of Central Bank [of] China informed Casaday, Maj. Johnson⁸ and Lt. Milliren⁹ that Central Bank unwilling to provide more than CNC 29,000 to \$US 1, insists on renegotiation, and desires to sell at official rate only. Request your views on Shao's complaint (Com-NavWestPac¹⁰ 080505Z July 8¹¹). Indicate whether agreement can be considered still in force, also your views on resumption of renegotiation.

In the event that renegotiation of Hong Kong cross-rate agreement

⁷ Telegram No. 1532, July 15, *supra*.

⁸ Possibly Maj. Richard K. Johnson, Army Advisory Group Finance Officer.

⁹ Lt. Howard C. Milliren, Disbursing Officer, United States Naval Port Facilities, Shanghai.

¹⁰ Commander, U. S. Naval Forces, Western Pacific.

¹¹ Not found in Department files.

necessary, following procedure may be appropriate, subject to further checking in Washington. Views of Ambassador and yourself requested.

1. Resumption of negotiation with the Central Bank on a new cross-rate agreement or alternative, during which time Marine CNC proceeds will be used at the cross-rate.

2. Then indicate to Chinese after reasonable period that, unless agreement is reached before exhaustion Marine CNC, US will be forced to take appropriate alternative financial measures. [State and Treasury.]

MARSHALL

893.24/7-147

*The Director of the Office of Financial and Development Policy (Ness)
to the Chairman of the Chinese Supply Commission (Wang)*

WASHINGTON, July 16, 1947.

MY DEAR DR. WANG: This is to acknowledge with thanks your letter of July 1, 1947, enclosing a check of the Chinese Supply Commission of \$2,820,020.32 in payment of the principal and interest due on July 1, 1947 under the "Agreement between the Governments of the United States and the Republic of China on the Disposition of Lend-Lease Supplies in Inventory or Procurement in the United States", dated June 14, 1946, and known as the "Pipeline" Agreement.

The check has been transmitted to the Treasury Department with instructions to deposit it in a special account so that, in the event that the lend-lease settlement negotiations should result in any modification of the Pipeline Agreement, any agreed portion of this payment could be refunded to the Government of China. This is to conform with the suggestion contained in the second paragraph of your letter.

Sincerely yours,

NORMAN T. NESS

102.1/7-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 17, 1947—11 a. m.

[Received July 18—12:40 a. m.]

1540. To State and Treasury from Adler. ReEmbtels 1532 of July 15 and 1535 of July 16. Herewith my comments on Urtel 845 of July 9 and on Governor of Central Bank's request that (a) Treasury start minting 45 million ounces of silver coin for China on basis of a swap against 45 million ounces Central Bank has in Shanghai, and

(b) Treasury Department long-term credit of not more than 100 million ounces of silver to China on terms to be worked out.

1. While deterioration in financial and economic situation continues unabated and while certain prices particularly in larger commercial and financial centers are increasingly based on open market prices of U. S. dollar and gold, there is not an immediate threat to general internal acceptability of *fapi*. Granting a tolerable harvest, for which prospects are reasonably fair, and no drastic large-scale military reversals not already discounted, at present rate of deterioration this acceptability should be tenable for at least 6 months if not longer.

2. Pei's proposal for the establishment of free exchange market has certain important advantages from point of view of China's balance of payments and has something to be said for it, though his expectation that deficits on international accounts would be more or less eliminated within 3 months is quite unreasonable. At same time German experience would appear to indicate that in hyper-inflationary situation existence of free exchange market with widespread opportunities for exchange speculation and flight of capital intensified hyper-inflation and general economic instability. This factor alone would, of course, contribute to accentuation of flight from *fapi*.

3. The injection of silver coinage into circulation would undoubtedly dangerously accentuate flight from *fapi*. As it would be impossible to keep silver plans secret, expectation of move would have impact on flight from *fapi* even before move was initiated. More important, fact that move would be undertaken with only relatively small stock of silver coin on hand would further contribute to flight from *fapi* and loss of confidence in Central Government.

4. From fiscal point of view, injection of silver coin into circulation on a small scale would initially certainly not improve budgetary picture, as receipts would be paid in depreciating *fapi* and amount of silver remitted would be too small to make a sizable dent on the deficit.

5. Governor's request for a swap of 45 million ounces of silver and for our immediately beginning preparations for minting this amount is a disingenuous request for a loan of silver up to the whole amount needed for a new silver currency—probably 400 million ounces—minus the 45 million ounces China has on hand. For once we committed ourselves to minting the 45 million ounces we would have a moral responsibility to China for the new currency, which in effect we would be underwriting. The Governor's proposal, if acted on in its present form, would unnecessarily and inexpediently reduce what life there is left in *fapi* and would entail introduction of new currency under more unfavorable conditions than is necessary. Although fact that U. S. was associated with new currency would be psychologically bene-

ficial to the Central Government, this effect would be short lived and wholly uncommensurate with the cost. Therefore, it would be unwise to underwrite the new currency in such circumstances.

6. Therefore it is recommended that you instruct me to inform Governor as follows: Without prejudice to merit or demerits of plan for new silver coin, in opinion of State and Treasury it would not be feasible to embark on plan in 3 months.

Furthermore, following explicit information and details are needed for a considered evaluation of Chinese proposal:

a. How much silver does China need for a new silver coinage?

b. What is the minimum amount of silver coin China must have on hand at time of introduction of silver coin to leave her within margin of safety?

c. Does China contemplate establishing a fixed or fluctuating rate between silver and *fapi*?

d. Does China intend to replace *fapi* entirely with silver, and, if so, how long is process intended to take?

e. What specific and concrete steps is China contemplating with respect to budgetary deficit in period both before and immediately after introduction of silver coin?

f. Has China a plan for ultimate currency stabilization tied up with plan for new silver coin?

It would, of course, be made clear to Chinese that request for such information involved no commitment of any kind on part of the U. S. [Adler.]

STUART

102.1/7-1847: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 18, 1947—5 p. m.

[Received July 18—8:25 a. m.]

1550. To State and Treasury from Adler. ReDeptel 874 of July 16. Saw Shao July 10 and he said Governor had informed him that agreement in its present form was unsatisfactory and required renegotiation as Hong Kong cross-rate was too high. I replied that our complaint was precisely the reverse; whereas previously Hong Kong cross-rate was between 80 and 95 percent of Shanghai open market rate it had for most of period since May 15 been only between 60 and 70 percent. Shao at first took position that last two purchases by Army and Navy earlier in the week should not be settled on basis of Hong Kong cross-rate, but when I pointed out this would constitute retroactive as well as unilateral termination of agreement, he abandoned his position. However, he insisted that new basis was now required. I

asked him what basis he proposed and he made quite unrealistic and unacceptable offers. When I saw Governor later in the day and on July 11 he was vague and asked me to keep on negotiating. Shao was inaccessible on July 12 and when I saw him again on July 14 he at first maintained unreasonable attitude and then confessed what I had already observed, namely, that while Governor might have been pliant in his conversations with me Governor's instructions to him were firm and rigid. He gave me distinct impression that Central Bank, being highly embarrassed by having to carry on transactions at other than official rate, would prefer us to go into open market without asking Central Bank's sanction.

For your information, on afternoon of July 14 Central Bank tried unsuccessfully to perpetrate a crude deception on Navy. Governor of Central Bank will be away in North China until early next week and Shao will be in Hong Kong for another 10 days.

In view of Central Bank's intransigent uncooperativeness, of Governor's evasiveness which was manifested in May as well as in current negotiations, and of fact that Marine CNC proceeds will be slow in becoming available, it is recommended that I inform Governor on his return from North China that unless we are given a reasonable arrangement we will be forced to adopt appropriate alternative financial measures. Only drawback is that without arrangement with Central Bank we would probably have no working formula for acquisition of real estate under FLC agreement. But if Central Bank remains unwilling to accept reasonable arrangement, there would appear to be no alternative. Attitude of Central Bank is the more inexplicable in view of numerous requests China is making for assistance from the United States.

Should Central Bank continue to be unreasonable, and should we be forced into open market, there are a number of alternatives:

- (a) Army, Navy and Embassy can pay alien staff in U. S. currency.
- (b) Army, Navy and Embassy can cover CN requirements, excluding alien staff salaries, by sale of U. S. currency.
- (c) Army, Navy and Embassy can cover CN dollar requirements by sale of checks or drafts to reputable American firms or by transfers to their accounts in New York.
- (d) Same as (b) and (c) except that alien staff salaries would be paid in CN dollars. Their payment in local currency would on whole appear preferable for time being.

Advantages of (c) over (b) are that it would yield a better rate and would be easier to operate, but disadvantage is that it would render U. S. Government liable to accusation of favoritism by firms not included. In any case, whichever arrangement were adopted, it would

be advisable to require Army and Navy to consult Treasury and Assistant Treasury Attachés on their purchases.

In view of urgent need for CN dollars by Army, Navy and Embassy, speedy reply would be appreciated.

Have consulted Ambassador who concurs in above. [Adler.]

STUART

893.00/7-1847

The Director of the Office of Far Eastern Affairs (Vincent) to the Secretary of State

WASHINGTON, July 18, 1947.

DEAR GENERAL MARSHALL: The real purpose and body of the attached memorandum is to be found in the 5th and final Section, Currency Reform; and the specific problem raised is that of a reintroduction of silver into China as a medium of exchange. This Section of the memorandum adds nothing to what we already know. As a matter of fact, we have much more precise information from Sol Adler in Nanking. The Treasury experts continue to take a dim view of the project. They do not consider it feasible. As a layman I am still for it and wish that some way could be worked out to put it into effect. I find also that most of the old China business hands with whom I have talked favor the proposal. Some form of American supervision would be necessary if we gave China a large silver credit to assure that it did not fall into the hands of large speculators and hoarders in Shanghai but actually went into the interior to loosen up the flow of goods to the seaports. Jenkins of Treasury, who is accompanying Wedemeyer,¹² will no doubt report on the matter.

I am of course in hearty disagreement with the statement in Section 1 (e) that "one and a half year's time was lost to these futile efforts to prevent civil war in this country". I am quite sure that conditions in China would have been much worse had there not been during 1946 a relative lull in military activity. Although little has been done, the Chinese Government is more alive now than it was then to the need for putting its house in order. Had there been active civil war in the early part of 1946, I seriously doubt that the 250,000 Russian soldiers in Manchuria would have withdrawn. And, unless we were prepared for total involvement in the civil war on the side of Chiang, I do not believe he was any more capable then than he is now of eradicating the Chinese Communist army from north China.

With regard to Section 2, I would comment that Chiang's popularity

¹² Lt. Gen. Albert C. Wedemeyer; for correspondence on his mission to China, see pp. 635 ff.

is decreasing. Butterworth supports this view. But it does not follow that he should be replaced. Disintegrative forces in China are always stronger than integrative. Chiang has been fighting a losing battle primarily because he has been, it seems to me, playing the wrong game with the wrong cards. I do not believe he realizes the extent to which the relative unity achieved by him before and during the war was due to two factors: (1) the pressure exerted by Japan and (2) the healthy financial and economic situation which made it possible to attract provincial loyalty. The financial strength of the Nanking Government, which it used to bring unity, has always been in the Yangtze River area. Outlying areas have been, generally speaking, liabilities. If Chiang goes, the disintegrative trend will be speeded up because there is no strong man or group to succeed him. If he stays he may be able, with our assistance, to improve his position in the Yangtze River area from a financial and economic standpoint and cut some of his liabilities in outlying areas. There is a somewhat oblique approach to a solution of this kind in Section 4 (*a*) of the memorandum which suggests that in the area south of the Yangtze "greater power should be vested in provincial governments so that governors may have a freer hand to improve their fiscal administration, to balance their budgets, to make necessary agrarian reforms, etc."

I agree with the main thesis in Section 3 that "the prospect of peace with the Communists is not very hopeful" and I might add one more reason to those given; namely, the inability of the National Government to visualize the problem in terms of a social as well as a military contest.

With regard to general policy on the question of economic aid to China I tend more and more to the belief that, while continuing efforts to contain the spread of Communism in China without becoming directly involved in the civil war, the grass roots and strength of our relations with China over the past 100 years derive from American commercial and cultural activities in the country. With this thought in mind, I believe we should do all that we reasonably can to strengthen American business and cultural enterprise in the country. Specific projects should be considered in the light of their relation to strengthening American business in places where we may reasonably expect operations not to be completely at the mercy of the vicissitudes of civil war or of the vagaries of the present National administration. If we can build up enclaves of increasing American influence in such places as Shanghai and Tsingtao, the effect might gradually spread and be beneficial to wider areas and perhaps lead the way to more extensive economic assistance which we would then be able to justify in the eyes of the American people as sound American policy. This will

take time; and the question is whether time is on our side; whether we have time. I am inclined to think we have because the Russians do not seem anxious to move aggressively and precipitately into the morass of China. They may realize the difficulties of playing hockey in a marsh.

Manchuria, of course, is a more urgent problem. There is no need crying over the mistakes of the past. But I believe that if Chiang would modify his desire to achieve unity based upon the complete authority of the National Government and would make a practical and sincere attempt to gain the support of the old Manchurian leaders and the Manchurian population, he could at least move in the direction of improving the situation in Manchuria. After all, Chang Tso-lin¹³ may have been a thorn in the side of intramural Chinese Governments for 20 years because of a semi-autonomous position; but he was also able to operate in a manner which modified the aggressive tendencies of the Japanese and the Russians and which maintained him in control.

J[OHN] C[ARTER] V[INCENT]

[Enclosure—Memorandum]¹⁴

1. *Factors leading to the present chaos:*

(a) Privation as the result of eight years of war against the Japanese.

(b) Development of the Red influence in North China in the course of the war.

(c) Too much optimism after the war. Peace negotiations during Marshall's mission, the preparations for the National Assembly and the Coalition Government, etc. held many things in abeyance and prevented the Government from paying necessary attention to such important problems as the improvement of Government administration, finance and monetary policy. About one and a half year's time was lost to these futile efforts to prevent civil war in this country.

2. *Factors essential to stability in China:*

Political unity, maintenance of the social economy and of regular economic relations with countries abroad are the three most important requirements for a peaceful and stable China.

Towards the objective of political unity, which is most important not only to China herself but also to the Far East as a whole, the Chiang regime has made an important contribution. There has been

¹³ Ruler of Manchuria until his death in June 1928.

¹⁴ Sent by the Secretary of State to Mr. Vincent on July 3 with a note asking for his comment on this memorandum which had come "from a very high Chinese source".

two versions with respect to the present regime. Although some think that the absence of the Generalissimo from the Government may improve conditions in China, the majority of the Chinese people believe that, before the completion of the constitutional machinery, Chiang's absence will bring greater chaos to China, with peace to be regained only after a long period of turbulence. Without the Generalissimo, there will likely be a united Communist regime in North China vis-à-vis a disunited non-Communist government in the South.

Thanks to the agrarian system in China, the economic system of the country has never been impaired despite the repeated changes of dynasties. But the situation is somewhat different under the present conditions where a system of managed currency is used.

When the people loses confidence in the currency, their confidence in the Government will also be lost. The loss of confidence among the rural populace will mean interruption of trade between cities and rural areas. There will be no agricultural supplies for the metropolitan areas and little trade with countries abroad.

3. *Peace with Communists:*

The prospect of peace with the Communists is not very hopeful because of (1) the different ideology of communism, (2) the deep-rooted hatred between the Communists and the Kuomintang Party, and (3) the dominance of the Soviet influence over the Reds in China.

A temporary truce with the Communists might be attained if, and only if,

(a) China can meet the demands of Soviet Russia, particularly an exclusive interest in Sinkiang and Manchuria, or

(b) the Central Government can win a few strategic victories so as to ensure a definite superiority over the Reds, or

(c) the Central Government can yield unconditionally to the terms of the Communists.

4. *Will the Chiang Government be able to prevent the expansion of the Communists in China?*

The bulk of the people in China is in favor of the Central Government because (1) they are afraid of a radical revolution and (2) the experience of those who have been in the Communist areas have not been pleasant.

In order to consolidate its position among the people, there will also be several important conditions which the Central Government must fulfill:

(1) On the political and military side, the Government must adopt a bold and determined policy. This will include the following points:

(a) The area south of the Yangtze River will be designated as an

area for economic reconstruction and industrial development under the following conditions:

(i) Civil personnel will take charge of the provincial governments to replace the military men who are now holding a great number of these posts.

(ii) Greater power should be vested in the provincial governments so that governors may have a freer hand to improve their fiscal administration, to balance their budgets, to make necessary agrarian reforms, etc.

(iv) [(iii?)] Peace and order in this area will be maintained by militia and police forces rather than regular combat units.

(b) The area north of the Yangtze will be designated as a pacification area, in which more power should be given to the military personnel before the Communists are cleared up. In the meantime, it will also be imperative to make these areas adequately provided with food and clothing so that the allegiance of the northern provinces to the Central Government may be ensured, despite the continuance of the civil war in these provinces.

(2) On the economic side, currency reform and measures to reduce the budgetary deficit are imperative:

(a) The currency reform must be undertaken in the next few months, before a total collapse in the present economic system becomes a reality.

(b) The budgetary deficit must gradually be reduced by improving the tax system as well as curtailing government expenditure. To reduce military expenditure, it will be helpful to divide the nation's military forces into two sections: the combat units and the local militia. The former units must be well trained and fully equipped for their duty, but their number may be reduced since the areas south of the Yangtze will mainly be guarded by the militia and police forces.

5. *The Currency Reform*

(a) In order to ensure the flow of indigenous agricultural supplies from the rural districts and in view of the waning confidence in the paper notes among the rural populace, the use of metallic coins will probably be imperative if the currency reform is to be successful. A limited amount of gold coins and a sizeable amount of silver money will be put into circulation in the course of monetary reform. Gold and silver certificates duly backed by metallic reserve may also be used, if the technical difficulties involved in coinage prevent the use of metallic coins at the early stage of the reform or when conditions prevent the circulation of a new paper money. The size of the gold circulation will be predicated on the supply of the metal that China will be able to obtain. The coins will not be used to meet the Govern-

ment deficit, but to pay wages of industrial workers and to buy agricultural supplies from the rural areas.

(b) The conversion ratio between the old *fapi* notes and the new money will be fixed in accordance with the market conditions at the time of the monetary reform.

(c) A currency reserve board consisting of representatives of the Ministry of Finance, the Central Bank of China, the Ministry of Audit of the Control Yuan, the Bankers' Association, the Chamber of Commerce and other relevant associations or institutions will be established to supervise the issuance and the reserve of the new currency. Foreign advisors may also be invited to participate in the supervision.

(d) At present, the volume of the note circulation in China is about nine trillion yuan. Assume that the circulation needed after the monetary reform will double the present volume of circulation, the conversion ratio between the old notes and the new money is about 25000:1, and 50% of the new circulation is composed of hard coins and the rest of the money notes backed by a metallic reserve of 50%, the amount of silver needed will be approximately 302,400,000 ounces. At US\$1.29 per ounce, the official price for silver in the United States, about US\$390,096,000 will be required; and at the market rate of US\$.70 about US\$211,680,000 will be required.

(e) To undertake the monetary reform it will be necessary to have a loan of 302,400,000 ounces of silver from the United States. The loan may be repayable in silver in the course of a thirty-year period beginning five years after the loan is granted. To ensure the servicing of the loan, China will specify a few commodities to be exported to the United States and the proceeds derived therefrom will be used to purchase the silver for the payment of the interest and amortization of the loan.

(f) To replenish China's depleting exchange reserve, short-term commodity loans amounting at least to US\$200,000,000 will also be imperative besides the silver loan previously mentioned. In the past year, commodities valued at about US\$300,000,000 totaling about three-fourths of China's entire imports, were from the United States. They included fuel, cotton, wheat, flour, dyestuff, fertilizers, metals, pharmaceuticals, machinery and machine parts. In order to continue such imports, it is necessary to arrange commodity credits with either the Export-Import Bank or other financial institutions of the United States. These credits will have a term of not more than five years and will be strictly on a business basis and repayable, like some of the previous loans from the proceeds of specified exports from China. It is hoped that these commodity credits will be repaid before the servicing of the silver loan is started.

The above scheme of monetary reform is designed so as to:

- (1) Minimize the drain of gold, which is precious in the United States or the dollar fund, which is scarce in the world market.
- (2) Increase the demand for silver, which is relatively abundant in the United States.
- (3) Prevent the collapse of the social economy of China.
- (4) Guard through the Currency Reserve Board the credit granted by the United States from being mis-used.

It is hoped that through this monetary reform, the confidence of the people in the currency as well as political unity of the country may be restored.

102.1/7-1747 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 24, 1947—5 p. m.

911. For Adler from State and Treas. It is assumed here that monetary authorities would not wish to place order for minting 45 million ounces silver without assurance that balance of 250 to 350 million ounces could be minted promptly following completion initial order reurtels 1532 and 1535 and 1540. Otherwise issue limited to 45 million ounces could easily be dissipated without any improvement in economic situation. As indicated deptel 845 loan for currency stabilization not thought possible at this stage and introduction silver coins under existing conditions considered nugatory. [State and Treasury.]

MARSHALL

893.24/7-3047

The Director of the Office of Financial and Development Policy (Ness) to the Chairman of the Chinese Supply Commission (Wang)

WASHINGTON, July 30, 1947.

MY DEAR DR. WANG: On August 19 [18], 1945 your Government was requested ¹⁵ to submit an inventory of lend-lease supplies furnished by the Foreign Economic Administration to your Government on lend-lease terms and still under the control of your Government on V-J Day.

This inventory was to cover all articles transferred to your Government by the Foreign Economic Administration that had not been lost,

¹⁵ Letter from the Administrator of the Foreign Economic Administration to the Chinese Ambassador, *Foreign Relations*, 1945, vol. VII, p. 1130.

destroyed or consumed. I would appreciate receiving this inventory from you at your earliest convenience.

I wish also to call your attention to another lend-lease matter involving 1438 Dodge T-234 Trucks which were turned over to the Chinese Government during the period of September 2, 1945 through October 3, 1945. The Chinese War Production Board through its agent, the War Transportation Board, accepted delivery of these trucks. Upon receipt of the trucks the Chinese War Production Board was to have furnished the Foreign Economic Administration authorities with an "interim receipt" acknowledging the receipt of these trucks. This "interim receipt" was also to contain a stipulation by the Chinese Government that payment for these vehicles would be made to the United States Government on terms to be determined between the two Governments. A suggested form of the foregoing mentioned "interim receipt" was transmitted on November 12, 1945 to Mr. R. C. Chen¹⁶ by Mr. W. T. Stanton.¹⁷ Mr. Stanton requested the Chinese War Production Board to execute four copies of the suggested receipt, if acceptable to the Board, and the four executed copies were to be returned to Mr. Stanton. These receipts have never been received by this Government.

Would you kindly look into the matter and advise me as to the status of these "interim receipts". If these receipts have not been executed by the Chinese authorities I would appreciate your efforts in having it done and transmitted to me at your earliest convenience.

Sincerely yours,

NORMAN T. NESS

102.1/7-2447: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 31, 1947—6 p. m.

945. From State and Treasury. This Govt is at loss to understand the position apparently being adopted by the Chinese Govt which refuses to make available a reasonable and equitable rate of exchange to support the activities of the US Govt in China and in particular the activities of elements of US Army and Navy stationed in China in the interests of the Chinese authorities and at their request (Embtels 1550, July 18 and 1577, July 24¹⁸).

The Treasury Attaché should reopen this question with the Governor of the Central Bank with a view to effecting speedily an equitable arrangement. You are also authorized to reinforce his representa-

¹⁶ Deputy Director, Department of Priorities, Chinese War Production Board.

¹⁷ Special Representative of the Foreign Economic Administration in China.

¹⁸ Latter not printed.

tions by bringing this matter to the attention of the Pres of Executive Yuan who was party to the last arrangement and strongly urge upon him that satisfactory arrangements be completed in the very near future.

Dept and Treasury infer from parenthetical comments in antecedent telegrams of Emb that if the Chinese Govt does not favor an agreement for current expenses it is prepared to look with tolerance on procurement of CN funds by US Govt agencies from private sources. If this correct, Treas Attaché is authorized to arrange for such procurement should emergency payments have to be made before envisaged arrangement through official channels can be effected. [State and Treasury.]

MARSHALL

893.24/8-847

The Acting Chief of the Division of Lend-Lease and Surplus War Property Affairs (Shenefield) to the Chairman of the Chinese Supply Commission (Wang)

WASHINGTON, August 8, 1947.

MY DEAR DR. WANG: This letter is to inform you that the Congress recently passed the Supplemental Appropriation Act, of 1948 (Public Law 271) and this legislation was signed by President Truman on July 30, 1947.¹⁹

As a result of this legislation, the lend-lease pipeline material may be delivered in accordance with the Agreement of June 14, 1946 with your Government. The Department of State has requested the Treasury Department, Bureau of Federal Supply, to proceed as expeditiously as possible, with shipments of materials remaining in the China pipeline.

Sincerely yours,

HALE T. SHENEFIELD

893.5151/8-947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 9, 1947—5 p. m.

[Received August 10—3 a. m.]

1679. To State and Treasury from Adler. Reference Embassy's telegram 1562 of July 22,²⁰ Governor of Central Bank informed me that present plan with respect to "partial linking" scheme is as follows:

1. All importers with approved import licenses will be required to procure their exchange from current exchange proceeds of exports

¹⁹ 61 Stat. 610.

²⁰ Not printed.

and inward remittances at prevailing market rate of exchange. Central Bank will, however, sell exchange at official rate for imports of raw cotton, rice and wheat, fertilizer and coal, total imports of which will be about \$112 million.

2. Exchange from exports and inward remittances will be sold at prevailing market rate to appointed banks.

3. A committee of five consisting of representatives of Executive Yuan, Ministry of Finance, Central Bank, Import Control Board and Export Control Board will constitute exchange equalization committee, whose function it will be to bridge temporary and seasonal gaps between exchange outpayments and inpayments. Committee will receive advances from Central Bank for this purpose, to which the allocation of approximately \$50 million is being considered.

4. It is hoped to achieve equilibrium in China's balance of payments in one year. Deficit in China's balance of payments for next 12 months, including imports of cotton, foodstuffs, coal and fertilizer, but not including Government expenditures and imports estimated at over \$100 million, tentatively estimated at \$100-125 million. Preliminary estimates for next 12 months are (all figures in dollars million) :

(a) Out payments.

- i. Imports. Cotton, food, coal and fertilizer 112; schedule I, 20; schedule II, 198; schedule III, 32.²¹
- ii. Payments for financial services, et cetera, 55.

(b) Inpayments.

Exports 165-180; overseas remittances 100; foreign government expenditures 25; philanthropic 12.

Governor and Pei indicated that the expected part of deficit to be met through \$25 million of post-UNRRA relief food supplies and an Eximbank cotton loan.

5. Governor keenly aware of need for restricting smuggling and flight of capital (see 1 of Embassy's telegram No. 1678 [A] of August 9²²). He is also anxious for political reasons that Central Bank should not assume responsibility for operation of plan or of exchange equalization committee. In fact his real reason for having five representatives on exchange equalization committee is to diffuse responsibility and avoid political vulnerability in fact [*face?*] of inevitable depreciation and [*of?*] CN dollar. In view of the C-C clique's anxiety to encroach into economic and financial affairs and its demonstrated willingness to exploit economic situation to this end, of Political Science group's delicate position and of fate of Pei in March, Governor's attitude is not surprising. At same time it must be emphasized that ability of envisaged committee to carry out plan effectively must be seriously doubted; precisely because it will have

²¹ For a description of the nature of these schedules, see telegram No. 1910, November 19, 1946, from the Ambassador in China, *Foreign Relations*, 1946, vol. x, p. 1024.

²² Not printed.

to function in difficult and unfavorable circumstances it needs to be entrusted with real power and responsibility and to be protected from "political" pressures. Otherwise it will have to support the market heavily and thus dissipate large amounts of foreign exchange which will negate the whole point of the plan, or become the political scapegoat for depreciation of *fapi* and the inevitable continuance of hyperinflation.

Furthermore, with committee composed of five members on lines contemplated, danger of leaks and scandals is seriously enhanced. Finally, when I asked Pei about the degree to which cooperation of appointed banks could be relied upon, he was characteristically optimistic; Rogers, on the other hand, expressed grave doubts about such cooperation. [Adler.]

STUART

811.516 Export-Import Bank/8-1247 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 12, 1947—6 p. m.

1009. For Agricultural, Commercial Attachés from Eximbank. China has requested \$200 million Eximbank credit²³ to cover estimated raw cotton deficit of 500 thousand bales last half this year and 580 thousand bales 9 months next year.

Application states average of 4 million spindles now operating and consuming 200 thousand bales monthly. Estimates for next year 10 percent higher. Stock of cotton carried over from last year 900 thousand bales; UNRRA agreed to supply 200 thousand bales this year; 350 thousand bales obtained by direct purchase and domestic crop estimated to provide additional 1 million 50 thousand bales this year. Three month stock of about 600 thousand bales must be maintained to ensure continuous operation. For next year domestic supplies available to mills estimated 1 million 930 thousand bales which with 600 thousand carry over from this year would total 2 million 530 thousand bales prospectively available while requirements are 2 million 640 thousand bales plus necessary stockpile of 660 thousand bales.

China proposes 4 year credit with repayment of principal over last 2½ years during which Chinese Govt would earmark for export a portion of cotton textile production sufficient to provide foreign exchange to carry and repay loan. Exports stated already resumed but extraordinary demand in China and below-normal production permits only small quantities to be exported in immediate future.

²³ Letter from the Chinese Ambassador to the President and Chairman of the Board of Directors of the Export-Import Bank of Washington, July 31, not printed.

Chinese estimate sum required to meet interest and principal in third year of credit would be produced by export of about 276 thousand bales cotton yarn or about 7½ percent Chinese prewar output.

Eximbank requests information from Agricultural and Commercial Attachés on present and prospective cotton situation in China including information on domestic crop and whether domestic cotton actually reaching mills in substantial and increasing volume; amount of exports and whether made by other than govt agencies; whether increased exportation cannot now be undertaken by govt and private mills to produce exchange for servicing 15 to 24 month credit in a reasonable amount and perhaps also to finance future purchases raw cotton and whether stipulation for export of sufficient part of production to service a credit could be policed effectively by any existing Chinese Govt agency or responsible millowners association. [Eximbank.]

From Dept Eximbank's attention has been invited to previous cotton estimates submitted by ConGen Shanghai which differ radically from Chinese figures but reassessment situation desired.

Sent Nanking Depts 1009 repeated to Shanghai Depts 1354.

MARSHALL

811.516 Export-Import Bank/8-1847: Telegram

The Consul at Shanghai (Meyer) to the Secretary of State

SHANGHAI, August 18, 1947—2 a. m.

[Received 4:54 a. m.]

1991. Our opinion substantiated by leading importers no additional imported cotton required balance this calendar year. Third quarter raw cotton quota recently announced US 20 million dollars will cover over-all requirements up to July 31, 1948, assuming domestic cotton arrivals even somewhat less than estimated by Chinese cotton authorities. Possibility small amount (50 thousand bales) may have to be ordered during first quarter 1948 for some mills whose stocks may not be balanced.

Because of constantly fluctuating conditions in China affecting agricultural production, transportation, coal and power, cotton requirements last part 1948 difficult to estimate accurately. However, based on present indications and trends, figure of some 580,000 bales appears to be reasonable for imports August, September, October 1948 to carry mill production over gap until 1948-1949 domestic crop begins to arrive market in volume. ReDeptel 1354, August 12.²⁴ Preliminary copy of balance sheet substantiating these estimates has been given Wedemeyer Mission, E. D. White, Agriculture²⁵ and Reed Dunn,

²⁴ Telegram No. 1354 repeated telegram No. 1009, *supra*.

²⁵ Edwin D. White, Assistant to the Secretary of Agriculture.

Cotton Council of America. We are now checking certain items which may need slight revisions. Will radio unclassified copy of balance sheet for ExImBank and depart [*Dept.*] Further comments will follow.²⁶

Repeated Nanking 1439.

MEYER

893.24/8-2147

The Acting Chief of the Division of Lend-Lease and Surplus War Property Affairs (Shenefield) to the Chairman of the Chinese Supply Commission (Wang)

WASHINGTON, August 21, 1947.

MY DEAR DR. WANG: In my letter to you on August 8, 1947 you were advised that as a result of the enactment of Public Law 271, 80th Congress, the lend-lease pipeline material not previously made available to your Government, could now be delivered in accordance with the Pipeline Agreement of June 14, 1946.

In this connection I should like to call your attention to Mr. Lane's²⁷ letter to you dated December 13, 1946.²⁸ In view of the recent favorable action by Congress, the accessorial expenses²⁹ mentioned in paragraph number (1) of that letter will be paid by the United States Government, as provided in the Agreement of June 14, 1946 subject to repayment as provided in paragraph C (2) thereof. Payment for ocean freight will remain subject to the statement contained in paragraph (2) of the letter of December 13, 1946.³⁰

If you have any further questions concerning this matter, please do not hesitate to call on me.

Sincerely yours,

HALE T. SHENEFIELD

102.1/8-2347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 23, 1947—6 p. m.

[Received August 24—4: 25 a. m.]

1788. To State and Treasury from Adler. Reurtel 845 of July 9 and Embtels 1532, 1535 and 1540 of July 15, 16 and 17. Learn from a

²⁶ See telegram No. 2060, August 26, from the Consul General at Shanghai, p. 1180.

²⁷ Chester T. Lane, Lend-Lease Administrator and Deputy Foreign Liquidation Commissioner as of December 1, 1946.

²⁸ Not printed.

²⁹ Inland freight, warehousing, hauling, etc. Mr. Lane's letter indicated, primarily, that China would pay these charges on goods shipped after midnight, December 31, 1946, in lieu of the 7½% charge provided in the pipeline agreement.

³⁰ This paragraph indicated that China would pay freight charges and freight forwarding fees on goods shipped on vessels sailing after midnight, December 31, 1946.

reliable American source that Hsi Te-mou was instructed by the Generalissimo to fly to Mexico in mid-August to negotiate purchase of some silver. Apparently what Generalissimo has in mind is to purchase about 55 million ounces from Mexico and use this amount plus stock Central Bank possesses to mint 100 million ounces of silver as a kitty. Generalissimo is still obdurate in his intent to have reserve of silver coin on hand for emergency and to prepare for introduction of silver coinage, in spite of fact that 100 million ounces would be hopelessly inadequate, even assuming scheme as whole were feasible. Generalissimo's intent borne out by Governor Chang asking me to inform Treasury he would much appreciate its cooperation in response to Hsi Te-mou's request on dies, moulds and mint production capacity. [Adler.]

STUART

893.61321/8-2647 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, August 26, 1947—6 p. m.

[Received August 26—11 a. m.]

2060. Inform Commerce and Agriculture. There are at present about 4 million standing spindles in China excluding Manchuria. Present number of spindles in condition to operate calculated at 3,400,000. Present average full time operating capacity all China only about 3,100,000 because of power shortages; in Shanghai due to lack of power-producing equipment, in Tientsin and Tsingtao lack of coal. ReDeptel 1354, August 12,³¹ paragraph 2. Shanghai mills still working at reduced capacity in conformity with scheduled and non-scheduled shutdown operation plan alternated from time to time according to power producing capacity and other consumer demands on existing generating capacity. Cotton mills shutdown in Shanghai due to power producing capacity and other consumer demands on existing generating capacity. Cotton mills shutdown in Shanghai due to power shortage commenced in June 1946 and have continued since that date as reported ConGen airgrams A-754, October 2, 1946, and A-601, August 13, 1947.³²

It is estimated that by July 31, 1948, contingent on availability of power, China will be able to operate about 4 million spindles but an increase beyond this number assuming sufficient power available is

³¹ Telegram No. 1354 repeated telegram No. 1009, p. 1177.

³² Neither printed.

dependent upon more rapid deliveries of new machinery at present very slow. Average spindle operation for crop year ending July 31, 1947, spindles 3,500,000 as per ConGentel 2000 August 18.³³ Requirements of 2,640,000 bales imply an average operation 5,280,000 spindles during 1948 which is not possible.

Re paragraph 4, our opinion accurate analysis export possibilities requires further study. Preliminary survey indicates there should be good market for Chinese piece goods provided China can export at competitive prices. Export of large quantities of yarn debatable as sources here indicate demand other Far Eastern markets mainly for piece goods. Total yarn export 1946 bales 782 piece goods yards 182162. Exports 1947 January-May inclusive yarn bales 5859 piece goods yards 507250.

Government now apparently making belated effort to promote export of cotton products in view of necessity to obtain foreign exchange; also because of mill pressure to introduce Chinese products in Far Eastern markets before Jap exporters are in position to make real competition.

Re paragraph 2 re movement domestic crop to mills, extensive research by this office supported by data important Chinese sources substantiative [of] figure of 800,000 bales available to mills 1946-47 crop. (ReConGentel 2000, August 18.) Of this quantity moderate part still up country but collected and moving in volume to mill centers. 1,933,000 bales is approximately the figure estimated by this office for entire 1947 domestic crop of which it is estimated that 1,100,000 bales will be available for mills consumption. Latter figure also included in balance sheet submitted ConGentel 2000 August 18, is believed fairly optimistic and contingent upon no further deterioration of transportation facilities to mill centers. However if present unsettled conditions in China should show significant improvement in the next season our estimate of 1,100,000 bales could be increased moderately owing to some domestic stocks becoming available now believed held up country from previous crops. There is now great incentive for mills to purchase Chinese cotton even though it is higher priced than imported as the products of Chinese cotton are not subject to possible additional JDC [*Government*] control other than price ceilings.

Sent Department, repeated Nanking 1483.

DAVIS

³³ Not printed.

893.51/8-3047

*The Secretary of the Treasury (Snyder) to the Secretary of State*³⁴

WASHINGTON, August 30, 1947.

DEAR MR. SECRETARY: I have your memorandum of June 18, attaching a copy of a cable of June 14³⁵ from Mr. Adler, the Treasury Representative in Nanking, and requesting an opinion concerning the informal Chinese proposal for a silver loan.

The Chinese have proposed the minting of 45 million ounces of silver owned by the Central Bank in Shanghai, and a long-term advance by this government of 100 million ounces on terms to be worked out. This would provide an initial stock of coins which the Central Bank apparently would introduce gradually for the purchase of crops, payment of wages to industrial workers and of government salaries. Proponents of the plan hope that the silver would circulate side by side with the existing paper currency, presumably at a fluctuating ratio. An initial rate of 25,000 to one has been suggested. It has been estimated by the Chinese authorities that upwards of 400 million ounces of silver would be required to replace all the paper currency now in circulation. The Treasury feels that this may well be an underestimate.

As you know our two Departments advised the Embassy in Nanking in July³⁶ that a credit as suggested by the Chinese would require Congressional action and that it was considered here that no monetary measure could have an appreciable stabilizing effect in the face of the continued deficits being incurred by the government. Despite our negative response the Chinese subsequently made inquiries concerning the minting facilities of the United States Treasury. They are now negotiating with our Bureau of the Mint for the preparation of dies, although only the 45 million ounces of silver owned by the Central Bank are now available for a new silver currency.

The Treasury Department is of the opinion that there is little merit to the proposal to introduce silver currency in China under existing conditions. Opportunities for graft and favoritism are involved in this proposal such as were afforded under the gold sales program of 1942. The depreciation in the value of the paper currency would occasion a drain upon the government stocks of silver coins, a large part of which may go directly into hoarding. It is our view that the

³⁴ Text of this letter quoted in airgram No. A-138, September 9, to the Ambassador in China.

³⁵ Telegram No. 1301, p. 1134.

³⁶ Telegram No. 845, July 9, p. 1155.

completion of the program of substituting silver coins for paper currency might involve an impossibly large volume of silver coins under such circumstances. It is also possible that the introduction of silver coins on a partial scale such as is proposed by the Chinese Government might actually bring about a situation where the paper currency would depreciate in value faster than it would without the silver coins, and accelerate the deterioration in Chinese fiscal conditions. Any association on the part of this Government in the provision of an initial stock of silver coins might involve it in a moral responsibility to provide much larger amounts of silver which would be required for the development of a new currency.

In the presently thin world silver market, any program for the re-monetization of silver in China would inevitably drive up the price of silver, and entail an outlay on the order, possibly, of half a billion dollars. Even if the presently circulating paper currency were completely replaced by silver coins there is no present indication that the Chinese government's budget would be balanced and that the government would not again resort to the issuance of paper currency to finance its deficit.

China's basic economic difficulties are a cause rather than a result of the increasing instability of her currency. I do not need to elaborate on this theme—the heavy government deficits which are being met by continuous expansion of the paper currency, and the lack of internal peace are at the root of China's troubles. In our opinion, the appropriate time for a revision of the Chinese monetary system will come when a broad program of internal reform is developed. A re-monetization of silver at that time would have advantages and disadvantages which would need to be reviewed in the light of existing circumstances, and other possible financial and monetary measures which might be taken.

From such information as we have received, it would appear that plans of the Chinese government for the reintroduction of silver coinage are tentative, and that many details of the programs would still have to be worked out. There are indications that some of the Chinese officials who have discussed the proposal with Mr. Adler feel that a silver loan to China would receive strong support from the "silver bloc" in Congress, which would be less interested in any other form of aid to China. This consideration may well be the principal reason for the attention that is being given by the Chinese government to the reintroduction of silver, since recent attempts at obtaining other forms of assistance from this government have been generally unavailing.

Very truly yours,

JOHN W. SNYDER

893.50/8-3047

The Ambassador in China (Stuart) to the Secretary of State

No. 966

NANKING, August 30, 1947.

[Received September 9.]

SIR: I have the honor to refer to the Embassy's despatch No. 652 of April 21, 1947, regarding the economic reform plan adopted March 23, 1947, by the Third Plenary Session of the Kuomintang Central Executive Committee, and to the Embassy's telegram No. 1583 of July 25, 3 p. m.,³⁷ stating that the plan, with minor modifications, had been approved July 21 by the National Economic Council (NEC). Reference is also made to the Embassy's despatches Nos. 665 of April 25, 1947,³⁷ regarding the proposals for economic reform presented to the Kuomintang CEC meeting by Dr. Chen Li-fu, Minister of the Kuomintang Board of Organization, and 887 dated July 18, 1947,³⁷ on the subject of the National Economic Council and the economic reform plan.

The plan was adopted August 1, 1947, by the State Council of the National Government of China, reportedly with few if any changes being made in the plan as previously approved by the NEC. What was purported to be a complete translation of the plan as it now stands was issued August 11, 1947, by the Government Information Office. A copy of this translation is enclosed.³⁷

Present Plan Versus Original Draft of Plan. The present plan contains most of the recommendations which originally appeared in the draft plan approved March 23 by the Kuomintang CEC. In general, however, the plan as it now stands is a more compact and better organized document and reflects the extended discussions on the plan which took place in the NEC during the several months it was under discussion.

The plan consists of a foreword, which purports to explain the need for reform, and recommendations given under three main headings, as follows: A. Banking System; B. Production and Reconstruction; and C. Financial Reforms. The brief conclusion states that, to achieve desirable results in the enforcement of the plan, particular attention should be paid to the giving of "reasonable" improvement of treatment accorded military personnel, government employees and educators; to placing State-operated and private enterprises on an equal footing; and to the launching of an extensive economic reconstruction movement among the people.

As expected, the proposal to establish hsien (county) banks was

³⁷ Not printed.

most bitterly contested in the NEC meetings but was finally approved with certain modifications. It was originally proposed that the capital of these banks, whose main objectives assertedly are to improve rural economy, to facilitate local reconstruction, and to help enforce the local self-government program, would be initially supplied by the National Government to the extent of 60 percent, with the remainder being supplied by the hsien governments. In the final draft of the plan it is stated that the hsien governments, and subdivisions thereof, are expected to make the necessary investments, and that the hsien banks "may also accept private capital by selling shares to people residing in the hsien." Limited National Government support is provided for in a new provision to the effect that "the Central Bank of China and the provincial bank concerned should, besides making investment for the sake of promotion, provide the hsien bank with trained personnel, guidance and assistance to carry out its functions."

Some clarification is made in stating the specialized functions of various banks and allied financial agencies of the National Government. It is of interest to note that the following recommendation is restated and clarified: "The specialized functions of the Central Trust of China should be to handle trust, re-insurance and the insurance of public enterprises and to guide private trust and insurance enterprises." This recommendation, if carried out, presumably would result in the restriction of operations of the Central Trust by divesting it of its manifold trading and other activities which have given rise to much complaint by foreign and Chinese business interests.

Among measures aimed to increase agricultural production and stabilize prices, the provision for establishment of a system of "ever-stable granaries" was amplified, it now being recommended that "the initial plan to set up such granaries in various important localities in the Yangtze Valley should be completed speedily. Local granaries should be promoted and set up on a large scale in order to further increase food storage." It is also newly recommended that "the Farmers Bank of China should extend its credit facilities and take an active part in the transportation and distribution of farm products so that the Bank with its financial resources will assist the Government in boosting production and transporting foodstuffs from regions of plenty to regions where there may be a shortage."

Recommendations for development of forests, animal husbandry and fisheries have been clarified and amplified.

It is stated in more specific terms than previously that, in the development of industry, efforts should first be directed to meet the needs of rural communities, with priority being given to water conservancy projects and industries for manufacture of chemical ferti-

lizers, farm implements and transportation equipment. Regarding other industrial development, it is recommended that special attention be given to increase of fuel production and promotion of the power industry; exploitation of various mines; production of steel, cement and other construction materials; and establishment of machine-making factories. The recommendation is repeated that the National Government should stipulate the main classifications of industries which are to be state-operated and privately-operated.

It was originally recommended that "the Government should call all public and private banks together to organize a reconstruction financial corporation" to make long-term loans for mining and reconstruction enterprises. This recommendation appears substantially altered in the present draft of the plan, it being stated that "the Government should organize and promote various industrial and mining enterprises and encourage the formation of investment corporations so that long-term capital may be invested in such enterprises."

In the preliminary remarks on recommendations to improve and expand commerce, the following has been newly added: "In regard to domestic trade, inadequate transportation facilities and multiple taxation impede the flow of goods and cause shortages of commodities in the market, resulting in the decline of trade. It is, therefore, imperative that restrictions on trade should be removed so as to expedite a return to normal conditions." This recommendation seemingly refers to the revival of the *likin* system, whereby goods shipped from producing areas to markets are repeatedly taxed by various local authorities.

Regarding international trade, the recommendation is repeated to the effect that imports of articles other than production tools, raw materials, books and laboratory equipment should be restricted so as to conserve foreign exchange. A new recommendation appears, however, as follows: "Trade guilds should be strengthened in order to improve trading methods, raise commercial morals, and help the Government in the enforcement of its price control measures." American and other foreign business interests in China have already expressed objection against the intrusion of the trade guilds into their relations with local importers and buyers; the foregoing recommendation suggests that the increased activity of the guilds may henceforth have greater official support.

Several important changes were made in the recommendations on communications. Regarding private operation of aircraft, it is repeated that encouragement should be given for such operation but only "after preparations for air routes, ground installations and flight control measures have been completed," the latter phrase being newly

added. While it is stated that "the fullest encouragement should be given to private navigation enterprises", there is nothing to indicate that any change is contemplated to permit foreign shipping to engage in coastal or inland water services.

The recommendations contained under the heading "Increase of Production and Price Stabilization" are substantially those contained in the earlier draft of the plan. In connection with financial reforms two new recommendations appear under the heading of "Financial Readjustment": the first states that "to meet reconstruction needs, new sources of revenue should be developed in accordance with the principle that taxes should be borne by those with the ability to pay", while the second recommends that "priority in foreign exchange allotments should be given by the Central Bank of China to those who are able to pay with gold, provided the exchange thus granted is for the purchase of importable goods."

In the section headed "Currency Stabilization", it is newly—and hopefully—recommended that the Government should actively seek to increase its revenue receipts and cut down all unnecessary expenditures in order to reduce gradually the budget deficit and avoid further increase of the note-issue; that effective measures should be taken to retard the circulation of currency; that foreign exchange control measures should be strengthened; and that a time limit should be set for the people to declare their assets in foreign countries.

References to Foreigners in Present Plan. References in the present plan to foreign participation in development of China's economy are scanty and vague. In the foreword there appears a brief statement to the effect that "favorable terms should be offered to induce foreign capital and technical help to China for the purpose of achieving national industrialization." Even more vague is the statement which appears under the suggested policies for increased production and reconstruction, as follows: "With increased agricultural and industrial production and an improved transportation system, and through the encouragement of creative enterprise and foreign investment, prices will not fail to become stabilized."

Under the recommendations made to assist and develop industry, it is urged that: "To hasten industrial development, the Government should make clear provisions for the encouragement of foreign investment and technical assistance." Included in the recommendations aimed to increase production and stabilize prices, it is stated that: "The Government should negotiate favorable machinery and raw material loans with foreign countries as a means of increasing commodity supplies."

In connection with the foregoing very general statements of policies,

it will be remembered that the NEC has passed a more specific statement of policy governing foreign investments in China, this statement being issued August 13, 1947, by the Government Information Office. A copy of this statement is being forwarded to the Department as enclosure to another despatch (No. 958, August 29, 1947).³⁹

Foreign Press Reaction to New Plan. With attention at home being directed largely at the activities of the Wedemeyer Mission, the foreign press paid relatively little attention to the adoption by the State Council on August 1 of the economic reform plan. The American-owned *Shanghai Evening Post & Mercury*, however, made two editorial references to it, stating that the plan is the "usual recital of pious aspirations" and that it was drawn up by "professors-in-spirit who show no sign of ever having sullied their fingers by contact with life's grim necessities." The pertinent extracts from these two editorials are given in Enclosure No. 2.⁴⁰

Chinese Press Reaction to New Plan. Chinese press comment, as indicated by translations from Nanking and Shanghai newspapers, reflect the policies of the groups or interests which operate the newspapers in question, the Kuomintang-operated press generally favoring the plan while the independent press as a rule follow a critical policy and termed the plan unrealistic. Enclosure No. 3⁴⁰ contains translations of the more important articles and editorials from the Chinese press.

Embassy's Evaluation of New Plan. The Embassy's general comments on the original draft of the plan were presented in despatch No. 652 of April 21, 1947. As the plan as now drawn up appears to be little changed, there would seem to be little reason to comment further. As previously pointed out, many of the recommendations contained in the plan were made years ago, with legislation enacted to carry them out. According to Dr. Chen Li-fu, Vice Chairman of the National Economic Council, and assertedly the drafter of the original proposals on which the plan is based, the Council considers that the enforcement of the plan is one of its most important objectives. Dr. Chen's interest in the plan and in the Council suggests that great effort may be made to see that the economic reform measures already enacted are carried out and that new measures, designed to implement other recommendations in the plan, will be drawn up in the near future.

The Embassy is planning to make additional and confidential comment on the plan in a despatch⁴¹ supplementing confidential despatch

³⁹ Neither printed.

⁴⁰ Not printed.

⁴¹ Despatch No. 983, September 8, not printed.

No. 887 of July 18, 1947, subject: "National Economic Council and the Economic Reform Plan."

Respectfully yours,

For the Ambassador:
WILLIAM T. TURNER
First Secretary of Embassy

102.1/9-1747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 17, 1947—10 a. m.
[Received September 16—11 : 29 p. m.]

1942. To State and Treasury from Adler. Foreign exchange assets of Central Bank middle of last week around U. S. \$260 million. While Central Bank has gained a little foreign exchange since introduction of new exchange regulations, amount involved so far quite small and much less than gains in comparable period after introduction of emergency regulations in mid-February. Both in Shanghai and Tientsin which I recently visited there was a movement of goods which had been accumulated for export in anticipation of exchange adjustment, but there is little sign of restoration of export trade to anything like normal basis. In Tientsin black market rate already over 20 percent above open market rate; this spread is greater in Tientsin than in Shanghai due partly to 7 percent remittance charge on funds between Tientsin and Shanghai, partly to greater political insecurity of North China, and partly to fact that Tientsin, Peiping and Tsingtao more overtly on U. S. dollar basis than Shanghai as a result of previous presence of U. S. armed forces in Tientsin and Peiping and presence of U. S. Navy in Tsingtao. Prices of export goods, which have moved up substantially since exchange adjustment, generally tend to move with black market rate.

2. Inward remittances in last few years have been diverted from regular banking into black market channels, and as a consequence impact of exchange adjustment on appointed banks receipts of overseas remittances will take some time even if spread between open market and black market rates remains narrow. Central Bank hopes to divert remittances from black market in Hong Kong and Canton by agreements with Hong Kong authorities and by abolishing remittance charges on funds between Shanghai and Canton.

3. Current sharp upward contra-seasonal movement of prices is due partly to fact that stabilizing influence of Wedemeyer Mission's presence acted as a brake on prices during July and August, partly to

reported military requisitioning of food supplies becoming available from current crop, and to rumors in connection with Liu Po-cheng's raid toward the middle Yangtze valley. [Adler.]

STUART

893.51/9-2647

The Chinese Ambassador (Koo) to the Secretary of State

The Chinese Ambassador presents his compliments to the Secretary of State and has the honor to present for the consideration of the United States Government the claim of the Chinese Government against the assets in the United States of the Russo-Asiatic Bank, a pre-Soviet joint stock bank which continued to function outside of Russia after 1917 until its failure in 1926.

The greater part of the claim of the Chinese Government, amounting to £641,794.13.3 is for funds paid to the Shanghai branch of the Russo-Asiatic Bank and transmitted to the London branch of the said bank during the period from 1917 to 1926, pursuant to the Chinese Reorganization Loan Agreement of 1913.⁴² It consisted of the difference between the amounts deposited by the Chinese Government in, and transmitted by the Shanghai branch of the Russo-Asiatic Bank to its London branch during that period, and the amounts disbursed by the London branch in payment of interest coupons and bond retirements in accordance with the Agreement under which the Chinese Government was obliged to provide duplicate payment of the difference.

The United States Government, as assignee of the Soviet Government under the so-called Litvinov Assignment of 1933,⁴³ is taking steps to enforce against the New York assets of the Russo-Asiatic Bank a 1917 decree of the Soviet Government confiscating properties of that Bank. While the claim of the United States is still in litigation, it has been upheld to the exclusion of all other claims by the United States Court of Appeals for the Second Circuit, and petitions for review are now pending in the United States Supreme Court.

The Chinese Government, however, has had an interest in these assets antedating the Litvinov Assignment, which it asserted by initiating legal action in the United States prior to the Assignment. The grounds of the Chinese Government for the belief that its claim is entitled to special consideration are among others as follows:

(1) The claim of the Chinese Government is based largely upon the payments made by it, pursuant to the Chinese Reorganization Loan

⁴² For correspondence on this subject, see *Foreign Relations*, 1913, pp. 143-192.

⁴³ See note from the Soviet Commissar for Foreign Affairs to President Roosevelt, November 16, 1933, *ibid.*, 1933, vol. II, p. 812.

Agreement of 1913, to the Shanghai branch of the Russo-Asiatic Bank during the period of 1917 to 1926.

(2) Such payments were made by the Chinese Government in a period of time during which (a) the United States Government formally advised the Chinese Government that it would not approve the Soviet confiscation of any pre-existing interests in the Chinese Eastern Railway—all the stock of which was owned by the Russo-Asiatic Bank; (b) the courts of the United States held, in a number of cases involving the Russo-Asiatic Bank, that the Soviet confiscatory decrees would not be enforced against its New York assets; and (c) in at least one case (*de Gumoens v. Equitable Trust Company*), deposits made in New York by the Shanghai branch of the Russo-Asiatic Bank, after the bank was nationalized in Russia, were held properly applied in satisfaction of a pre-nationalization debt of the Russo-Asiatic Bank at Petrograd.

(3) Prior to the Litvinov Assignment and the assertion of any claim of the United States, the claim of the Chinese Government had not only been placed in litigation, but had acquired the protection of a writ of attachment granted by the Supreme Court of the State of New York and levied upon the deposits of the Russo-Asiatic Bank with New York banks.

(4) In connection with its efforts to enforce its claim in the courts, the Chinese Government had incurred substantial expense which will have inured in large part to the benefit of the United States Government if the latter should ultimately recover the property in a suit.

There is enclosed a memorandum⁴⁴ containing a more detailed statement of the relevant facts of the case.

Inasmuch as the award to the United States Government of the assets in New York of the Russo-Asiatic Bank would deprive the Chinese Government of the remedy that otherwise might have been available to it, and in view of the special circumstances briefly set forth above, the Ambassador, pursuant to instructions, requests that the claim of the Chinese Government against these assets be given due consideration in the event that the United States Government should ultimately be successful in its efforts to collect these assets or through a compromise settlement to be negotiated.

WASHINGTON, September 26, 1947.

893.51/10-247

Memorandum of Conversation, by the Minister-Counselor of Embassy in China (Clark), Temporarily in the United States

[WASHINGTON,] October 2, 1947.

Mr. Gauss⁴⁵ said that the Export-Import Bank was sitting on the Chinese request for loans in the neighborhood of \$500,000,000

⁴⁴ Not printed.

⁴⁵ Clarence E. Gauss, member of the Board of Directors, Export-Import Bank of Washington.

and didn't even plan to study the details of any of the requests made until administration policy in respect of loans to China had been clarified. So long as our policy was "no loans" there was no need for the Export-Import Bank to waste its time going into the Chinese requests. Should our policy become "loans to China" then the Export-Import Bank could go into some of the Chinese requests. In respect of these requests, Mr. Gauss said that none of them had been adequately documented nor did they give assurances of repayment in hard currency. They gave every evidence of inefficient preparation and showed that the Chinese had not studied the Act of Congress⁴⁶ under which the Bank operates. He showed me in this connection a letter he had written in reply to one he had received from the Governor of the Bank of China requesting a loan for a cement plant. Although the plant Chang Kia-gnau had in mind had also formed the subject of a request from the Chinese Government the details differed as did the amount involved. Gauss had pointed out in some detail the documentation requirements of the Bank and had suggested that a little more care be exercised in submitting Chinese requests to the Bank.

Mr. Gauss said that a casual perusal of the Chinese list of requests indicated that many would have to be ruled out because, like the Tangku Harbor development, they were too close to Communist dominated areas. Others like the Canton-Hankow railroad would have to be thrown out because the Export-Import Bank was being asked to take a second or third mortgage. The Canton-Hankow railroad request was too large in the first place and in the second place a large British loan and the British Boxer indemnity had first claim on the revenue from the line. If China wanted Export-Import Bank money for the railroads of China it would have first, he said, to find some way of consolidating the railroad debt and making it a charge on the general revenue thus freeing railroad revenue to be pledged for the repayment of Bank advances.

In considering requests for individual projects in China Mr. Gauss said the Bank would look into the management as well as into the justification. It would want to be assured that trustworthy engineering and management personnel were used so as to lessen the possibility of graft and increase the likelihood of repayment. The Bank took the position he said that Congress meant it when it rewrote into the act that there must be a "reasonable expectation of a return

⁴⁶ Approved July 31, 1945; 59 Stat. 526.

of the money loaned". Each project in China would be viewed in this light he said.

In respect of the cotton loan for \$200,000,000 requested by the Chinese Mr. Gauss said that studies instigated by the Bank through our own people in Shanghai as well as through private cotton companies had indicated that China either had already in the country or en route enough cotton together with the domestic supply to keep China's mills busy through July 1948. There would be a short gap between the end of July 1948 and the new cotton crop when China would need further imports of cotton but it was nothing like in the nature of \$200,000,000. In addition the Chinese were asking for a 2% rate of interest when the Bank had to have 3 or 3½% as a minimum. Also the Chinese were asking for a term of four years rather than the two years during which the Bank would anticipate the cotton would be consumed.

On cotton loans he said the Bank's policy was to require a showing that the raw cotton would be used to manufacture materials which would be exported and bring in hard currency foreign exchange. They expected service of the loan as the foreign exchange became available and two years was a normal time. He went on to say however that if the Chinese were to repay the \$33,000,000 cotton loan now outstanding and which is due next year, then he, Mr. Gauss, would be prepared to fight, and he said that a fight would be needed when it came before the Board, to obtain a further cotton loan for China. If they did not repay that \$33,000,000 cotton loan he said there would be small chance for a further loan.

The Chinese Government had, he said, supplied to the Export-Import Bank what purported to be a balance sheet of revenues, expenditures and foreign holdings. It was not too convincing a document, he said, and appeared to contain considerable guesswork. It skipped the years between now and 1951 and endeavored rather arbitrarily to establish, Mr. Gauss thought, for that year a favorable balance of payments of \$50,000,000. He was afraid the balance sheet didn't give a very accurate picture of the real situation. I mentioned to Mr. Gauss the new traffic plan for Shanghai⁴⁷ and he remarked that although he had not gone into the proposal in any detail he couldn't see how the plan would produce foreign exchange with which to repay any loan the Bank might make to finance purchases in this country of automotive equipment. That plan as the others was pigeonholed awaiting the determination of administration policy.

⁴⁷ Recommended by the Conway City Transit Advisory Mission, a group of American transportation experts, surveying Shanghai's traffic and transportation problems.

893.51/10-647: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 6, 1947—2 p. m.

[Received October 6—8:20 a. m.]

2030. Following secret memo was handed to me by Dr. Arthur Young, financial adviser to Chinese Government, who returned to China on August 22 after an absence of 1 year. Dr. Young who has served 17 years in China is one of leading and soundest authorities on Chinese finance.

“China’s finances have deteriorated materially since departure of General Wedemeyer. Inflation has now clearly reached stage of acceleration and public are more and more inflation-conscious. While exact prediction obviously is impossible, it is advisable in my opinion to proceed upon premise that stage of violent inflation which could easily turn into collapse could begin without much warning if unfavorable events develop. Such possible events include runaway black market for foreign exchange, termination of covering balance of payments deficit because of shortage of external resources, shortage of bank notes, sharp increase of rice price and general cost of living, bad military news and strikes and Communist-caused trouble at Shanghai. Plans are being made to postpone and avert collapse as far as possible and also to deal with eventualities.

Collapse would mean some of [or] all of the following: Government could no longer finance nation-wide operations with paper money. Troops and civil offices would have to maintain themselves if at all by local requisitions where they are. There would be wholesale desertions and breakup of organizations. Regionalism would be promoted. Shock to morale would be likely to cause political crisis and drastic reorganization of Central Government with very limited authority as to area and range of activities. Anti-Communist campaign would be seriously impaired and might be suspended in many areas. Manchuria and North China might be lost. If Shanghai and other cities could not draw food and other essentials from farmers by payment with money there would be riots and bloodshed. Trade would be on barter basis and thence greatly inconvenienced and reduced. Foreign trade would be disrupted.

Total net external reserves are down to around U. S. dollars 220 millions including sterling equivalent to about U. S. dollars 15 millions. Also there is silver equivalent to about U. S. dollars 25 millions more. Government banks other than Central Bank have some external reserves but amount is exceeded by contractual commitments of Government and pre-zero import licenses now outstanding. Balance of payments deficit estimated to be at least U. S. dollars 10 millions monthly. Fall of reserves to well below U. S. dollars 200 millions would probably force revision of policy of using them to cover balance of payments deficit. This might well happen before end of year and would usher in violent inflation regardless of whether other factors have not caused an earlier crisis.

For first month under new exchange system instituted August

18 the exchange market was orderly. But disturbed black market which began September 21 further hurts confidence and threatens stability. Equalization fund faces dilemma. To chase black market would put it up more and push up prices faster—Shanghai prices are up nearly 50 percent in past month. But if black market is well above open market rates, e. g. about 25 percent as now, exporters and others hold off selling exchange and export smuggling grows, thus cutting exchange receipts and draining reserves.

During first month fund committee's receipts nearly balanced market outlay aided by considerable exports held anticipating a rate change. But in past week or two deficit has returned especially because black market rise causes exports to be held back.

Government deficit in October estimated at about dollars 3 trillions and maybe more; hence total note issue which was dollars 16.3 trillions September 26 may grow by about one-fifth. Also after settlement day which was September 29 businessmen and speculators began new plans causing faster turnover of money.

Governor Chang has denied imminent issue of larger denomination notes. Yet present deficit requires printing and issuing over 300 million pieces monthly. Larger notes must come soon despite their inflationary effect. Further large price rise would involve danger of note shortage which could have grave consequences if troops were not paid.

In order to help hold situation, equalization fund committee has urged Nanking to take immediate steps to assure Shanghai adequate rice supply, to hold back Government payments as much as feasible for a couple of weeks and to push sales of stocks of goods and of Government-owned factories. Also Central Bank is reducing and calling back credit from Government banks and enterprises. Whether sufficiently energetic action will result and whether adverse developments will offset whatever can be done is uncertain. Also agreement has been reached with Hong Kong on measures that will help control large black market there and to check smuggling. During the past month stocks of cotton yarn and edible oil have been sold to contract the money market. It has been said, 'China is on an edible oil standard.' But such resources are limited as stocks are reduced.

Shanghai is main danger point since prices lately have risen there more than elsewhere. Last February currency panic caused some withholding of rice and this danger could develop again. Mayor K. C. Wu is worried by strikes and states Communist agents are actively trying to cause trouble.

Some measure of American support such as help in meeting balance of payments deficit is urgently needed to strengthen confidence with view to trying to hold situation while more fundamental measures can be considered. Although basic improvement of existing financial and economic situation presents great difficulties it would be infinitely harder to build new structure after collapse and risks of passing through chaos would be incalculable."

Main difference between Dr. Young's analysis and that of Embtel 1967 of September 20⁴⁸ is in extent of emphasis on possibility and

⁴⁸ *Ante*, p. 289.

dangers of collapse. As Dr. Young rightly says, exact prediction is in nature of case impossible. Given fundamental and increasing precariousness of situation, possibility of collapse at any stage cannot be precluded though it is perhaps likely to appear greater if assessed in light of Shanghai's hypersensitivity. As in February, mood of panic is beginning to infect high Government officials, presumably immediately caused by news from Manchuria, but again as in February Gimo still immune.

Reference in fourth sentence of first paragraph and in third paragraph of Dr. Young's memo to possibility of termination of covering balance of payments deficit reflects not only continued depletion of Central Bank's foreign exchange assets, but also Central Bank's fear that Gimo may ill-advisedly and prematurely order it to cease out-payments of foreign exchange except on Government orders once official assets fall below a certain level.

With reference to silver, Gimo is still wedded to idea of using silver to pay troops with when other means of payment become unacceptable, and China is still endeavoring to obtain more silver on "credit" from Mexico. Consensus of financial opinion is that best course for China would be to dispose of her 45 million ounces of silver and that in any case if Gimo insists on retaining it there is no point in having it reminted, as old silver dollars would be more acceptable to soldiers than new silver coin and as former would be less destructive in their impact than latter.

Recommendation in first sentence of last paragraph is on the whole in line with previous Embassy recommendations to effect that judiciously timed balance of payments loans constitutes most effective method of economic aid to China.

STUART

811.516 Export Import Bank/10-947 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, October 9, 1947—7 p. m.

[Received 10:44 p. m.]

2397. For Export-Import Bank. Concerning exports cotton products from China reDeptel 1354, August 12⁴⁹ and ConGentel 2060, August 26. Production of cotton yarn in China August 1, 1947-July 31, 1948 estimated at 1,500,000 bales excluding home industry. Chinese sources calculate about 700,000 bales yarn will be converted in organized textile mills into piece goods roughly totalling about billion yards. Present plan calls for export of 469,000,000 yards and

⁴⁹ Telegram No. 1354 repeated telegram No. 1009, p. 1177.

about 30,000 bales twenties yarn during calendar year 1948. Approximate value these exports U. S. dollars calculated at 125,000,000. Prospective markets for piece goods are Manila, Siam, Malaya, Near East and Persian Gulf areas and Dutch East Indies. Because of anticipated delays getting program started some Chinese authorities believe exports for first year will total only 244,000,000 yards and 30,000 bales yarn. Anticipated yardage sales on this basis are divided as follows: Manila 35,000,000, Siam 35,000,000, Malaya 35,000,000, Near East 88,000,000, Dutch East Indies 51,000,000. Prospective pattern of distribution of yarn not settled.

This office not in position definitely assess whether designated market would purchase such quantities of Chinese cotton products although it appears reasonable in view continued worldwide shortage piece goods. Believed, however, quantity exports not possible unless Government continues allow raw cotton import for conversion into products for export to be paid for on basis official mean exchange rate CNC dollars 12,000 to U. S. dollar 1.

Full details of export program not clear. Information reported this message based on proposal made by China Textile Industries, Incorporated,⁵⁰ to Governor Central Bank neither acted upon by textile stabilization board nor accepted by private mill owners.

Inform Commerce and Agriculture.

Sent Department, Nanking 1661.

DAVIS

811.516 Export-Import Bank/10-2247

*The Chinese Ambassador (Koo) to the Secretary of State*⁵¹

WASHINGTON, October 22, 1947.

SIR: With reference to the Agreement dated February 4, 1941, as amended, relative to a loan of \$50,000,000.00 to the Central Bank of China, between the National Government of the Republic of China, the Central Bank of China and the National Resources Commission, an agency of the National Government of the Republic of China, on the one part; and the Export-Import Bank of Washington on the other; I have the honor to inform you that my Government has authorized an amendment of this Agreement as of October 1, 1947.

I am instructed to inform you that the following persons have been authorized by my Government to execute any and all necessary documents in connection with this revision: namely, Dr. V. K. Welling-

⁵⁰ Established at Shanghai in January 1946 by the Chinese Ministry of Economic Affairs to amalgamate textile mills taken over from Japan.

⁵¹ Acknowledged by the Secretary of State in note of November 12 to the Chinese Ambassador.

ton Koo, Ambassador to the United States, for the Government of the Republic of China; Mr. Hsi Te-mou, Representative of the Central Bank of China in the United States, for the Central Bank of China; and Mr. Po-wen Huang, Director of the New York Foreign Trade Department of the National Resources Commission of China, for the National Resources Commission.

I should be grateful if you would be so good as to transmit this information to the Export-Import Bank of Washington.

Accept [etc.]

V. K. WELLINGTON KOO

893.5151/10-2347: Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, October 23, 1947—6 p. m.

[Received October 23—7:02 a. m.]

2496. Dr Arthur N. Young, financial adviser to Chinese and acting as special adviser to the Foreign Exchange Equalization Fund Committee, states delicate situation has developed as result recent attacks by C-C clique on exchange policy in form of statements in press alleging rise in black market rate due to committee action in raising open market rate and otherwise attempting make public blame policy for sharp rise in cost of living. Objective apparently is to discredit Political Science group, particularly Chang Kia-ngau, K. P. Chen and ultimately the Premier.

Policy under immediate attack is that of having flexible official open market rate of exchange making frequent adjustments as contrasted with maintenance of rigid official exchange rate prior August 18. Dr. Young says new policy has given reasonably good results but is threatened when rate too far out of line with export prices. The open market rate is in effect an export rate and if political pressure is developed to prevent it from being realistic it will necessarily cease to be effective, exports will decline, black market exchange transactions will increase, and another crisis might result.

Dr. Young emphasized that a situation of such delicacy has developed as to make exchange and commodity market extremely sensitive to news that is transmitted as favorable or unfavorable. He cited as illustration the improvement in and comparative stability of market conditions for some weeks after news of Wedemeyer Mission came out. The slight improvement which has taken place during last 3 days is attributed in financial circles, to some extent at least, to anticipation that an important statement on policy affecting China

will be made soon in Washington and that it will involve some measure of assistance to this country. He feels in present circumstances any statement made would have exaggerated effect. If favorable, it might put the authorities in such a strong position that attacks above-described would cease and immediate danger of crisis would be removed. If, on other hand, news should be unfavorable, reaction here might be as violent as that of last February which led to resignation Dr. Soong and prosecution of high Central Bank officials for alleged improper handling of gold sales.

Dr. Young said he would appreciate having any advance items which could properly be given him in his present status in event early release official statement contemplated. He takes serious view of situation feeling anything could happen. He says if C-C politicians succeed once again in discrediting honest officials and competent technicians in order to achieve local political ends, result might be grave. He doubts whether critics have technical personnel capable of handling exchange operations in these difficult times if they should have to assume responsibility. He thinks in any case it would not take much to precipitate runaway inflation, which could not be checked and which would have disastrous consequences.

Sent Department 2496; repeated Nanking 1700.

DAVIS

811.516 Export-Import Bank/11-1847

*The Acting Chairman of the Board of Directors of the Export-Import Bank of Washington (Gaston) to the Chinese Ambassador (Koo)*⁵²

WASHINGTON, October 23, 1947.

MY DEAR MR. AMBASSADOR: Earnest consideration has been given to the application made by your letter of July 31, 1947,⁵³ on behalf of the Government of China, for a credit of \$200,000,000 for the purchase of approximately 1,080,000 bales of American cotton for use during the balance of 1947 and nine months of 1948.

It has been difficult accurately to determine the China cotton situation and the needs for the future, but after careful study of all available information the Bank is inclined to accept the view that, with the recent third-quarter exchange allocation of \$20,000,000 U. S. currency by the Chinese Government for cotton imports, the stocks of imported cotton on hand, en route and on order, together with

⁵² Copy transmitted by the Chinese Ambassador to the Secretary of State on November 18.

⁵³ See footnote 23, p. 1177.

the supplies from the domestic crop, may be expected to cover the overall requirements of the China mills until the end of July, 1948.

As to the need after that date, it is accepted that China may require substantial stocks of imported cotton to carry mill operations over the gap until the new domestic crop begins to arrive on the market in volume; but with the constantly fluctuating conditions in China affecting agricultural production, transportation, coal, and power supply, the Bank does not consider it possible at this time to estimate accurately the foreign cotton requirements of China for the 1948 period.

The Bank is unable to grant a further cotton credit to China at the present time, but, without any commitment that the Bank will finance any part of the 1948 requirements, the Board would be disposed to give the matter further consideration if it is presented again later, in the spring of 1948.

In this connection, the Board wishes me to point out that it has been the general practice of the Bank to limit cotton credits to shorter terms than that suggested in your letter of July 31; also, that applications for such cotton credits have generally been supported by undertakings to export such portion of the finished products as may be necessary to earn foreign exchange to carry and repay the loan. Most cotton credits have been granted on 15 month terms; longer terms have been authorized only under special circumstances. The Bank's 1946 cotton credit of \$33,000,000 to China was made on a 24 month term as a special arrangement.⁵⁴ This credit is largely repayable during 1948.

It would be helpful to the Bank to have information showing the use made of the cotton purchased under the 1946 cotton credit, including information as to the mills to which this cotton was made available and whether they are government-owned or private enterprises; information as to the terms, interest rates, and arrangements by which the mills were financed under this credit; and information whether any of the manufactured products from the cotton so supplied have been exported, and, if so, in what form and to what countries and in what volume. Similar information as to the proposed allocation of cotton sought under any new credit from the Bank, with information as to the proposed terms and conditions of such allocations, would be helpful in the consideration by the Bank of any renewed cotton credit application.

Sincerely yours,

HERBERT E. GASTON

⁵⁴ See *Foreign Relations*, 1945, vol. VII, p. 1204.

102.1/10-2747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 27, 1947—5 p. m.

[Received 11:43 p. m.]

2144. For Treasury from Adler.

1. Recommend immediate reexamination of question of financing U. S. Government agencies' expenditures in China. (Reference your telegram 1201, of September 26, and Embassy's telegram 2059, of October 11.⁵⁵) Except for a trifling readjustment against the U. S. dollar on October 24 made to establish a 3 to 1 dollar-sterling ratio, open market rate has remained unchanged since October 9 in spite of rapid upsurge of prices and black market rates. While Exchange Equalization Committee's function purports to be making realistic readjustments in open market rate, it is showing clear signs of being stultified in this task by political considerations. (See paragraph 2 Embassy's telegram 2126 of October 23.⁵⁶) Chances of its making significant adjustment in open market rate in near future appear none too bright, and in any case political pressures will militate against its reducing gap between black and open market rates to reasonable dimensions over longer period. Moreover, most improbable that Central Bank would agree to special arrangement as in January and May in view of existence of open market rate. Finally near panic has subsided and it is reasonably safe at this time to make departure from present procedure.

On other hand Chinese Government would tend to ascribe undue significance to our recourse to black market, especially as it could not be kept secret. This factor must of course be evaluated in terms of our general China policy, but doubt whether it should be given undue weight.

2. Payments to American firms present no problems, as payment could be made to account of their banks in U. S. This procedure could later be extended to non-American firms with offices in the U. S. Use of U. S. currency for salary and wage payments to alien staff O. K. in Tsingtao, Peiping, and Tientsin which are virtually on U. S. dollar standard and possibly in outlying places, but not in Shanghai, Nanking, and Canton, where it would be preferable to make payments in CN dollars at black market equivalent. Purchases of CN dollar requirements can be made locally in Nanking by Embassy, Army and Navy from oil companies or via Shanghai against payment in United States. In outlying places same basis could be employed

⁵⁵ Neither printed.

⁵⁶ Not printed.

or where expenditures are small direct sales of U. S. currency could be made.

3. But bulk of U. S. Government expenditures, which run to over \$500,000 per month, is concentrated in Shanghai. While State Department's regulations with respect to purchase of foreign exchange at other than "official" rates permits of flexibility of procedure, Army requires purchase must be made from and certified by bank and Navy requires obtaining of three competitive bids and purchase from highest bidder. Both these requirements unrealistic in present situation, as purchase of CN dollars would not be necessarily made from a bank, while obtaining competitive bids an awkward and objectionable procedure when some secrecy of operation essential. Suggest should recourse to black market be decided on that:

a. All U. S. Government purchases of CN dollars made in Shanghai, including those made on account of Navy for expenditures in Tsingtao where market is thin, should be coordinated under supervision of Treasury and Assistant Treasury Attachés.

b. Purchases wherever possible should be made from American banks and reputable firms. List of clients could be drawn up in consultation with Consulate General [at] Shanghai. In view of disadvantages to Shanghai Chamber of Commerce of working even informally with a committee and need for avoiding to greatest extent possible accusations of arbitrariness, probably only course would be to purchase by rotation from a limited number of larger firms.

Establishment of rate a difficult procedure. As payment would in all cases be made in U. S., obvious that TT⁵⁷ rate which is higher than U. S. currency rate should be used. But market is not organized in sufficiently systematic way, and to disadvantage of lack of secrecy in asking for bids must be added possibility of coordinated bidding. Suggestion to me made by Consul General Shanghai that we name rate for each specific purchase worth serious consideration, as Shanghai is sellers' market for U. S. dollars. This would of course be done on basis of close scrutiny of black market rates for U. S. currency, TT and gold in Shanghai and Hong Kong. Transactions would be consummated at rates as close as possible to best ascertainable current Shanghai TT rate, though as previously indicated given disorganized nature of market in Shanghai, perceptible fluctuations during the day and diversity of quotations even at same time of day, this is not an altogether simple task. As I usually visit Shanghai several times a month, Casaday and I between us should be able to handle coordination and supervision of purchases and I would

⁵⁷ Telegraphic transfers.

of course spend some time in Shanghai in initiation of arrangement of this kind. While this procedure has certain drawbacks, they are not as serious as those of other alternatives.

4. In sum, unless Committee makes significant adjustment in open market rate before end of this week, recommend that we have recourse to black market for our purchases of CN dollars and that procedure above outlined is most feasible. Would appreciate Treasury's opinions on above earliest, and particularly whether there are administratively objectionable features from Washington viewpoint, and if so possible methods of eliminating them. [Adler.]

STUART

102.1/10-2847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 28, 1947.

[Received October 28—3:44 a. m.]

2147. To Treasury from Adler. Following UP story under Nanking dateline October 24 appeared in Shanghai English language press October 25:

“Vice Foreign Minister George Yeh, commenting on Mexican Treasury Secretary Ramon Beteta's statement that Mexico soon may coin silver money for China, declared no negotiations were in progress on this matter. He added that the Chinese Government has made no formal inquiry with the Mexican Government on the possibility of such arrangements.

Asked whether the Chinese Government is interested in investigation the possibility, Yeh said, ‘We know what the possibilities are since we have looked into the matter on previous occasions.’

Beteta indicated in a statement at St. Louis that Chinese dollars would be made in Mexican mints as soon as an agreement is signed. He also claimed conversations in the matter were underway when he left Mexico last week. In Shanghai, banking offices told the United Press that China investigated the matter several months ago and disclosed China was then seeking a \$346,000,000 United States silver loan. They said the matter of silver coinage has now become a ‘closed subject’ since it was believed that China would be ineligible as a member of the International Monetary Fund and World Bank if a silver standard were adopted.

The first silver coins circulated in China were Mexican dollars, contained a fractionally higher silver fineness than the ones minted by the Chinese Government later.”

[Adler]
STUART

102.1/10-2847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 28, 1947—noon.

[Received October 28—7:33 a. m.]

2150. To Treasury from Adler. ReEmbtels 1788 of August 23, and 2147, October 28.

1. Informed by reliable source that Hsi Te-mou has been negotiating with Mexican Govt for credit of U. S. dollars 10 million for purchase of 14 million ounces of silver, credit to be guaranteed by an American bank, which would require unhypothecated deposit of 10 million dollars by Central Bank with it, as with part cotton credits. Presumably American bank Central Bank has in mind is National City. Understand that negotiations with Mexican Govt well advanced and contract almost ready for signing but as result of Beteta's statement Central Bank has now instructed Hsi Te-mou to submit contract to Central Bank for its examination. Central Bank has been canvassing minting possibilities in India and England.

2. Character of proposed credit involves further depletion of coin as foreign exchange assets at time when they should be conserved to meet China's unfavorable balance of trade on commercial account and essential Govt purchases abroad. Therefore, whole scheme is ill-advised and is explicable only by Gimo's stubborn determination to have a stock of silver on hand in case of emergency and as a desperate gamble on the chance that should China commit herself to some form of silver currency a U. S. silver loan would somehow or other be forthcoming. [Adler.]

STUART

811.516 Export-Import Bank/11-1047 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, November 10, 1947—noon.

[Received November 10—1:38 a. m.]

2599. Governor Central Bank has given ConGen copy of message received from Chilean [*Chinese*] Ambassador, Washington, summarizing ExIm Bank reply⁵⁸ to Chinese application for a cotton credit. Officers concerned note with gratification that bank's response agrees substantially with statistics set forth mytel 1991, August 18 repeated Nanking 1439. Believe however that bank's indication of earliest time for reconsideration being next spring has discouraged Chinese on two counts as follows.

⁵⁸ Dated October 23, p. 1199.

a. Need for up to 600,000-bale import during August, September and October 1948 previously agreed all concerned here as reasonable carryover into new domestic crop year on basis present indications and trends. Three months' advance margin for commercial procurement, shipment and delivery this reserve necessary, which would necessitate conclusion of credit arrangements by May. This time schedule justifies in Chinese view negotiations early next year for financing, at which time consumption estimates and availabilities from indigenous crops can be forecast more accurately.

b. Chinese seriously disturbed by bank's failure to appreciate psychological factors involved. They apparently feel that door was slammed pretty loudly, and without taking into account more delicate balances in present situation, anticipate that Chinese will make their own response along these lines. They are apparently somewhat unnerved by wording of ExIm reply at this particular time since in their view it indicates no disposition even to talk about extending lifeline in emergency.

Sent Embassy 1761, repeated Department.

DAVIS

893.50/11-1047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 10, 1947—4 p. m.

[Received 6:01 p. m.]

2223. Following memorandum was handed me today by Arthur Young and contains his thoughts on the critical economic situation in China and suggestions for remedial measures. It is Young's idea that he would endeavor to persuade Chinese Government to propose measures outlined. We will comment in separate telegram⁵⁹ but meantime would appreciate Department's reaction to Young's proposals.

"CHINA'S FINANCIAL EMERGENCY AND MEASURES TO DEAL WITH IT

In this memorandum I shall summarize the main facts, set forth the nature and extent of China's needs for external financial and economic aid, and outline certain repeated measures and action on the part of China that are necessary if TEC [*aid*] is to achieve the aim desired, namely, to promote stability and to further the development of a strong and independent China. In analyzing these measures and actions I have had in mind both the conditions that the American Government and American opinion may deem it wise to fix if aid is granted, and the conditions that would be in the interest

⁵⁹ *Infra.*

of both China and the U. S. and that the Chinese Government and Chinese opinion may be prepared to accept.

I. *Summary of the facts:*

(1) External reserves. The position has lately become graver than China's leaders seem to realize. Total Central Bank external reserves are below U. S. \$200,000,000 for the first time, comprising as of November 8 U. S. \$182,000,000 gold and U. S. \$15,000,000 equivalent of sterling, total U. S. \$197,000,000. Besides there is silver in China worth about U. S. \$25,000,000. Other Government banks have some external holdings but the amount is exceeded by contractual commitments and pre-zero licenses outstanding plus the commitment to allow import of accumulated unlicensed goods whose value may reach U. S. \$40,000,000 to \$50,000,000. The estimated deficit of foreign currency receipts and payments through official channels on commercial account averages about U. S. \$12,000,000 monthly. Government payments for civil and military needs have been of similar proportions. But I have just been informed of commitments for military needs totalling around U. S. \$50,000,000 before the end of this year. As matters now stand it looks as if external reserves might fall to around U. S. \$125,000,000 by the year end. In view of the prospective pressing need for further supplies of ammunition and gasoline, et cetera, there is growing danger the Government may stop meeting the deficit on commercial account. This would not only disrupt foreign trade but the public would take it to mean the near exhaustion of reserves. Such action may be expected to lead to panic conditions in the markets. It would be the prelude to imminent financial collapse. Moreover financial secrets are no longer well guarded and knowledge of the reserve position may leak out and cause great harm.

(2) The internal financial position. The situation is now highly vulnerable and inflation is in the dangerous stage. Prices throughout China have risen more than tenfold in the past year. The deficit covered by inflation was about \$3.5 millions in each of the last 2 months, or about two-thirds of total expenditure, and is growing. Note issue exceeded \$22 trillions on November 8 and increased 7 percent during the preceding week. At present the shortage of notes on hand is perhaps the most effective check on fresh issues. In such conditions the state of confidence is crucial. For the past 3 weeks hope of American aid has buoyed confidence. But fresh large supplies of money are flooding Shanghai and there are signs that a further price spurt is starting. The black market which usually snaps prices upward reached on November 8 its former top of 93,000. When rates reach 100,000 which may happen soon, that figure may have a bad psychological effect. Without careful handling of the situation and without Ameri-

can aid a financial collapse is unavoidable although no exact time prediction is possible.

(3) The balance of payments on commercial account. For the year ending September 30, 1948 it is estimated that the minimum deficit in foreign currency receipts and payments through official channels on commercial account will be U. S. \$125 to \$150 millions. The actual deficit may be larger. Imports and other out payments are figured on a basis of austerity and cannot be reduced without damage to China's economy. Attainment of the export target depends upon promotion efforts and upon a fairly orderly foreign exchange situation and no material worsening of internal economic conditions during the period.

(4) Progress in balancing international payments on commercial account. Immediate financial difficulties obscure the fact, which is not generally realized, that in the past year China has made much progress toward a more balanced trade position. As to imports, although administration of the controls ought to be improved there is nevertheless an effective limitation of trade to essentials on a basis of austerity. As to exports China at last has a foreign exchange policy under which they can move in good volume. This policy under the regulations of last August is working fairly well so that maintenance of more realistic rates of foreign exchange is now feasible. The deficit in the trade balance is due primarily to need for abnormally large imports of raw cotton, tobacco and fuel to replace former domestic production. This production notably of cotton was cut to a fraction of the pre-war level during the war partly to prevent the enemy from getting it and partly because food crops were substituted. Then after the war the Communists were in control of important areas producing cotton, tobacco and coal. If they can be cleared from these areas and communications be restored, there is good prospect of restoring balance in China's international transactions without much delay. Furthermore, the restoration of Manchuria's soya bean exports, worth many tens of millions yearly, contains the possibility of providing substantial funds abroad to cover service of China's debts and to finance a program of development. Finally, private Chinese assets abroad, which it is difficult if not practically impossible to marshal under unstable conditions, will tend to be repatriated gradually if the situation improves.

II. *China's needs for financial aid:*

These needs fall under four main heads:

1. A commodity credit to meet the deficit in the balance of China's commercial account;
2. External aid in checking inflation while internal counter-inflationary measures are being put into operation;

3. A limited number of urgent reconstruction projects; and
 4. The external cost of a military program. I shall only touch upon the latter since it is predominantly military and political rather than a financial matter.

(5) Need for a commodity credit. In my opinion such a credit is the first priority to meet the emergency that is not far ahead. The Chinese Government I understand has not made any recent specific proposal adapted to meeting the immediate emergency because of awaiting clarification of the position in Washington. The proposed tobacco credit of about U. S. \$30,000,000 would meet part of the need. But at least U. S. \$100,000,000 to \$125,000,000 more are needed to cover purchases of goods from the U. S. during the next 12 months. It is desirable that the proportion of expenditures for various items be elastic within agreed limits that could be worked out in negotiations, and that the credit be immediately available to meet current dollar requirements. It now appears that the main items other than tobacco and the amounts needed in the next 12 months would include: (in U. S. dollars millions)

Raw cotton	80
Petroleum products (for non-military use)	50
Timber and paper	10
Dyes and chemicals	12
Machinery and parts for current maintenance	20
	<hr/>
Total	172

Inasmuch as it will take some time to bring the financial situation under control, even under relatively favorable conditions, the duration of any credit should be as long as feasible and early payments should be light. I may add that China has made good record in its repayment of borrowing from American Government agencies. Out of about U. S. \$208,000,000 borrowed since 1931, apart from the war-time credit of U. S. \$500,000,000 and lend-lease transactions about U. S. \$115,000,000 or over half have been repaid to date together with all interest due thereon.

As to cotton, the estimates have been checked with Mr. Dawson, the American Agricultural Attaché. They cover payment for part of the third quota which is in course of arriving in China, part of a "top-off" of perhaps 50,000 bales needed early in 1948 by mills that will be short of specific grades, and estimated imports of about 350,000 bales beginning in April or May 1948. The Export-Import Bank in a recent communication⁶⁰ to the Chinese Embassy in Washington has indicated doubt as to China's needs for cotton in the near future. A more de-

⁶⁰ Dated October 23, p. 1199.

tailed explanation of the cotton situation will be supplied to them as soon as the text of their communication is received here.

(6) Aid in checking inflation. Since inflation has been in progress for 10 years it is in an advanced stage. But it is essential to check it if any program in China is to be effective. Naturally no fundamental reform is possible while active and large-scale civil war continues. Nevertheless, with proper internal policies and certain external aid, inflation can be kept within manageable limits, even in spite of civil war, and the way prepared for later stability. The added confidence resulting from the act of a program of American aid would in itself tend to slow down the inflation.

The cost of an anti-inflation program would be additional to the proposed balance of payments credit—since the latter would only permit continuation of essential imports now being partly paid for from reserves. It might be advisable that funds for checking inflation be obtained as an advance against China's share of the undistributed property looted by Japan.

Use of external funds to prevent a calamitous fall of the foreign exchange value of the currency or runaway prices should necessarily be limited, and funds should be used with care as a brake on the situation when circumstances warrant. But it is clear that at certain stages of the inflation sales of imported goods might be used to advantage as a two-edged weapon—to add to the supply of goods on the market, and to withdraw money and contract the currency. The present budget deficit is equivalent to roughly U. S. \$40 millions monthly. The program outlined below calls for reducing the deficit both by economies and by development of taxation—as to which latter China has been making a not-too-bad record by covering about a third of expenditures by taxes and other non-inflationary means, not counting substantial receipts in kind (rice, wheat, et cetera). If funds averaging about U. S. \$15 millions monthly could be available for use as required, it should suffice to prevent a runaway situation. It would be desirable to have available about U. S. \$150 millions for 1948 for checking inflation. The need for such funds would diminish as the effects of the program of reforms would be felt—especially if the military situation improved.

(7) Reconstruction projects. These should be limited to what is essential, such as the Shanghai power development scheme and urgent railway restoration, until the finances are substantially stabilized. The cost of essential reconstruction projects may be estimated tentatively at perhaps U. S. \$50 to 60 millions for 1948. This is apart from railway reconstruction in connection with a military program.

(8) Cost of a military program. Here the case might be partly

for items available in the U. S. that might be "declassified" and would thus depend upon the valuation placed on them. But in addition there are current items such as gasoline. No estimate is here made as to the cost of a military program.

(9) Summary of external costs. To estimate total costs for an extended period is impossible unless an assumption is made as to the duration of the civil war. It is difficult at present to look beyond 1948. Apart from the cost of a military program, the cost to the end of 1948 of meeting the balance of payments deficit on commercial account, of a program of checking inflation, and of minimum essential reconstruction would be of the order of U. S. \$350 millions. Part of this might be gotten from the undistributed property looted by Japan.

If a program like that outlined below were put into effect, it would be possible after a few months to make better estimates of the cost and duration of further aid. But costs should be on a declining scale.

The question should be considered, as is being done as regards American aid to Europe under the Marshall Plan, whether part of the aid should be non-repayable.

III. *Internal measures and conditions of aid:*

(10) No external program could hope to succeed unless accompanied by wise and firm internal measures. Some of the measures needed run counter to unsound but well-entrenched economic and financial ideas, and others run counter to strong vested interests. It is clear that these measures can only be taken if they go hand in hand with external aid, and if the extent and nature of external aid is co-ordinated with and dependent upon adoption and execution of such measures. In particular it is vitally important to reform the present military system. It is hardly necessary to stress the connection between civil war and this system, on the one hand, and the public finances and currency, on the other. In relation to immediate emergency aid, point "a" below is of special importance. The Chinese Government, however, after consideration of the entire program might be prepared to propose giving effect to it as a means of improving the situation and of best utilizing further aid. The program outlined below is partly American and, in keeping with the spirit of the United Nations, is also partly international. It is in the interest of both the United States and China, my judgment, that the program have such an international aspect.

(11) Clearly it is desirable that China adopt a program of internal measures on the following lines:

a. Foreign trade. To promote exports and improve the administration of import controls. To that end the Chinese Government to

inform the American Government that it wishes to appoint an American nominated by the latter to participate in the work of the Export-Import Board. The Chinese Government should undertake to reduce gradually governmental trading, and to remove such restrictions as those on export of oil seed and oils and on private export of mineral products. While probably it would not be expedient to make any formal condition as to opening Hankow and Nanking to direct foreign trade, China should be informally urged to do this as a matter of self-help on the ground that limiting cabotage to Chinese vessels can be justified but that restricting these ports to local vessels goes beyond the general practice of nations and is a form of extreme economic nationalism that China cannot afford.

b. Taxation. It is vitally important to improve the system of taxation. The Chinese Government to constitute a Chinese-Foreign group of tax experts to devise means to improve tax laws and administration. Such a group, on the foreign side, should be international and might be nominated by an agency of the United Nations. This group should deal comprehensively with national, provincial and local taxation, including the land tax. The group should include an expert on land policy, to deal with beginning introduction of a system of land registration. Special attention should be given also to the practicability of means to tax newly-made wealth.

c. Civil expenditures. Similarly, a Chinese-Foreign group should be constituted to deal comprehensively with the system of national, provincial and local expenditures, and to devise means of reorganization on a basis of greater efficiency and economy. Economy in foreign currency expenditures should be included. This field also includes as a major item the problem of personnel training.

d. Military expenditures. Clearly any plan for military reorganization should provide for control of payments and supplies, and specific means for reforming the present military system and bringing its eventual cost to a level that China can afford. As a temporary measure, so long as civil war continues, it is important to determine what military payments are essential and how they may be met with the least damage to the financial and economic situation. Financial and economic experts should participate in determining policy in this regard.

e. Credit policy and banking. It is an elementary measure of self-help that there should be a strict control of granting of credit. Promiscuous giving of credits on the basis of political considerations and favoritism should stop, as should also the use of financial institutions like the Central Trust for primarily political ends. A survey of the position of Government banks and other financial institutions should be made in order to devise a definitive policy for the future, and with a view to gradually putting the recommendations into effect. Here also a Chinese-Foreign group should be named.

f. Currency and foreign exchange. The present foreign exchange equalization fund committee is in a strategic position to become the agency primarily responsible for current policy concerning currency and foreign exchange, and to plan and in due course to give effect to fundamental measures as conditions permit.

g. Land policy and agricultural reform. A Chinese-Foreign group

should be named to work out means for introduction of such of the recommendations of the recent Chinese-American Agricultural Mission as are suitable for early introduction. Stress upon the land question and improvement of rural conditions is important as part of a program of combating communism.

h. Industry and communications. Likewise there should be a Chinese-Foreign group to consider the more urgent problems in these fields. Any large-scale program, however, clearly would have to await the ending of civil war and stabilization of the national finances.

i. Legal system. It is further important that China develop an improved system of law and public administration. Also there should be a Chinese-Foreign group working in this field.

j. Coordination. All of the above major heads involve problems of the budget. There has to be close coordination so that different groups do not work at cross purposes. Hence there should be a central organization, e. g., a commission on economic and financial affairs. Each group working on a particular field should have one or two representatives on such a commission. The commission should be in constant touch with the leaders of the Government and should coordinate the work of the groups. The commission would be headed by an outstanding Chinese, with an outstanding American as co-chairman.

(12) In conclusion I would emphasize that the foregoing is put forward by me personally and not in any way for or on behalf of the Chinese Government."

STUART

840.50 Recovery/11-1247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 12, 1947—6 p. m.

[Received 7:19 p. m.]

2231. Young's proposals which are admittedly designed to respond to an offer of aid such as Marshall's proposals for Europe,⁶¹ or to invite such proposals, seem to us most timely. Coming as they do almost simultaneously with the Secretary's new statement on China policy,⁶² some version of them should have possibility of implementation and success. The situation is beyond question critical. The views of one as well versed on the subject as Dr. Young should be given serious consideration. He was recalled to China with full personal approval of the Generalissimo, is here on temporary contract only, and should be in a position to impress the need for early and drastic action. He seems prepared to stay on in China if there

⁶¹ Made on the occasion of commencement exercises at Harvard University on June 5. For text, see Department of State *Bulletin*, June 15, 1947, p. 1159.

⁶² November 10, 1947. For text, see *Emergency Foreign Aid: Hearings before the House Committee on Foreign Affairs, 80th Cong., 1st sess., p. 2*; or Department of State *Bulletin*, November 23, 1947, p. 970.

is constructive work to be done but states categorically that he will return if constructive action is not taken.

Of course the military phase which he passes over is the crux. In this also, however, we are inclined to believe the time is right to strike. The Generalissimo has seemed reluctant to take drastic action required largely because he feared losing the support of his lifelong intimates who are largely reactionary in pursuing a military program which might fail because of the uncertainty of support from the U. S. If within the framework of the Secretary's statement, such plans as those suggested by Young can be worked out and the implementation started, it is barely possible that the Generalissimo will be willing to take the requisite action in the military field. We shall appreciate the Department's early comments and instructions. (For Butterworth⁶³ from Clark. The Ambassador asked me to stress that the above are my views as well as his own, the drafting being entirely mine.)

There follow our comments on the economic aspects of the proposals:

1. Summary of facts in section I of memo in essence unexceptionable though there is perhaps undue emphasis on importance of state of confidence which can only be created by continued availability of sustained and large-scale American help. Paragraph 4 of Section I would appear to be somewhat optimistic both in the absence of reference to danger that political considerations and pressures may prevent, if it is not already preventing, enforcement of realistic exchange policy, and in its estimate of China's longer term balance of payments prospects.

2. We concur that a commodity credit "is the first priority to meet the emergency ahead" (paragraph 5 of Embtel 2223 of November 10). Young proposes that credit sharing should be "elastic within certain limits". Believe degree of elasticity should depend on extent of American direct supervision; if there is American direct supervision, considerable elasticity could be allowed; if not, the limits should be strictly defined. With respect to cotton, the third quota Young refers to is the third quarter quota of \$20,000,000 for 1947. Agricultural Attaché in previous estimate of China's cotton needs also agreed that approximately 50,000 bales are needed as a top-off in the near future. As for the 350,000 bales mentioned by Young for the rest of 1948, Governor of Central Bank informed Embassy official that Shanghai cotton importers find that it takes approximately 5 months for order to be delivered; if this is correct, Young's cotton proposal is quite reasonable as is his proposal concerning

⁶³ W. Walton Butterworth, Director of the Office of Far Eastern Affairs; he succeeded John Carter Vincent on September 15.

tobacco. It will be noted that total of proposed commodity credits is \$202,000,000.

3. In light of past record of Chinese Govt. utilization of foreign credits and foreign exchange assets for specific purpose of combating inflation, we must express grave reservations about Young's proposal for \$150,000,000 for checking inflation in 1948 (paragraph 6 of Dr. Young's memo). It is not clear how Young envisages this fund should be used. If it is to be used for import of commodities, as he proposes in one place, such a fund would not be differentiated from balance of payments commodity credits discussed above. If it is to be an all-purpose fund or a fund for specific purpose of withdrawing *fapi* from circulation, previous experience indicates that it would be rapidly dissipated with little to show for it, except increase in private Chinese foreign exchange assets, inaccessible whether abroad or in China. In any case, proposal that funds for checking inflation be obtained as an advance against China's share of undistributed property looted by Japan would not appear to be feasible.

4. We concur with paragraph 7 of Dr. Young's memo and suggest that a beginning should be made with United Power Company and Canton-Hankow Railroad and possibly coal mines in Hunan.

5. On the basis of the above apart from cost of military program, in 1948 \$150,000,000-\$200,000,000 would be needed for commodity credits and \$50,000,000-\$100,000,000 for rehabilitation projects. Fully concur that question should be considered whether part of aid should be non-repayable, especially as we take a more pessimistic view of China's longer term balance of payment prospects than does Young.

6. With respect to 11a, Embassy feels that we should insist on opening to foreign trade of Hankow and Nanking as well as other river ports with appropriate facilities.

STUART

811.516 Export-Import Bank/11-1347

Memorandum of Conversation, by the Director of the Office of Far Eastern Affairs (Butterworth)

[WASHINGTON,] November 13, 1947.

Participants: The Chinese Ambassador, Dr. Wellington Koo
The Secretary
Mr. W. Walton Butterworth, FE

The Chinese Ambassador called at his request at 10:45 a. m. and opened the conversation by referring to the reply which he had received from the Export-Import Bank under date of October 23rd

regarding the cotton credit. He indicated that since he requested this appointment to discuss this matter the situation had been changed by reason of the Secretary's statement to Congress regarding assistance to China, for which he expressed appreciation and gratification. He went on to inquire whether the Chinese Government should reply to the Export-Import Bank's letter, which he indicated was not, in the opinion of the Chinese Government, correct in certain aspects: in particular, the Chinese Government could use, and should obtain, in view of the importance of cotton cloth in meeting the inflationary situation, more cotton before mid-1948, and secondly, the reference to the \$20,000,000 allocation by the Chinese Government for benefits in the third quarter of this year was also not wholly correct. The Secretary explained to Dr. Koo in confidence that it might be that Congress would find means of relieving the Export-Import Bank of the burden imposed on it by the rigidity of its legislative charter which might result in some favorable action on projects which could not be justified on a matter-of-fact business basis. At the Secretary's suggestion, I pointed out that it was desirable for the Chinese Government to answer as fully as possible the Export-Import Bank's query, having also in mind the fact that the Bank desired to make a cotton credit on terms shorter than the four years proposed by the Chinese, and to include therein provisions for export of fairly substantial quantities of cotton cloth. The Ambassador indicated that he would communicate the above to his Government.

Dr. Koo passed on from there to the proposals for assistance to China, the details of which he wished to obtain in so far as possible. The Secretary explained to him the tentative stage at which this matter was and took this opportunity to point out the present wave of sentiment in favor of aid to China would not run very far and it was to be expected that countercurrents would set in. In this connection, he cited Congressman Judd's attempts to act as public advocate for full assistance to China and indicated that they might well contribute to these counterforces. The Secretary pointed out that if he had replied flatly to Congressman Judd's questions⁶⁴ he would have been forced to give answers which could be used by the Chinese Communists and others against the Chinese Government. The Secretary recounted at some length the extent to which the leadership of the National Government armies and inadequate training of recruits as replacements for existing divisions were responsible for the parlous state of the military situation in China despite the amount of American military and other supplies. The Ambassador offered

⁶⁴ Presumably questions asked by the Congressman at hearings before the House Committee on Foreign Affairs, November 12, 1947; see *Emergency Foreign Aid*, p. 22.

to report General Marshall's views direct to the Generalissimo, whereupon the latter [Marshall] recounted to him at some length how often he had impressed these basic facts on the Generalissimo, the Minister of War, the Chief of Staff and others, and how politely they had listened and how little, if anything, they had done. In this connection, the Secretary cited the recent authorization⁶⁵ for participation in the training center in Formosa and indicated his expectation that it would do little or no good since a division thus trained would not be able to obtain trained replacements since no attempt was made to create these replacements and he went on to describe the monumental effort the United States had made to supply such replacements to its own army and the essential part that the replacement effort had played in the victory.

The Ambassador also inquired about ammunition and referred to the communications which Dr. Tan had recently handed me.⁶⁶ The Secretary told him that the question of making available ammunition in the Pacific had formed the subject of a communication to General MacArthur⁶⁷ and that it was hoped as soon as it was ascertained what types and quantities were available that it might be possible to work out some arrangement.

The Ambassador also made reference to the 350 C-46's, indicating that members of his staff who were leaving for Georgia, Arkansas and California today had expressed some apprehension that a sufficient quantity of good planes would not be available. The Secretary pointed out that he had impressed upon the Foreign Minister the need for speedy action and that he had had 50 of the best C-46's earmarked in Arkansas for China's needs. The Ambassador expressed appreciation and stated that they had obtained from War Assets [Administration] the name of an American firm with whom they might contract to service and deliver the planes in China. I suggested to the Ambassador that it might be well to have two or more firms bid for the work. Dr. Koo thereupon made noises which I took to indicate that whereas the Chinese Government would be willing to pay the American firm or firms, it would like to get the planes on credit, and I explained that the War Assets procedure was fixed by law and that the intervention of the State Department had been to facilitate the sale at the very reasonable figure of some \$5,000 apiece.

The Ambassador then renewed his questionings regarding the assistance to China with a view to ascertaining whether it would be pos-

⁶⁵ See telegram No. 1302, October 24, 5 p. m., to the Ambassador in China, p. 901.

⁶⁶ See memorandum from the Chinese Embassy, November 4, p. 913.

⁶⁷ General of the Army Douglas MacArthur, Supreme Commander for the Allied Powers, Japan.

sible to have China included in the emergency program with Italy, France and Austria. He had previously mentioned the April 1st date. The Secretary had explained to him the time schedule and that assistance to the above-mentioned three countries was to cover the period through March. The Secretary suggested that he pursue this matter further with me. After we left the Secretary's office, he specifically asked whether the \$60,000,000 which had been mentioned in the Congressional hearings⁶⁸ could not be put into the emergency request of Congress and appropriated at this special session. I explained to him that the emergency request had been limited to the bare minimum and for uncontroversial and ultra-emergency requirements and that the Chinese position was viewed as being more akin to that of Britain or Holland than to the emergency situation of Italy, France and Austria. In the end the Ambassador said that he assumed the Department of State would have no objection if Congress lifted the \$60,000,000 into the immediate appropriation, to which I replied that the State Department had very little experience of the Congress embarrassing us with unasked for appropriations.

W. W[ALTON] B[UTTERWORTH]

102.1/11-1347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 13, 1947—5 p. m.

[Received 7:26 p. m.]

2233. To Treasury from Adler.

1. Sale of 3-year Treasury certificates April 4 to September 30, CN dollars equivalent of U. S. \$27,954,040. Sales were at official rate up to August 16 when sales were stopped, to be resumed on September 10 when sales were made at open market rate (reurtel 1294 of October 22⁶⁹). Redemption both as to principal and interest at open market rate. Equivalent of U. S. \$4,621,000 were redeemed on October 1 at open market rate, leaving equivalent of U. S. \$23,335,000 outstanding. During October equivalent of U. S. \$1,648,000 were sold. Sale of certificates of dubious value as an anti-inflationary measure.

2. Sales of U. S. dollar 10-year bonds par 4—September 30 U. S. \$27,525,000. Sales during October \$514,000. [Adler.]

STUART

⁶⁸ November 11, 1947: see *Interim Aid for Europe*: Hearings before the Senate Committee on Foreign Relations, 80th Cong., 1st sess., p. 43.

⁶⁹ Not printed; it requested Adler to report on sales of domestic bonds since their issuance in April 1947 (102.1/10-2247).

893.50/11-1447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 14, 1947.

[Received November 14—8:41 a. m.]

2239. We have been informed by participants in the discussions that principal preoccupation of the Generalissimo at the moment is acute shortage of ammunition coupled with the critical currency situation. Black market CN dollars were 95,000 today.

In reviewing our No. 2223, November 10, 4 p. m. and No. 2231, November 12, 6 p. m., we are increasingly inclined to the belief that Arthur Young's suggestions may offer a peg upon which we may hang an active policy to help China help herself. Our thought is based on the premise that the strategic interests of the U. S. require friendly Chinese control of Manchuria. We seem to be waiting for China to start cleaning house before we offer aid and China seems to be waiting for irrevocable offers of aid before cleaning house.

We wonder whether in these circumstances we might not, through Arthur Young or ourselves to the Generalissimo, persuade Chinese that best solution of their problems lies in offering to us constructive measures such as those proposed by Young coupled with request for U. S. assistance in carrying out program. Contrariwise it might be possible for the Secretary, after due preliminary sounding of Chinese opinion by us, to make a public offer analogous to that made to Europe, the Chinese response having in advance been agreed to be along lines of Young's proposals. Following the European precedent a conference, bipartite or multipartite, could be held which might evolve an acceptable and workable plan of reconstruction in China which would have sufficient promise of success to justify commitment of American public funds to rehabilitation of China. The alternative seems to be a constantly deteriorating situation ending not only in loss of Manchuria to Communist domination but also in a return to regionalism south of the Wall vulnerable to Communist pressure.

The military situation in Manchuria as in central China has deteriorated as has currency situation and immediate outlook is most gloomy unless something can be done to instill a ray of hope and confidence in Chinese people. There are those who still believe that Chinese should be allowed to "stew in their own juice"; that present Government is doomed beyond redemption and will sooner or later fall of its own utter incompetency and that therefore we should stand aside and let nature take its course. This might be to our advantage were it not for the unavoidable danger which would result to strategic interests of U. S. if Manchuria is long controlled by a Communist government.

Feeling as we do that the maintenance of at least a salient in Manchuria is in the interest of security of the U. S. and that cost of maintaining such a salient now would be much less than cost of reestablishing a salient at later date we again urge Department's prompt consideration and evaluation of the possibilities presented by Young's proposals and would appreciate Department's urgent instructions.

STUART

893.50/11-1547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 15, 1947—8 a. m.

[Received November 15—3 : 02 a. m.]

2241. Gimo much cheered by news [of] American aid. Repeated previous request for supreme military adviser⁷⁰ and civilian advisory group. Asked whether Blandford might head latter group and approved of his selecting others. I believe this would be best solution [to] start reforms which Gimo also desires but shrinks from attempting unaided and that it could be harmonized with Arthur Young's proposals (our 2239, November 14, 7 p. m.). This seems excellent opportunity to suggest to Gimo qualified supreme military adviser and I sincerely hope action may be promptly taken. Gimo also described shortage of ammunition as desperate.

STUART

893.51/11-1847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 18, 1947—8 p. m.

[Received November 18—1 : 19 p. m.]

2258. According to information made available by Dr. Young (re-Embtel 2223 of November 10 and Deptel 1388 of November 14⁷¹):

1. Central Bank balances in U. S. were \$125,000,000 as of September 30 and \$95,000,000 as of November 15. Bank of China's net holdings for home and overseas offices \$43,000,000 as of September 30. Other Government banks' holdings totalled \$27,000,000 in latter part of October. Apparently no substantial change in dollar holdings of approximately \$70,000,000 of Bank of China and other Government banks since September 30; minimum of 30-40 percent of these holdings considered necessary working capital, especially since Bank of China has given various large guarantees, including \$33,000,000 for Export-Import Bank cotton credit.

⁷⁰ For correspondence on this subject, see pp. 785 ff.

⁷¹ Latter not printed; it requested information on China's external assets (893.51/11-1447).

2. Total official gold holdings 2,452,000 ounces with 2,412,000 ounces in China and 40,000 ounces in the U. S.

3. Dollar equivalent sterling area currency holdings at par of Central Bank \$13,000,000 on September 30 and \$7,000,000 November 15, of Bank of China \$25,000,000 September 30, and of other Government banks \$9,000,000 toward end of October.

4. Silver holdings in China 39,700,000 ounces. In addition, China has 1,900,000 ounces in New York and 1,200,000 ounces in London.

5. Central Bank contractual commitments up to January 1 include (in U. S. dollars million) cotton imports under National City Bank credit ⁷² 11, fertilizer 8, bank notes 10, munitions 7, military gasoline and fuel oil 6, gasoline and oil for Ministry of Communications 3, air forces training 2, diplomatic and consular costs 2, miscellaneous 3, or a total of 52. Further commitments for munitions, gasoline, and fuel oil, which have to be met early in 1948, total 20-25. In addition to these commitments:

(a) Total debt service for first half of 1948 \$33,000,000, including \$25,000,000 to Export-Import Bank, of which \$18,000,000 for metal loan falls due on February 17, and for second half \$37,000,000, including \$27,000,000 for Export-Import Bank cotton credit.

(b) About \$40,000,000 of import licenses were outstanding on August 18, of which an estimated \$10,000,000 have already been taken up. A considerable portion of the remainder may lapse.

(c) Additional Central Bank liability as result of commitment to allow import of accumulated unlicensed goods expected to total not more than \$5,000,000 before April 1, 1948.

A detailed estimate of Government foreign exchange requirements for first half 1948 now being drawn up and will be made available soonest. It should be noted China hopes to realize \$15,000,000 from sale of U. S. surplus property outside China.

On basis of above U. S. dollar and gold assets of Central Bank, Bank of China, and other Government banks \$281,000,000 as of September 30, and dollar equivalent of sterling area currency holdings \$47,000,000 as of same date. No data available here on Chinese short term liabilities as of September 30. Thus Dr. Young's figure of \$281,000,000 official gold and dollar balances reconcilable with your estimate of \$265,000,000. In Dr. Young's opinion decline in Central Bank dollar and sterling area currency holdings of \$36,000,000 between September 30 and November 15 is a reasonably conservative indication of rate of decline in official balances to be expected in future, although decline from now to January 1 will be faster because of commitments falling due by year end.

Following are Dr. Young's conclusions based on above:

"(a) Central Bank holdings of U. S. dollars, gold, and sterling currencies are now \$189,000,000, and other Government bank holdings over and above necessary minimum working capital are \$60-70,000,000, making an over-all total of \$250-260,000,000.

⁷² Reference is to a credit of \$40,000,000 arranged by the Central Bank of China with the National City Bank of New York for the purchase of cotton. The announcement was released in Shanghai on April 14.

(b) Up to January 1, 1948, Government commitments at least \$52,000,000 and trade balance deficit estimated at \$8,000,000, totaling \$60,000,000. In unfavorable conditions, e. g., a disorderly price situation, the deficit might be more.

(c) By January 1, 1948, over-all available resources, i. e., deducting \$60,000,000 as per (b) and allowing for Government banks' minimum working capital, now seem likely to be reduced to \$190-200,000,000. This would include \$86,000,000 in gold, perhaps \$35,000,000 equivalent in sterling currencies, and perhaps dollar balances of \$70-80,000,000.

(d) The gold is mainly in China and could not be exported without public knowledge, which might be expected to have a serious effect upon confidence in the currency and the Government. Maintenance of the gold and of some foreign exchange reserves in addition is vital for confidence. Government holds silver for possible emergency use here.

(e) For first half of 1948, deficit on Government account plus trade deficit is unlikely to be less than \$25,000,000 monthly and might be more. That would exhaust most of the currency balances mentioned in (c) above by about April, 1948, on the basis of the estimates given."

STUART

811.516 Export-Import Bank/11-1847

The Chinese Ambassador (Koo) to the Secretary of State

WASHINGTON, November 18, 1947.

DEAR MR. SECRETARY: During our conversation on the 13th instant, I referred again to China's application to the Export-Import Bank for a cotton credit and stated that the Bank in its reply of October 23, 1947,⁷³ declined to give favorable consideration to the application at the present time. Its conclusions apparently were based on data of an earlier period, which are no longer in consonance with the actual cotton situation in China. In line with your suggestions, I have communicated to the Bank some data on the subject in a letter dated yesterday. I take pleasure in enclosing herewith a copy of my letter to the Bank and the Bank's reply to my letter of July 31, 1947.⁷⁴

Yours sincerely,

V. K. WELLINGTON KOO

[Enclosure]

The Chinese Ambassador (Koo) to the Export-Import Bank of Washington

[WASHINGTON,] November 17, 1947.

GENTLEMEN: This is to acknowledge your letter of October 23, 1947, communicating the views of the Export-Import Bank on our

⁷³ Reply dated October 23, p. 1199.

⁷⁴ Letter of July 31 not printed; for summary, see telegram No. 1009, August 12, 6 p. m., to the Ambassador in China, p. 1177.

application of July 31, 1947, for a cotton credit. The contents of your letter were promptly transmitted to my Government.

I have now received a reply from my Government giving certain additional information which I hasten to communicate to you.

On the side of supply of cotton, the third quarter exchange allocation of \$20,000,000 U. S. currency referred to in your letter had indeed been planned, but it was not possible to put this allocation into effect because of the stringency of available foreign exchange.

As to supply from domestic crops, which constitute a principal source, it has been seriously hampered in its movement through transportation disruptions by the Communists, thereby curtailing the normally available total and destroying its short term elasticity in supplying the coastal mills.

On the side of need, attention is invited to the essential necessity of advance planning for replenishment and maintaining a minimum stockpile, because the textile industry which is now the pivot of the Chinese industrial economy must be continually kept at its fullest capacity. The normal stockpile ranges between 600,000 and 900,000 bales; but 600,000 bales are the minimum.

Timely replenishment from imported cotton takes considerably more time in China than elsewhere in the Western hemisphere. Four to five months are normally required for the final delivery of imported cotton, after foreign exchange financing has been arranged. The necessary financial arrangement, therefore, has to be made well in advance of the time when the stockpile would reach an acute minimum.

Regarding cotton consumption in mills, it is possible that the estimate accepted by the Export-Import Bank was based upon the number of spindles in operation during a past period when the increase of operating spindles induced by the progressive improvement in the power supply situation had not yet taken place. This improvement is expected to continue, which would further reduce the number of idle spindles.

As regards the other suggestions in your letter, my Government is giving them further consideration. With reference to the information which the Export-Import Bank would consider helpful to obtain, I shall be pleased to forward it to you as soon as it is received.

Sincerely yours,

V. K. WELLINGTON KOO

893.00/11-2147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 21, 1947—noon.

[Received 12:38 p. m.]

2271. Dr. Wang, Foreign Minister, asked me to call today and told me that the situation in China had become so acute decision had been

taken to request American aid and this was being done through the Chinese Ambassador in Washington. At the same time he handed me an informal *aide-mémoire* indicating the character of the *démarche* to be made by Koo, the text of which is as follows :

[Here follows text of proposed *aide-mémoire*; comparison with the memorandum formally submitted by the Chinese Embassy on November 24, printed *infra*, shows only minor language changes.]

Dr. Wang said that the Generalissimo approved this action and hoped aid might be given along the same pattern as that contemplated in Europe and he was prepared to accept at least equal supervision.

It is Dr. Wang's idea that the Chinese would send to Washington, if desired, someone of the caliber of Pei Tsu-yee accompanied by 2 or 3 qualified persons. He hopes that the *aide-mémoire* will not be used textually in any public statements but has no objection to the use of information contained therein.

This action by the Chinese Govt results from the initiative of Arthur Young who has been in Nanking the past few days with Chang Chia-ngau. The matter was discussed with the Generalissimo, with the Prime Minister and Foreign Minister present, and the decision reached to act. We urged upon Arthur Young and he passed on the admonition to Chang Chia-ngau that the *démarche* should not be made unless the Chinese were determined upon effective implementation. Although we have no illusions as to the complexities of the problem, we are encouraged to believe that there is some prospect that the Chinese have a present intention to endeavor to carry through with a program of reform provided there is assurance of continuing support both financial and otherwise from the U. S.

STUART

893.51/11-2447

*The Chinese Embassy to the Department of State*⁷⁵

MEMORANDUM

"1. The Chinese Government welcomes the statement of the Secretary of State that the United States Government should extend economic and financial aid to China and that a definite proposal is under consideration for early action.⁷⁶ Such aid is, indeed, essential to China and is to avoid financial and economic breakdown and to achieve stability.

"2. The Secretary of State in his conversation with the Chinese

⁷⁵ Handed to James K. Penfield, Deputy Director of the Office of Far Eastern Affairs, by Dr. Shao-Hwa Tan, Chinese Minister Plenipotentiary.

⁷⁶ See footnote 62, p. 1212.

Ambassador on November 13, 1947, indicated tentatively that the United States aid to China might be of the order of US\$300,000,000 of which US\$60,000,000 might be available from April 1, 1948, and that he hoped that definite proposals would be ready for submission to the Congress for its consideration next January. The prospect of such aid is gratifying, but the most recent data show that the financial situation has become so critical that emergency aid is immediately needed, and that such aid cannot be delayed until next April. These data were informally supplied to the United States Government through its Embassy in Nanking on November 18th.⁷⁷ The Central Government therefore earnestly hopes that, pending the working out of a comprehensive program as mentioned below, the United States Government may find it possible to provide by action of the Congress interim emergency aid to cover the deficit in China's international balance of payments at the rate of at least US\$25,000,000 monthly beginning from January 1948.

"3. The Chinese Government fully recognizes that, in order to deal with the present and prospective situations in China, a comprehensive and carefully prepared program is needed in which external aid and internal measures of self-help are to be closely integrated. The immediate need for emergency aid and action is to check inflation and prevent a breakdown. But it is also clear that the time has come for China to embark upon a program of fundamental internal reform. The program should cover currency and banking, public revenues and expenditures, armed forces, foreign trade, land policy and rural conditions, rehabilitation of essential industries and communications, and administrative methods. As a result of China's sufferings and losses during eight years of war and the subsequent Communist rebellion, China cannot carry out such a program unaided. The Chinese Government, therefore, in keeping with the long history of Chinese-American friendship and cooperation, hopes that it may count upon the material and technical assistance of the United States in carrying out this program.

"4. For the purpose of discussing interim emergency aid and devising a plan for further action along the line indicated above, the Chinese Government would be prepared to send to Washington a small technical mission, or to receive in Nanking a mission from the United States Government. The Chinese Government would appreciate an early reply from the United States Government concerning the views as indicated above."

Nanking, November 21, 1947.

WASHINGTON, November 24, 1947.

⁷⁷ See telegram No. 2258, p. 1219.

893.00/11-2847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 28, 1947—11 a. m.

[Received 11:03 a. m.]

2302. Following memorandum was handed me by Dr. Young on November 27 in Shanghai :

“1. The worsening of conditions in China is reflected in rise of black market foreign exchange rates by over 50 percent since November 15 and in sharper price rises than ever before in several regions. Disappointment of unrealistic hopes of American aid and bad military news touched off the rise which, however, is basically due to the flood of easy money aggravated by a fall of confidence in the future outlook. Money is being sent abroad in growing volume by persons including officials who fear not only financial deterioration but also the increasing penetration of Communists in central China and possible disorders started by them in Shanghai or elsewhere. Some also are going to Hong Kong ‘for the winter’. The fall of confidence could easily ‘snowball’ and lead to a breakdown though obviously no prediction as to time would be possible.

2. The urgent need is to avert a breakdown. Clearly the Chinese Government unaided cannot take effective action to stem tide, especially since acute inflation is a disease with insidious paralyzing effect on the whole range of civil and military activities. Whatever Government’s faults or responsibility re the state of affairs, there is nothing to take its place but the Communists. If a crisis should lead to the C-C group taking full control they could not cope with the situation and failure would come quickly because of their unsound ideas and lack of financial and other technicians.

3. The only hope of averting a breakdown is the earliest possible commencement of a program of external aid and internal reform. The sooner such a program is begun the less difficult it will be to deal with situation. Meanwhile something is needed to revive hope in China, preferably inclusion of aid to China in the emergency program of the special session of Congress even on a modest scale such as U. S. dollars 60 to 75 millions, together with an official statement that means to aid China are under active consideration with a view to being put into effect at the earliest possible time.”

STUART

893.50/11-1047 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 28, 1947—1 p. m.

1433. Views expressed by Young (Urtel 2223 Nov 10) proving helpful in consideration China aid program. Dept for most part agrees with Embs comments thereon (Urtel 2231 Nov 12). In particular Dept agrees desirability financial aid contributing to balance payments and to some priority reconstruction projects and concurs Embs reservations re proposal for \$150,000,000 fund combat inflation.

While foreign advisers may play a useful role in limited number posts Dept considers Young's recommendations under heading 11 evince a degree of confidence in general efficacy foreign advisers not warranted by recent history their employment [in] China. Recommendations [regarding] reforms under this heading contain much merit though broadness field they cover seems optimistically ambitious in the circumstances.

LOVETT

893.51/11-1847: Telegram

The Acting Secretary of State to the Consul General at Shanghai (Davis)

WASHINGTON, November 28, 1947—3 p. m.

2032. 1. Reurtel 2661 Nov 18,⁷⁸ there is no basis for report Gauss planning trip China.

2. Reurtel 2599 Nov 10 and representations subsequently made by Chinese with respect to cotton needs and prospects. Dept appreciates requirement [of] advance time margin for procurement, shipment and delivery of cotton supplies. In projection 1948 balance payments on quarterly basis Dept has tentatively allocated total imports \$120 million as follows: 1st qtr. 0; 2nd qtr. \$20 mil; 3rd qtr. \$40 mil; 4th qtr. \$60 mil. Figure for total imports is for 600,000 bales, 89,000 needed before July 1. It is on C. I. F. basis Shanghai. Your comments re above quarterly breakdown requested, also your estimate total cotton import requirements for period Apr 1, 1948 to June 30, 1949. To what extent do you regard it feasible that portion [of] import requirements can be met from private exchange holdings [of] Chinese mills?

Sent Shanghai, rptd to Nanking as Deptel no. 1434.

LOVETT

893.515/11-2847: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 28, 1947—8 p. m.

1441. For Emb and Adler from State and Treas.

1. State does not now consider desirable to use CN dols available under surplus property agreement if available only at official open market rates.

2. Dept believes possibilities negotiating special rate as alternative to use of unofficial market not exhausted. This should immediately be done by Amb Stuart with Adler's assistance at highest

⁷⁸ Not printed.

possible level Chinese Govt. Desirable that special rate be applicable to CN currency drawn under clause 6B (1) of Agreement August 30, 1946 for Fulbright program ⁷⁹ as well as purchase CN from Central Bank to cover operating expenses. Following points should be stressed:

a. Absolute need US Govt special rate approx 85% unofficial market T. T. rate as essential condition continued operation US Govt agencies China. Expenditure[s] of US Govt agencies operating in China limited by Congressional appropriations expressed in US dols. Unfavorable exchange rate causing too rapid exhaustion of appropriations. Supplemental appropriations not considered proper solution since Congress expects agencies to get fair value for dols they spend. Moreover requests for supplemental appropriations would focus attention Congress on failure Chinese to give US favorable rate and thus might well prejudice Congress against program aid to China.

b. US Govt wishes give appropriate assistance to China in present crisis but is being hampered by failure Chinese Govt facilitate US Govt in this aim by giving US Govt agencies fair value for dols spent in China. Unless US Govt can secure its local currency requirements at reasonable rates, US Govt may be forced contract rather than expand scope its activities in China.

c. The policy of the US Govt is to respect and comply with official exchange rates and regulations. US Govt desires dols it spends go to official accounts rather than black market. Hence US Govt has no alternative but urge Chinese Govt make available CN dols at some special or diplomatic rate applicable all US Govt agencies in China.

3. If course outlined above fails to produce satisfactory results one week from receipt of this tel Emb and other US Govt agencies authorized use unofficial market as outlined Embtel 2144 Oct 27. Emb will then notify Chinese Govt that US Govt regrets necessity this action but unavoidable and that US Govt agencies will immediately resume approved procedure whenever Chinese Govt makes satisfactory rate available. [State and Treasury.]

LOVETT

102.1/12-147: Telegram

The Consul at Shanghai (Pilcher) to the Secretary of State

SHANGHAI, December 1, 1947—5 p. m.

[Received December 1—11:26 a. m.]

2747. For Treasury, State, Commerce from Casaday. Reference Shanghai's 2711, November 25; ⁸⁰ repeated Nanking 1813 and previous and to A-866-870 inclusive dated December 1, 1947.⁸¹

⁷⁹ The Fulbright Act was approved August 1, 1946; 60 Stat. 754. For correspondence on this subject, see pp. 1263 ff.

⁸⁰ Not printed; it gave the current open and black market rates for U. S. dollars in Shanghai (102.1/11-2547).

⁸¹ None printed; they comprised the Consulate General's weekly report on economic developments.

Today press features account ascribed to "realistic sources" of new drastic steps to curb inflation and black market activity. Report stated measures will be put into effect jointly by Shanghai municipal government, Shanghai-Woosung garrison headquarters and Central Bank with a "new organ" to be established to coordinate activities of these bodies. Central Bank to be chiefly responsible for economic and financial front, municipal government to intensify control over ordinary shops and firms and garrison headquarters concentrate on special centers of speculative transactions.

These steps reportedly taken in response to written orders from Generalissimo. Four specific measures thus far agreed upon according to press account.

1. Temporary suspension of loans to business and industrial firms.
2. Temporary suspension of discounts by Central Bank.
3. Temporary suspension of all remittances between Shanghai and outports.
4. Dumping by Government of large amount goods especially cotton and yarn on local markets.

Some of these measures have been tried before as previously reported by both Commercial and Treasury Attachés but present indications are that more drastic enforcement efforts may now be expected. Press reports that 10,000 economic police and other investigative personnel will be mobilized in city this week.

Private conversation with officials indicates that other measures than those listed above may be instituted.

Open rates for U. S. dollars December 1 remain at 72,000-74,000. Black market rates for U. S. currency touched high of 150,000 selling on Friday 28, receding Saturday to 140,000-145,000 opening and to 135,000-140,000 low. Today certain usual market sources of information reported "no market" due it was said to widespread fear of measures being instituted but certain other sources reported black market quotations ranging from 132,000-137,000 to 127,000-132,000 during the morning with downward tendency.

Repeated Nanking. [Casaday.]

PILCHER

893.5017/11-2847 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 3, 1947—8 p. m.

1464. In view drastic measures against black market reported Shanghai Contel Nov 28, 7 p. m.,⁸² Dept wishes emphasize that authorization resort unofficial market (Deptel 1441 Nov 28 Section 3) lies in

⁸² Not printed; it cited the Generalissimo's authorization to contract credits issued by banks, sell 40,000 bales of cotton yarn by China Textile Industries at open market prices, crack down on black market operators in exchange, and effect limited emergency purchase of Chinese currency in Hong Kong at black market rates.

Emb's discretion alone. Dept continues regard realistic rate absolutely essential and cannot believe China Govt will refuse grant such rate if realized to be essential continuance US operations China.

LOVETT

893.51/12-847 : Telegram

The Consul at Shanghai (Pilcher) to the Secretary of State

SHANGHAI, December 8, 1947—4 p. m.

[Received December 8—8:08 a. m.]

2793. ReDeptel 2032, November 8 [28]. ConGen has been making further investigations and tentative recommendations as follows: Imports required by thousands [of bales] first quarter 89, second 150, third 250, fourth 200.

Above requirements based on mill consumption somewhat less than our August 1 estimate and some decrease in estimated collections domestic cotton due disrupted transportation following military activities recent months in important cotton area of North China. This leaves net position regarding import requirements for the season about same as calculated August 1 but some speeding up is now indicated. Marketing of domestic crop from other areas hampered by inadequate transportation and financial arrangements regarding purchasing so seasonal collections may further lag.

Shortage of required staple above $\frac{7}{8}$ inch in which domestic crop is short emphasized need foreign imports to supplement supplies domestic cotton. This being further studied and more definite comment can be made later.

Re last question, cotton mill owners would not voluntarily use their own foreign exchange assets. If Chinese Govt attempted coercive measure: *a*, mill owners would probably go into black market for part of foreign exchange; *b*, measures would be ineffectual as far as existing private assets located in China are concerned (gold and U. S. currency) and also as far as assets located abroad are concerned without cooperation of countries in which they are located.

Sent Dept, repeated Nanking 1853.

PILCHER

893.51/12-947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 9, 1947—1 p. m.

[Received December 9—3:32 a. m.]

2356. To State and Treasury from Embassy and Adler. ReDeptel 1419 [1441] of November 28. Exchange of letters between Governor

of Central Bank and Treasury Attaché covering current United States Government purchases of CN dollars and expenditures under article 6 b (2) of surplus war property agreement and between Ministry of Finance and Treasury Attaché covering expenditures under Fulbright Agreement concluded on December 8. Exchange of letters established a special rate to go into effect as of December 8 equal to 85% Hong Kong open market TT cross rate (selling) between U. S. dollars and CN dollars with procedure on lines of previous agreement in May. Hong Kong open market TT cross rate approximately same as Shanghai black market rate for U. S. currency, with former fluctuating sometimes slightly above and sometimes slightly below latter; there has not been any significant spread between the two in the last 3 months. Advantages of Hong Kong TT rate are:

a. Open market for TT in Hong Kong much broader than black market for U. S. currency in Shanghai, quotations for which often show wide spread even at same hour of day and not always easily available especially when police drives active. Hong Kong open market TT cross rate also preferable to Hong Kong open market cross rate for U. S. currency both because market for former broader and because TT cross rate significantly higher than currency cross rate.

b. Chinese object to official acknowledgment of any dealings at a rate which is a function of Shanghai black market rate.

Exchange of letters preceded by usual difficulties. Final stumbling block which delayed settlement until over weekend was Prime Minister's reluctance to extend arrangement to Fulbright Agreement.

All Consular Officers and Army and Navy in China being notified of arrangement. [Embassy and Adler.]

STUART

893.51/11-2447

The Department of State to the Chinese Embassy

MEMORANDUM

The Department of State has given sympathetic consideration to the memorandum from the Chinese Embassy dated November 24, 1947, and desires to support steps by which U. S. Government assistance can be integrated with internal measures of self-help in China in order to contribute toward an effective program for economic recovery.

In accordance with statements made at the conference on November 13, between the Secretary of State and the Chinese Ambassador,⁸³ the Department of State is actively proceeding with formulation of definite proposals for submission to the Congress in January. It is

⁸³ See memorandum by the Director of the Office of Far Eastern Affairs, p. 1214.

contemplated that there should be consultation between our two governments at an early date with respect to various aspects of these proposals. If, at that time, the Chinese Government desires, the United States would welcome a small technical mission in Washington.

WASHINGTON, December 12, 1947.

893.50/12-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 12, 1947—1 p. m.

[Received 10:51 p. m.]

2381. Generalissimo has again inquired regarding possibility obtaining services Blandford to head civilian advisory group in China (mytel 2241, November 15, 8 a. m.). I should appreciate receiving Department's comments. Also it would be helpful to us if we could be given some indication of reception in Department of *démarche* made by Koo (mytel 2271, November 21, noon).

The situation in China continues to worsen and each week of delay makes recovery of stability more difficult. As the feeling of helplessness spreads there is accelerated deterioration in the economic situation and in military situation although in latter tempo has been lessened by some recent victories. We wonder, therefore, whether it would not be possible at this time to agree with the Chinese Government upon a public statement regarding breadth of Chinese request for our assistance and fact that we are giving it sympathetic consideration. Anything we could do at this time to give Chinese people some reason to hope for brighter future would have stabilizing effect.

STUART

711.93/12-1347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 13, 1947—5 p. m.

[Received December 13—8 a. m.]

2393. In conversation with me, Foreign Minister has expressed deep concern with regard current rumors here that proposal for \$60,000,000 interim aid China has been thrown out in conference possibly at instance State Department. Foreign Minister greatly fears adverse effect internal economic financial situation and if there is basis in fact for these rumors, I am impelled to suggest that a statement from you to general effect that there is no change in our

over-all policy of desiring adequately to aid China would have reassuring effect at this time.

STUART

893.50/12-1547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 15, 1947—10 a. m.

[Received December 15—7:38 a. m.]

2396. Gimo has read carefully and shown to Premier and FonMin Price⁸⁴ memo on reorganization of China enclosed my despatch 1141, December 4.⁸⁵ All three expressed approval and will consider program in constructive sympathetic spirit.

Gimo, while supporting program, has pointed out following difficulties and its implementation which he nevertheless hopes can be overcome:

(1) Under new constitution Legislative Yuan after December 25 will have to approve any such agreements. Temper of that body is uncertain but care must be taken to avoid accusation of encroachments upon Chinese sovereignty in such way that public support can be won for program. Without public support he feels that neither he nor Executive Yuan could implement program.

(2) He feels care must be taken to assure American public United States is not assuming too great a responsibility for Chinese internal affairs and,

(3) He reiterates that China can accept at least as great supervision as western European countries and suggests familiarity of approach be stressed. He feels initiative might properly come from China and that China should invite the advisers who would help toward modernized democratic reform.

Gimo's secretary is now working on draft proposal and I anticipate *démarche* shortly. I have impression Gimo at least still thoroughly convinced time has arrived for reform and that in speaking as above he is merely trying to visualize some of the difficulties which will be encountered.

STUART

⁸⁴ Harry B. Price, Assistant Director of UNRRA in China.

⁸⁵ Despatch with enclosed memorandum not printed; the latter proposed comprehensive American aid to China based on a jointly determined recovery and development program, an invitation from the Chinese Government to the American Government to provide for extensive American participation in the implementation of such a program, and development of a series of urgently needed and far-reaching economic and political reforms (893.50/12-447). In telegram No. 195, February 6, 1948, to the Ambassador in China, the Secretary of State described the memorandum as "an idealistic blueprint" and added that it was "predicated upon the availability not only of an abundance of material and financial resources but also on a willingness and ability of the Chinese Govt to act more drastically than ever before. . . . Furthermore the program would involve direct responsibilities to a degree which the US could not assume and commitments which we could not undertake". (893.00/12-447)

893.50/12-1547 : Telegram

*The Ambassador in China (Stuart) to the Secretary of State*NANKING, December 15, 1947—5 p. m.
[Received December 15—11:46 a. m.]

2400. Foreign Minister informed us today Chinese Government was accepting Department's suggestion that technical mission visit Washington early January. We hope to have in few days information re composition mission. (Our 2271, November 21, noon).

STUART

811.516 Export-Import Bank/12-2047

The Chinese Ambassador (Koo) to the Secretary of State

WASHINGTON, December 20, 1947.

DEAR MR. SECRETARY: Referring to my letter to you dated November 18, 1947, I have the pleasure to enclose herewith a copy of my letter to the Export-Import Bank of Washington of date the 18th instant, communicating additional data on the cotton situation in China, which may be of interest to the Bank in its consideration of a cotton loan credit to China applied by my Government last July.

I take [etc.]

V. K. WELLINGTON KOO

[Enclosure]

The Chinese Ambassador (Koo) to the President of the Export-Import Bank of Washington (Martin)

[WASHINGTON,] December 18, 1947.

DEAR MR. MARTIN: It was indicated in my letter to you on November 17, 1947,⁸⁶ that my Government was gathering more information which the Export-Import Bank deemed helpful to obtain for its consideration of our application for a cotton credit filed with your bank last July. I have now received a further communication from my Government on this subject and hasten to transmit to you the desired information as follows:

The cotton purchased under the 1946 Export-Import Bank credit was allocated to government and private mills in China without discrimination as to ownership. The beneficiaries under the former group were: The China Textile Industries, Inc., which is government-owned, and the Joint Office of Yung Shing Industrial Company and Yu Foong Cotton Mill, which is partly owned by the Government through the Bank of China. Under the 1946 credit these two enter-

⁸⁶ *Ante*, p. 1221.

prises received a total amount of cotton valued at U. S. \$13,348,186.03, or about 40% of the credit; the balance of the credit was allocated to private enterprises. It is to be pointed out that the afore-mentioned government-owned or partly government-owned mills operate approximately 40-45% of the total cotton spindles in China.

None of the mills concerned, whether government-owned or private, received any special financing for the purchase of cotton in question, as the mills were not short of working capital in Chinese currency.

Regarding exports of cotton textiles from China for the period from January, 1946 through June, 1947, the figures are as follows:

Cotton yarn	5,739 bales
Cotton cloth	75,620 pieces (of 40 yards each)
Aggregate proceeds	US\$329,782.00 £737,667.00

It is to be recalled that during the above-mentioned period the need of textiles for the domestic economy of China was exceedingly heavy and it was not possible to export on a large scale.

Since June, 1947, however, plans have been put into effect for the export of substantial amounts of textiles. From June, 1947 to date, these exports have amounted to the following:

Cotton yarn	11,742 bales
Cotton cloth	1,313,051 pieces
Aggregate proceeds	US\$6,598,539.00 £2,246,758.00 Rupees 413,930.00 (or about US\$15,000,000 in total)

The above export figures represent the overall amount of cotton textiles which China withheld from domestic consumption and shipped to export markets. As to what part of these exports was produced actually from the cotton under the 1946 credit, it has not been possible to determine.

In conclusion, it may be added that for the six month period ending June, 1948, the target of export in cotton textiles is set at about US\$5,000,000 and £10,000,000.

Yours truly,

[File copy not signed.]

893.00/12-2247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 22, 1947—11 a. m.

[Received 4: 44 p. m.]

2435. Believing that useful purpose might be served were I to issue a statement at the time Secretary presents to Congressional

Committee program of aid for China, I have drafted such statement which follows. If proposed context statement meets with Department's approval, I should appreciate early advice in order that Chinese translation may be prepared.

"A MESSAGE TO THE PEOPLE OF CHINA.

From Mr. Marshall's statement to Congress you now know something of the extent to which the people of the U. S. are prepared to go to assist the people of China. May I, therefore, take this opportunity to attempt to interpret to you the purposes controlling American policy toward China, and the problems involved. I do this from the standpoint of one who was born and has spent most of his life in your country and who is as deeply concerned over its welfare as any of you.

Fortunately the Government and people of the U. S. desire for China precisely what all truly patriotic Chinese themselves are struggling to achieve: its freedom and independence, internal peace and prosperity, the establishment of a genuinely modernized and democratic government. We Americans desire all of this but nothing more. We have no imperialistic designs. We seek no cultural penetration, no commercial exploitation, no political control. The best reply to malicious or misinformed charges to the contrary is the long record of all our dealings with China and the experience of those Chinese who have had the closest associations with us.

Our problem has been how to help the common people who have been the chief sufferers from the devastating internal conflict which has continued since V-J day. What the common people need is peace and productive activity under a government that cares for their welfare.

More specifically the problem is how [to] benefit the common people and to protect them alike from the extreme reactionary or selfish elements and from the extreme radicals with their uncompromising ideology and their brutally destructive revolutionary tactics. Both of these are highly organized. Both place their partisan or their individual interests above those of the suffering people.

We Americans believe thoroughly in democracy and we are convinced it will work in China if given a fair chance and sufficient time. Negatively, a democratic government guarantees freedom from forcible interference in the daily pursuits of the people and freedom from fear. Positively, it fosters conditions under which the more intelligent and progressive leaders can educate and in other ways assist the ordinary people to appreciate the duties and the rights of citizens in the democratic way of life and to apply constitutional procedures in exercising these under rule of law rather than under caprice of individuals.

As has always been true in Chinese history, the masses will follow educated leaders in whose moral character they have confidence. By adapting this ancient democratic Chinese process to modern constitutional procedures, the corrupt or incompetent elements in the present regional, provincial and local governments can be gradually eliminated and replaced by those whom the people freely choose to administer public affairs for the public good.

Personally from my long association with Chinese students I have confidence in their patriotic idealism. They, whether having already

graduated and occupying responsible positions in Government, in education, in business, or any other walks of life, or whether still in school, should be the ones to lead in this latest form of patriotic, public-spirited effort. By their public-spirited and unselfish example, they should be able to surmount those at the other extreme who are so fanatically devoted to their party, so intolerant of all other political faiths, so utterly ruthless in the methods they employ, that they are willing to destroy public and private property and inflict upon the helpless people all the horrors of rapine and war in the attainment of their own arbitrary objectives.

We Americans, under the leadership of Mr. Marshall, did our utmost to assist toward the establishment in China of a coalition government in which Communist Party would be fully represented and have the fullest opportunity for the peaceful advocacy of its principles. Our efforts failed. We would still like to see in China a government representative of all the people. At the moment this appears impossible. Nevertheless, with the traditional friendship between the American and Chinese peoples, and given our belief that the economic well-being of the Chinese people will redound to the benefit of the world, we were led inevitably to continued assistance to the Chinese people through the National Government; that Government which, under the leadership of Generalissimo Chiang Kai-shek, fought so valiantly as our ally against Japanese aggression.

The main task, however, rests upon the Chinese people, not upon the American people. No amount of American material assistance nor any number of skilled American technical advisers can alone accomplish what is required to bring political stability and economic recovery to China. The major effort must be Chinese and there must be a sincere and deep-seated determination to put selfishness aside and strive unceasingly for the common good.

First in importance is to understand clearly what the issues are. For there is much confusion as to terms. Freedom and democracy, for instance, are now being used with wholly different meanings. There can be no intellectual freedom in a totalitarian system where those who think for themselves succumb to fear, are indoctrinated, or are promptly liquidated. Democracy—as the word itself indicates—is government not only for but by the people. In this truly democratic sense the people must, however, continuously assert their will to prevent misuse of power by those in office. This is at once the strength and weakness of democracy. It requires, therefore, freedom of debate and publication, free access to news objectively reported. In a totalitarian system propaganda has been scientifically developed as a weapon dependent for its effects upon unrestrained vituperation and incessant repetition. There is need under present conditions for careful thought and investigation to avoid being misled by plausible and passionately asserted untruths.

China today is faced with insidious dangers which will require the united effort of all public-spirited citizens to overcome. The constitutional rights of full and free publicity, of legal procedure in arrests and trials, of untrammelled elections, must all be insisted on. Public opinion should be aroused and made articulate in resistance

alike against maladministration by Government officials and subversive agitations or armed violence by all others. Wherever the central government is sufficiently in control, this ought to result in better local government and in support of the troops by the populace in order to secure protection against armed depredation. This calls for organization, clear-sighted vision, a high degree of courage and grim determination. But with such cooperation from the freedom-loving patriots of China, the American people stand ready to offer their assistance through the National Government in the hope that that Government will become increasingly worthy of your loyal support and that all elements of the population will eventually join in a constructive evolutionary process that will bring unity and peaceful progress to the entire nation."

STUART

893.00/12-2247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 22, 1947—11 a. m.

[Received 2:45 p. m.]

2437. Having taken the plunge in requesting American aid (mytel 2271, November 21, noon) the Chinese leaders responsible therefor, namely, the Generalissimo, the Prime Minister, and the Foreign Minister, but I believe principally the latter, are becoming preoccupied with the criticism of their action to which they will be subjected by reactionary elements. As indicative of the trend of their worries, I quote below a memorandum handed to me by the Generalissimo's secretary entitled "Some Fundamental Considerations on American Aid to China." Some of the ideas outlined may be considered in the Department as startling and as a retrogressive step. I do not believe such interpretation is warranted. These leaders, but principally Wang Shih-chieh, who is unusually sensitive to the reactionary criticism, merely wished, I believe, to let us know something of their thinking on the content of any American aid to China program. In this connection it would be most helpful to be given, as requested in mytel 2381, December 12, 1 p. m., information regarding reception of Chinese Government *démarche* in Washington.

Memorandum follows.

"1. The American plan for aid to China should be a long-range 4-year project, the purpose of which would be to assist China to achieve political and economic stability, including currency reform. To attain this object, the funds for relief and rehabilitation to be obtained from the U. S. would require 500 million U. S. dollars for the first year, the same amount for second year, 300 million U. S.

dollars for third year, and 200 million U. S. dollars for fourth year, totalling 1½ billion U. S. dollars.

"2. With regard to the relief fund obtained under the plan, the Chinese Government should appropriate a fund in Chinese currency, equivalent to the value of relief commodities supplied by the U. S. This fund should be put to such uses as to benefit production and to curb inflation. There should be consultation and agreement between China and U. S. in mapping out schemes for spending of this fund; and the American Government should receive full information concerning its actual disbursement.

"3. China will, on her accord, employ experienced American personnel to assist her in the planning for financial, monetary, and other administrative reforms. She will likewise employ American technical experts to participate in the execution of certain construction undertakings. The Chinese Government itself will express the aforesaid intention to the American Government at an appropriate moment, with request that the latter will assist in the selection of such personnel. The employment of these personnel will not, however, be made an international legal obligation of the Chinese Government in order to avert infringement on China's sovereignty and administrative integrity.

"4. The American aid to China plan shall contain no political condition other than what may be stipulated in the aid plan for Europe. On the other hand, terms which will be stipulated in the aid plan for Europe may apply, wherever practicable, to China.

"5. As regards the supply of military equipments and ammunitions, China should be allowed to purchase in the form of loans the surplus and other military material from the American Government. The total of such loans is tentatively estimated at 100 million U. S. dollars for the year 1948. Prior to the submission of lists for such purchases, the Chinese Government will consult the American Military Advisory Group in China."

STUART

893.00/12-1247: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 23, 1947—3 p. m.

1558. Not now possible give any definite info re Blandford (Emb-tel 2381 Dec 12) and civilian advisory group pending agreement by Dept and concerned Govt agencies on China aid program now being prepared for presentation Congress. You may in your discretion tell Gimo matter being studied by Dept and other Govt agencies but no final decision yet reached.

As regards inquiry re subject matter para 2 of Ref-tel Dept assumes you have by now recd memo of conversation betw Sec and Amb Koo Nov 13 forwarded by pouch.

LOVETT

893.50/12-3047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 30, 1947—4 p. m.

[Received December 31—1:35 a. m.]

2468. When we talked to Foreign Minister, Dr. Wang Shih-chieh, today he was greatly perturbed at rapidity with which situation was deteriorating in China. He said that recent Cabinet meetings to consider the budget and memoranda he had seen indicated to him clearly, although he was not an economist, that nothing could be done to improve situation in China until there was currency stabilization. Cabinet had considered, he said, plans for reducing personnel in army and civil service while at same time improving status and pay of those remaining and had found this impossible without increasing revenue. Cabinet was prepared to increase revenue by increased taxation, but found this impossible with constantly depreciating currency. Crux of problem therefore, said Dr. Wang, seemed clearly to be primarily in stabilization of currency. He agreed immediately, however, that stabilization of currency alone would be ineffective and must be accompanied by adequate measures in other fields. We pointed out to him some of the undertakings which are expected of European Govts receiving aid and he raised no objection to possible similar or comparable undertakings by China.

Personnel of technical mission which will visit Washington early January (reftel 2400, December 15, 5 p. m.) still awaiting approval Gimo, but persons under consideration are General Yu Ta-wei⁸⁷ and Pei Tsu-yee, formerly of Central Bank who are planning to depart early January.

STUART

893.51/12-847 : Telegram

*The Acting Secretary of State to the Consul General at Shanghai
(Davis)*

WASHINGTON, December 30, 1947—6 p. m.

2218. State and Agri agree following is maximum possible procurement schedule US cotton to meet Chinese requirements. Unit: 000 bales.

First and second quarters 339, but not more than 120 in second quarter; July-Aug. none, Sept. 50; fourth quarter 300. This being reviewed and subject [to] decrease as estimates US consumption in process revision. Above schedule states possibilities on basis first

⁸⁷ Chinese Minister of Communications.

step in procurement operations. Agri believes 2 months sufficient time to procure, ship and deliver, on assumptions: controlled large scale continuing procurement operation with full pipe lines; no interruptions loading and shipping; and no problems handling in China. Note no procurement July-Aug., just before new harvest, on account market impact.

These calculations originated in systematic interagency survey world requirements and availabilities for Marshall Plan and were reviewed in light recent developments re Chinese programs. Please comment and advise, explaining revised assumptions urtel 2793 Dec. 8 and more recently, preferably giving revised Table 1 your report 156, Sept. 10⁸⁸ extended to July 1, 1949. Agri questions level of consumption, particularly consumption per spindle.

To insure comparability with above schedule and with balance of payments estimates, state whether your calculations based on port arrivals or distribution to mills and comment on our assumption 2 months lag. Your appraisal also requested of desirability in Chinese situation of handling any proposed cotton program through established commercial channels.

Give total import requirements all sources by quarters Jan. 1948-June 1949 inclusive showing separately non-US availabilities by source and specifying availability probably not requiring dollar payment. Give details reported China-Pakistan barter deal.

Repeat to Nanking.

LOVETT

893.51/9-2647

The Secretary of State to the Chinese Ambassador (Koo)

The Secretary of State presents his compliments to His Excellency the Chinese Ambassador and has the honor to refer to the Ambassador's note of September 26, 1947 with regard to the claim of the Chinese Government against assets in the United States of the Russo-Asiatic Bank.

The Supreme Court of the United States on October 27, 1947,⁸⁹ denied the petition for a review of the determination in the lower Federal courts that the United States Government by virtue of the Litvinov assignment is entitled to the assets of the Russo-Asiatic Bank in the United States to the exclusion of all other claimants, including the Chinese Government. The decision of the Supreme Court expresses the position of the United States Government on the question of international law which the Chinese Government has raised. The position

⁸⁸ Report No. 156 not printed.

⁸⁹ *Steingut et al, Receivers, v. Guaranty Trust Company et al*, 332 U. S. Reports 807.

of the United States Government is that a government is under no obligation to condition its recognition of another government upon the preservation of interests in property within the jurisdiction of the recognizing government which a third government claims to have acquired during the period prior to recognition when it was assumed that the laws of the unrecognized government had no extraterritorial effect.

The position of the United States Government is similar to that taken by the Chinese Government in 1924 when the issue was the obligation of the Chinese Government to condition its recognition of the Government of the Union of Soviet Socialist Republics upon the preservation of interests which the United States Government claimed to have acquired in the Chinese Eastern Railway during the period prior to the recognition of the Soviet Government by China when it was assumed that Soviet nationalization laws had no extraterritorial effect. The Chinese Government maintained that it was under no obligation to insist upon the preservation of the interests of the United States. The position of the Chinese Government is expressed in a note of June 16, 1924 from the Chinese Minister of Foreign Affairs to the United States Minister in China,⁹⁰ in an *aide-mémoire* of June 30, 1924⁹¹ from the Chinese Legation in Washington to the Department of State, and in the Sino-Soviet agreement of May 31, 1924⁹² by the terms of which China acknowledged Soviet ownership of the Chinese Eastern Railway retroactively to 1917 and the Soviet Government agreed to pay only those claims which arose prior to 1917.

The principle for which the Chinese Government now contends would require a government to place a condition upon its grant of recognition which is almost certain to be rejected by the government seeking recognition. The act of recognition is hardly compatible with an insistence that protection be extended to interests acquired prior to recognition on the basis of the assumed invalidity of the laws of the recognized government. On the contrary, it is believed to be a principle of international law that when a government which originates in revolution or revolt is recognized as the *de jure* government of the country in which it is established, such recognition is retroactive in effect and validates all the actions and conduct of the government so recognized from the commencement of its existence.

WASHINGTON, January 19, 1948.

⁹⁰ See telegram No. 184, June 17, 1924, 4 p. m., from the Minister in China (Schurman), *Foreign Relations*, 1924, vol. I, p. 494.

⁹¹ *Ibid.*, p. 503.

⁹² Signed at Peking, *ibid.*, p. 495; or League of Nations Treaty Series, vol. XXXVII, p. 176.

PROBLEMS ARISING IN THE IMPLEMENTATION OF THE
SURPLUS PROPERTY AGREEMENT OF AUGUST 30,
1946 ¹

893.24/11-946 : Telegram

The Acting Secretary of State to the Consul General at Shanghai
(Davis)

WASHINGTON, November 9, 1946—1 p. m.

2053. From Connolly,² OFLC,³ for Davis,⁴ FLC. Reur A-858,
Oct 17.⁵

1. Concern felt here re implementation Para B Article III Agreement Aug 30⁶ which is considered of paramount importance. It is feared delays in consummation of adequate arrangements or failure to select a firm of high competence and equipped to move with all expedition may result in much disorder and confusion. In our view it is highly important that early decision be made and that choice fall to best equipped outfit. Our further opinion that job should be viewed whole and brought under direction of one, not several firms, or in any case that one firm be put in supreme charge as strongly urged by McCabe.⁷ We do not venture to suggest preference but suggest that you join with Monnett Davis⁸ in considering appropriateness of proffering a suggestion based on your knowledge of overall situation.

2. Wang, Chairman of Chinese Supply Commission here at Washington, has proposed that the \$25,000,000 fund payable to China under Article III, paragraph C-1, be made available in part to discharge obligations to U. S. firms and citizens for supplies and services furnished by them for shipping under Chinese flags. Ostensible purpose of this is to augment available shipping to move property from islands to China, as well as to increase residue of fund which would finally be

¹ For previous correspondence on this subject, see *Foreign Relations*, 1946, vol. x, pp. 1033 ff.

² Maj. Gen. Donald H. Connolly, Foreign Liquidation Commissioner.

³ Office of the Foreign Liquidation Commissioner.

⁴ Donald B. Davis, Field Commissioner, China and Eastern Area, OFLC.

⁵ Not printed.

⁶ Surplus Property Agreement signed at Shanghai, August 30, 1946; Department of State, *Report to Congress on Foreign Surplus Disposal*, October 1946, p. 40.

⁷ Thomas B. McCabe, Foreign Liquidation Commissioner and Special Assistant to the Secretary of State, October 1945 to September 1946.

⁸ Consul General at Shanghai.

payable to China in dollars. We are tentatively disposed to refuse this request on ground this would mean less provident use of resource and might easily dissipate substantial part of fund in less orderly loading and movements. Total amount was considered adequate only if U. S. flag vessels were employed and under efficient direction competent U. S. authorities. In short we feel that [this would] expedite rather than delay movement. Request your full views re this.

3. This office must determine at early date method and procedure for payments to China under said Art III, Para C-1. Your views requested best method safe-guarding this fund and providing necessary withdrawal restrictions. We are contemplating a proposal to deposit entire 30 million dollar fund in Federal Reserve Bank at New York City and making same subject to withdrawals only on certification of a competent board of three sitting at Shanghai representing Field Commissioner, OFLC, Consulate General and the Maritime Commission. It would be responsibility of this board to reach agreement with Chinese in advance of obligating fund as to character of expenditures to be honored under Article III, paragraph C-1 and 2, and to set up procedures at Shanghai for effective control and for validation of each specific withdrawal from the account. We will be glad for your full views re desirable protective procedure.

Sent to Shanghai at 2053; repeat to Manila as 641. [Connolly.]⁹
ACHESON

893.24/12-2346 : Telegram

*Major General Donald H. Connolly to Mr. John B. Stetson, Jr.*¹⁰

[WASHINGTON,] 23 December 1946.

88373. 1. Arrangements now being completed¹¹ for establishment by the US Treasury of two funds for 25 million dollars and 5 million dollars respectively to the credit of the Government of the Republic of China for the fulfillment of the purposes as provided in Article 3 of August 30 Agreement. 2. Consideration being given to the proposal for a revolving fund to be placed in the custody of Bosey¹² expendable by Bosey with withdrawals replaceable as the appro-

⁹ In telegram No. 2385, December 3, 5 p. m., the Consul General at Shanghai responded to the queries raised in paragraphs 2 and 3. He recommended that part of the shipping fund be made available for obligations other than charter of American flag vessels and approved the establishment of a Board of Three (893.24/12-346).

¹⁰ Central Field Commissioner, Pacific and China, OFLC, at Manila.

¹¹ In telegram No. 89641, January 14, 1947, Maj. Gen. Connolly informed the OFLC Shanghai Office that agreement had been reached with the War and Treasury Departments on immediate establishment of the two funds.

¹² Board of Supplies, Executive Yuan, the Chinese agency charged with taking possession of and distributing surplus property.

priate required documentation is supplied by Bosey. 3. Meanwhile we suggest Bosey advance such funds as necessary to avail and expedite movement of surplus with the assurance hereby given that Bosey will be promptly reimbursed upon receipt of certifying documents. 4. It is suggested that the exact form of documentary requirements for payment or reimbursement await Kendall¹³ and Stetson's arrival Shanghai early January as well as determination as to the constitution and function of a Board of Review at Shanghai as suggested paragraph 3 our cable of 9 November.¹⁴ 5. Suggest you share the above with Bosey and advise soonest whether these arrangements and assurances remove all obstacles in way of expeditious procedure.

[File copy not signed]

Nanking Embassy Files, Lot F79, 824 Surplus Property

Minutes of Meeting at Residence of the Ambassador in China (Stuart), Nanking, January 13, 1947, 2:30 p. m.

Persons Present: Dr. Stuart (for part of meeting)
 Mr. Butterworth¹⁵
 Mr. Adler¹⁶
 Mr. Turner¹⁷
 Col. Underwood¹⁸
 Mr. Stetson, FLC, Manila
 Mr. Kendall, FLC, Washington
 Maj. Gen. Brown,¹⁹ FLC, Manila

Mr. Stetson stated that he had come to Nanking to discuss with Embassy officials the following three problems: (a) the so-called Nanking Agreement of 22 June 1946,²⁰ (b) the rate of exchange²¹ to be used in financial transactions growing out of the over-all surplus property agreement of 30 August 1946, (c) the administration of the fund of \$35 million equivalent covering the acquisition of and

¹³ Charles B. Kendall, Deputy Director, Legal Division, OFLC.

¹⁴ *Supra.*

¹⁵ W. Walton Butterworth, Minister-Counselor of Embassy in China.

¹⁶ Solomon Adler, Treasury Representative in China.

¹⁷ William T. Turner, First Secretary of Embassy in China.

¹⁸ George V. Underwood, Executive Officer, Embassy Liaison Office. This Office was successor to the staff maintained by General of the Army George C. Marshall, Special Representative of President Truman in China, December 1945-January 7, 1947.

¹⁹ Philip E. Brown, Deputy Central Field Commissioner, Pacific and China, OFLC.

²⁰ See memorandum of agreements, June 22, 1946, *Foreign Relations*, 1946, vol. x, p. 1041.

²¹ For correspondence on other problems involving the rate of exchange, see pp. 1030 ff., *passim*.

improvements to real estate and government expenses, the \$20 million fund covering cultural activities, and (d) the \$30 million fund covering shipping and engineering costs. FLC was most anxious to solve these problems immediately, but wished to coordinate the matter fully with the Embassy prior to contacting the Chinese.

Mr. Butterworth stated that when Chinese Customs authorities seized \$1 million worth of Socony Vacuum Oil Company imports, the Board of Supply defended this action on the ground that under the "Nanking Agreement" all proceeds of surplus property sales in the Pacific after 22 June 1946 to other than China accrued to the National Government. The Board of Supply had requested Socony to place \$300,000 in escrow with the Board before it consented to unfreeze these imports. A meeting was held with General Marshall, which also included Donald Davis and General Johnson²² from FLC, Shanghai in order to clarify the situation, and it was agreed that although the "Nanking Agreement" had no legal validity, the Chinese would appear to have some moral grounds for making certain claims under the "Nanking Agreement". At the same time, Mr. Davis was told to try and settle the issue promptly on the basis that the United States accepted only the August 30 Agreement.

Mr. Stetson stated that Mr. Davis had written a letter to the Chinese Government²³ stating that the United States Government did not recognize the "Nanking Agreement" as a legal instrument, and that the only official document was the over-all surplus property agreement of 30 August. The National Government had neither replied to nor acknowledged receipt of Mr. Davis' letter. Privately, however, Mr. Stetson understood that the Chinese did not intend to alter their position.

Mr. Butterworth asked Mr. Kendall if the "Nanking Agreement" had been discussed during negotiations leading to the 30 August Agreement. Mr. Kendall replied that Mr. McCabe had brought it up quite specifically. Mr. McCabe had informed the Chinese that the so-called "Nanking Agreement", which was in fact nothing more than a tentative understanding to serve as a basis for a subsequent agreement, had been rejected as such a basis by the War and Navy Departments which had flatly stated that it would be impracticable for them because of inescapable budget and man-power restrictions. For this reason, Mr. McCabe added, it was decided to send out a mission with authority to negotiate a definitive agreement on a new basis. Mr. Kendall felt quite certain in his own mind that at the time the 30 August agreement

²² Brig. Gen. Bernhard A. Johnson, predecessor of Donald B. Davis as Field Commissioner, China and Eastern Area, OFLC.

²³ Dated October 29, 1946, *Foreign Relations*, 1946, vol. x, p. 1095.

was concluded, the Chinese clearly understood that the "Nanking Agreement" was null and void.

Mr. Adler stated that it was unfortunate for us that both Mr. Howard and Mr. Vogelback²⁴ had initialled the "Nanking Agreement". Moreover the instrument itself was headed "Nanking Agreement" when, in fact, because of its preliminary and tentative character, it should have been headed "Proposed Nanking Agreement".

Mr. Butterworth asked if General Johnson had not been told prior to 30 August to inform the Chinese that the Nanking Agreement was a dead issue. The consensus of opinion was that he had been so instructed, but that he had only done so orally.

Mr. Stetson referred to his understanding of General Marshall's connection with the matter. By way of clarification, it was stated that General Marshall's chief interest all along had been that a fair surplus property sale to China be concluded at the earliest moment. He had agreed with FLC that the 30 August agreement was the only legal and valid agreement. At the same time, he recognized that there was a possible moral claim on the Chinese side because of the awkward way in which the "Nanking Agreement" had been handled. However, his major interest was in a prompt and equitable settlement of the issue.

Mr. Kendall referred to the Socony Vacuum problem and stated that the principle involved applied to some \$6 million worth of sales to other parties during the 22 June-30 August period.

Mr. Butterworth asked again how clearly the Chinese negotiators of the 30 August agreement understood that the Nanking Agreement was null and void. Mr. Kendall replied that he was morally certain the Chinese negotiators fully understood the situation. This understanding was attested by the price difference in the final agreement and the exclusion of property in the Philippine Islands. However, he felt that by making some minor concessions, FLC could negotiate a settlement with the Chinese which would completely reconcile all issues arising out of the abortive "Nanking Agreement". He stated that, if agreeable to the Embassy, FLC would hold that the 30 August agreement was the only legal agreement, but that as a matter of being practical and realistic, FLC would then proceed to liquidate the legacy of the "Nanking Agreement" by making suitable minor concessions. Mr. Butterworth stated that such a course was completely agreeable with the Embassy. Mr. Stetson then stated that FLC would proceed on the basis outlined by Mr. Kendall.

Mr. Butterworth gave background material on the rate of exchange

²⁴ John K. Howard, Central Field Commissioner, Pacific and China, OFLC, and William E. Vogelback, his appointed successor at the time of the Nanking "Agreements".

problem. When the 30 August deal was made, the legal rate of exchange (CN \$3,350 to US \$1) and the open market rate for U. S. currency were about the same. However, as time went on, a spread developed between the legal and the open market rates. Accordingly, the Embassy applied to Dr. T. V. Soong²⁵ for an adjustment in the matter. Dr. Soong finally agreed in principle that [in] the final audit of the surplus property financial transactions, China would adjust the values from the \$3,350 rate to a more reasonable one. Mr. Butterworth emphasized that Dr. Soong was in a difficult position in this matter, as acceding to our request meant the settlement of transactions between the Chinese Government and a foreign government at a rate other than the official rate, which would make him vulnerable to internal criticism. At the last discussion Dr. Soong stated that further action should be taken with the Governor of the Central Bank of China²⁶ and Embassy was proceeding accordingly.

Mr. Adler referred to his discussions with Mr. Pei, the Governor of the Central Bank. Mr. Adler had pointed out to Mr. Pei that the rate of exchange problem not only cut across the surplus property agreement, but also the American Army and Navy need for CN²⁷ to meet current operating expenses. He had made a frank statement of the American position. He had mentioned that the United States was much more economy-minded than it had been during the war, that the Army and Navy could not get deficiency appropriations now as they could then, and that they therefore urgently needed an arrangement which would enable them to meet their CN expenditures from their available appropriations. Moreover, he had indicated that an unfavorable settlement might well have undesirable repercussions in the present delicate overall situation. Mr. Pei had stated he would discuss the matter with Dr. Soong and would report finally to Mr. Adler in a few days.

Mr. Stetson asked if we were legally bound to observe the official rate of \$3,350 to \$1 in the absence of any specific understanding to the contrary. Mr. Butterworth replied affirmatively. He stated that the Embassy believed that Mr. Adler should meet periodically with the Governor of the Central Bank of China and agree on the rate of exchange to be used for short intervals for transactions arising from the implementation of Article 6 b 2 of the August 30 Agreement and for Army and Navy expenditures. Mr. Stetson asked what formula should be used in arriving at the agreed rate. Mr. Butterworth replied that no fixed rate could be used and that the best

²⁵ President of the Chinese Executive Yuan.

²⁶ Pei Tsuyee.

²⁷ Chinese national currency.

method was simply to review prevailing open market rates every two weeks. He stated that the Embassy would coordinate its efforts fully with FLC. Mr. Adler would go back to Shanghai with the FLC party for this purpose.

Mr. Stetson then asked if all funds related to the surplus property deal would be covered by the agreed conversion rate which Mr. Adler would obtain semi-monthly. Mr. Butterworth replied that the example used for basis of discussion had been acquisition of real property and that question, for example, of the cultural relationship program had not yet arisen. However, he believed there would be established in China a Sino-American Institute which would spend the equivalent of \$1 million a year.

Mr. Butterworth then raised the question of the degree of Embassy interest in the fund to be established to meet shipping and engineering costs in accordance with the surplus property agreement. Mr. Adler stated that the Embassy had a strong policy interest. The Embassy did not wish FLC to make this fund available to the Chinese before satisfactory settlement had been obtained on the "Nanking Agreement", the rate of exchange, and the handling of other funds under the surplus property program.

Mr. Stetson stated that shipping funds could only be used for United States flag shipping, but that the Chinese might ask to use part of the funds to meet United States dollar obligations arising out of the use of Chinese shipping. The FLC had no objection to this proposal. Mr. Butterworth stated that the Embassy agreed with FLC.

Mr. Stetson stated that the FLC did not propose to make available to the Chinese any part of the shipping and engineering fund until documented bills had been received. The reason for taking this position was to keep the Chinese from dissipating funds before the property had been moved to China. Mr. Butterworth expressed Embassy's agreement with Mr. Stetson's view.

Mr. Butterworth then repeated a point which he had made several times during the meeting: namely, that maximum effort should be exerted to complete arrangements at the earliest possible moment for the acquisition of real estate, the defraying of government expenses, and the establishment of the cultural relations program. These all represented tangible assets to the United States. It was imperative that these matters be formalized before the surplus property had been consumed in China. Otherwise, the United States would wind up with a book credit which it would be very difficult to realize.

893.24 FLC/2-2847

Mr. John B. Stetson, Jr., to the Ambassador in China (Stuart) ²⁸

MANILA, 27 January 1947.

MY DEAR MR. AMBASSADOR: As requested by you I am setting down the views I expressed to you during my visit.

The fundamental objective of the overall bulk sale contract was to transfer surplus goods to the Chinese of which they had need, the possession of which would help in their economic restoration, and to relieve the U. S. Army and Navy of the responsibility of guarding the surpluses scattered as they are in the Pacific.

The contract was signed August 30, 1946. Six months have passed and the accomplishment so far by the Chinese has been disappointing. The enclosed memorandum ²⁹ from my office summarizes the accomplishment to date. What disturbs me are certain tendencies which seem to be apparent in the work of Bosey.

I do not wish to complain about it because I recognize two great difficulties on their side. First the fact that Bosey was set up without a separate appropriation from the government but is obliged to finance its operations from its sales. Second the vastness of the undertaking, a formidable task no matter what government were to undertake it.

However, it would seem better from stand point of both governments if we could discern on the part of the Chinese a tendency to create a sales plan at wholesale rather than retail. We would prefer to see the Chinese taking delivery of the surplus outside China more rapidly, as they have taken over the surpluses within China, and to sell them at more reasonable prices more rapidly. The Chinese say they wish to prevent speculation and reduce prices but from what we hear Bosey sells at retail for the highest obtainable internal price. To do this they seem to be more interested in creaming off saleable items which lend themselves to this handling.

From our point of view we fear that we shall still be guarding goods throughout the twenty-two months the contract runs. That at the end of the period we shall be held to account for loss by theft and by deterioration.

I take this opportunity to thank you for the generous hospitality shown us in your agreeable house.

Sincerely yours,

JOHN B. STETSON, JR.

²⁸ Copy transmitted to the Department by the Ambassador in his despatch No. 533, February 28; received March 7.

²⁹ Not printed.

893.24/3-1147

Memorandum by Mr. John B. Stetson, Jr., to Major General Donald H. Connolly

SHANGHAI, 11 March 1947.

1. Upon my departure from Washington I was instructed to dispose of the problems involved in the dispute emanating from the so-called "Nanking Agreements". As you are aware I was empowered to make reasonable concessions in the terms of the Agreement of 30 August 1946, and by exchange of correspondence I have since been clothed with more precise authority in this direction.

2. On 16 January a meeting was held with General P. Kiang³⁰ at which there were present in addition to myself, Major General Philip E. Brown, Mr. Donald B. Davis, Mr. Charles H. Kendall and Capt. S. N. Ferris Luboshez,³¹ USNR. The known position of the United States in this matter was carefully explained to General Kiang but he emphatically insisted on maintaining China's stand with which you are already familiar. General Kiang said that he had no authority to make any concession and that Dr. T. V. Soong, the then Prime Minister, would have to be consulted.

3. A meeting was arranged and held with Dr. Soong on 20 January at which there were present in addition to myself, Mr. Monnett Davis, General Brown, Mr. Davis and Mr. Kendall. Dr. Soong stated that he understood our situation. However, he felt most strongly that it would be impossible for China to abandon the position already taken by the Chinese Government without creating serious embarrassment to that Government. He requested time to reconsider the matter in all its aspects.

4. In due course General Kiang came in and said that he had been instructed by Dr. Soong to settle the Nanking Agreements dispute with FLC on the best terms available to China. As a result of that, and subsequent conferences, and in view of the necessity of saving face for General Kiang, it was decided not to request a categorical abandonment of the Chinese position, but to eliminate the meat of their claim. With this object a proposed letter was discussed with General Kiang and other Chinese representatives in which no mention was made of the Nanking Agreements but in which the Chinese claim for payment for surplus property sold prior to 30 August was to be abandoned. General Kiang balked at this and requested specific information with respect to all property sold and identification of all contracts

³⁰ Director of Bosey.

³¹ General Counsel, Pacific and China, OFLC.

involving the property in question. I agreed to meet his request only to the extent of furnishing him with the total amount of the property sold between 21 June and 30 August, with a statement of the broad categories of such property.

5. On March 1 Dr. Soong resigned and General Kiang was called to Nanking to confer with the Generalissimo.³² Upon his return he came in and said that he was to retain his office and report directly to the Generalissimo.

6. On 6 March a meeting was held at which there were present in addition to myself, General Brown, Mr. Davis, Capt. Luboshez, General Kiang and Mr. Wong.³³

7. A letter dated 6 March 1946 [1947] was handed to General Kiang copy of which is inclosed.³⁴ In reply, General Kiang presented a letter substantially in the form desired with the exception that he had substituted for the word "disclaims" the words "will disclaim", interest in the property. A discussion of this point disclosed that the Chinese representatives had made the change for the purpose of postponing final settlement in order to permit them to check FLC sales figures between 21 June and 30 August. It was pointed out to them that this was unsatisfactory since the object of the negotiations was to settle the Nanking dispute with finality.

8. Ultimately General Kiang agreed, and signed a letter dated March 6, 1947 a copy of which is enclosed,³⁵ substantially in the form desired by me, of which you were informed in SFLC dispatch No. 1026 of 7 March 1947.³⁶

9. In view of the circumstances I believe that the settlement arrived at achieves in substance the object desired. It will be recalled that the Nanking Agreements, correspondence and negotiations relating thereto, provide at least an argument for the position taken by China. Under the settlement arrived at the interests of the United States are protected without undue embarrassment to General Kiang and the Chinese Government. Furthermore, no concessions were made in the terms of the Agreement of 30 August 1946.

JOHN B. STETSON, JR.

³² Generalissimo Chiang Kai-shek, President of the National Government of the Republic of China.

³³ Of the Board of Supplies of the Executive Yuan.

³⁴ Not printed; Mr. Stetson's letter indicated that not more than \$5,260,964 worth of surplus property of specified broad categories had been sold in the Guam area between June 21 and August 30, 1946.

³⁵ Not printed; General Kiang's letter asserted Bosey's disclaimer of any right, title or interest in the property, as set forth in Mr. Stetson's letter of March 6, not to exceed \$5,260,964 in value.

³⁶ Not found in Department files.

893.24/3-1247

Memorandum by Major General Donald H. Connolly to the Under Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] 12 March 1947.

Reference the attached radio ³⁷ sent by the War Department to its Pacific commands, Royall ³⁸ is urging a speeding up of turnover activity in the Pacific. It has been lagging badly chiefly with respect to the surplus sold to China and largely due to China's vacillation and awkwardness in getting at the job. We share this impatience and are applying all possible pressures to expedite the turnover. Our contract with China provides for a system of notification of availability of surplus and an allowance of sixty days in which China agrees to take over the property with the understanding that the Army or the Navy may withdraw their custodial care after sixty days.

We have felt that from the State Department's point of view some consideration was due China in terms of not loading them with notices of availability beyond what is humanly possible to accomplish. As a matter of fact McCabe and Petersen ³⁹ when negotiating the deal at Shanghai last August gave oral assurances to China that we would not pass the property to China faster than she could reasonably absorb it. However, the danger is present that our accommodations will be taken unfair advantage of and the movement delayed by the recalcitrance of China.

In his cable Royall is asking Army commands in the Pacific to move with all possible dispatch in the matter of placing notices of availability in our, FLC's, hands, and is asking us in turn to require our offices to immediately pass these notices of availability to the recipient governments, China and the Philippines, with the understanding that the sixty-day rule will be strictly enforced. We think it a wholesome thing and perhaps one which can be applied with good moral effect to pursue this course. Moreover, if we do not accede to this request by the War Department, we are putting ourselves into a position of possibly causing a delay with resultant expense to the War Department. If this proves to be the case, we shall be asked to support a request to Congress for additional funds for the War Department which will be embarrassing. However, I am reserving with Royall the option of bringing this issue up for further review if it later develops that our exactions on China are unfair and attended with any serious hazard to good relations.⁴⁰

³⁷ Telegram No. 93821, March 11, not printed.

³⁸ Kenneth C. Royall, Under Secretary of War.

³⁹ Howard C. Petersen, Assistant Secretary of War.

⁴⁰ In a memorandum of March 21 to Major General Connolly, the Assistant Secretary of State for Economic Affairs (Thorp) indicated his full concurrence in the policy line being followed by Connolly.

893.24/6-3047

Memorandum by the Chief of the Division of Chinese Affairs (Ringwalt) to the Director of the Office of Far Eastern Affairs (Vincent)

[WASHINGTON,] June 30, 1947.

Subject: Status of Turnover of Surplus to the Chinese under Surplus Sale Agreement

The following is the text of a statement on the above subject dictated to me over the telephone by Mr. Murphy ⁴¹ of OFLC:

"The surplus sale with the Chinese Government was signed on August 30, 1946. In its early stages the turnover of surplus to the Chinese proceeded rather slowly. This was due in a large measure to shipping supply plans of the owning agencies, screening requirements of the owning agencies and more or less normal operational and procedural delays to be expected when a program of this nature is being set up. However, it should be noted that during this period the Chinese would have been unable to handle any appreciable quantities of surplus because they had failed to make timely arrangements to carry out their part of the operation. They were slow in making the necessary preliminary inspection trips and especially dilatory in setting up their organization and chartering ships for taking possession of surplus stocks made available to them.

"Recently the owning agencies and OFLC have resolved most of the procedural and operational obstacles and the Chinese have been notified that large quantities of surplus are available to them. They are unable to handle expeditiously the quantities which are ready and waiting for them to take possession. It is expected that from now on ample surplus will be consistently available to the Chinese. However, unless the Chinese expand and augment their facilities it appears that they will not have the ability to receive and ship surplus in an orderly manner as fast as we can produce it."

Mr. Murphy informed me that OFLC was having a very difficult time in evaluating reports from the field as those from Colonel Stetson on the one hand and General Kiang on the other hand were almost completely contradictory. Judging from the tenor of recent messages, however, OFLC is becoming convinced that the Chinese authorities are taking advantage of every possible opportunity to procrastinate and complain, probably with a view to developing a case for the reopening of the Surplus Sale Agreement on the basis of Article 5 thereof, which states in part: ". . . it is understood that if a material disparity is found to exist between the property sold to China hereunder and the consideration given therefor by China hereunder, the two Governments will consult together to fix an appropriate adjustment in the price paid."

It is generally believed by OFLC that no effort whatsoever will be

⁴¹ Francis T. Murphy, Area Director, Pacific and China, OFLC.

made by the Chinese to move surplus stocks from at least six of the smaller Pacific islands involved.⁴²

A[RTHUR] R. R[INGWALT]

893.24/7-1547

Mr. John B. Stetson, Jr., to Major General Donald H. Connolly

MANILA, 1 July 1947.

MY DEAR GEN. CONNOLLY:—My last visit to China has left a gloomy impression on me.

The great speculative problem at present is whether or not the Chinese will complete the overall contract, and if they fail is it with design or because of natural ineptitude.

At first the bulk sale seemed to be received with enthusiasm. It looked as if the Chinese would acquire for little cash outlay consideration a very valuable block of goods which not only would help the country by supplying needed articles, but would also offer a chance by sales abroad to acquire foreign exchange. This latter idea was encouraged by the U. S. negotiators who pointed out that goods on Guam could be sold in U. S. and even some types of goods located elsewhere in the U. S. or in other hard money countries. Last January Bosey saw large and satisfactory prospects. Although Bosey had no funds of its own, by some quick sales it could finance itself providing money for renovation of certain heavy equipment at a period when such equipment had a worldwide demand at high prices. Several changes in the picture have occurred since January which completely changes it. The change of Government in China⁴³ changed the function of Bosey and brought it from a semi-independent body to a body dominated by several ministries, creating a political atmosphere instead of the freedom of a dictatorship. Bosey was required to offer all goods received first to the government ministries before selling to private parties and it was required to turn over all proceeds of sales to the Minister of Finance⁴⁴ and get its funds for operations from the Executive Yuan. The organization for taking over surplus lagged and is only now taking shape to adequately per-

⁴² Marginal comment by James K. Penfield, Deputy Director of the Office of Far Eastern Affairs: "The Chinese side of this story, as related to me by General Ting on Guam, is equally unhappy—on the smaller islands question, for instance, he said that there is 25,000 tons on Majuro where there is no port and no equipment for handling it—they estimated that it would cost 2 or 3 times what the stuff is worth just to remove it from the island." Maj. Gen. Ting Tien-yung was Commanding Officer, Bosey, Guam.

⁴³ See pp. 47 ff., *passim*.

⁴⁴ O. K. Yui.

form its functions. But with the lag in setting up the machinery for handling, the sales picture changed. Heavy machinery was not in such demand as in January. Bosey's very unbusiness like methods killed the enthusiasm of potential American buyers and the actual recovery of Bosey in terms of hard money is negligible. I know of one sale for dollars to Americans amounting to about \$500,000 which looks firm but which is not quite consummated.

Today Bosey has to present its acquisition to its Board made up of representatives of five ministries, and each ministry has its priority. The question of inter-departmental needs and inter-departmental payments has slacked the pace of possible monetary recovery. At Djukon docks⁴⁵ there has been lying a fine group of heavy machinery for at least three months. It was supposed that this group had been sold to an American concern who promised payment in dollars against shipping documents. Now I learn from Gen. P. Kiang that it has been earmarked with much more of the same type of machinery for the Ministry of War. Kiang dolefully remarked that not only was he losing the sale but was required to rehabilitate the machinery for the army at Bosey's expense and he had no funds for the purpose. It is the story of Admiral Mar⁴⁶ over again. Mar was required to repair vessels for the Chinese navy and there is no money forthcoming, which seriously cripples his operations. Unless one knows this part of the world it is difficult to understand the long delays which occur in China in settling these inter-departmental difficulties.

Hence the original enthusiasm for the Bulk sale is waning. One should recall that Mr. John Blandford, Financial Advisor to the Generalissimo was always of the opinion that the Bulk sale would be of little or no benefit to China. He held this opinion probably for realistic reasons. The Chinese are not clever in organization and he could foresee their inability to acquire, move, repair and turn into money such a mass of goods. Delays would cost money, their lack of adequate facilities and planning, and the general inertia would make the margin of tangible profits from the deal a very small one for a great amount of effort, or might actually result in a loss.

Bosey started out as a dictatorship under Gen. Kiang who has no knowledge of merchandising. Since his role has been diminished he has lost whatever enthusiasm he ever had. For the last month he has openly stated to me that China would make very little from the Bulk sale. Last week he asked me what my reaction would be if he re-

⁴⁵ In Shanghai.

⁴⁶ Rear Admiral Pellian T. Mar of the Chinese Navy; for correspondence regarding the rehabilitation of Chinese dockyards and shipyards, in which Admiral Mar played a key role, see *Foreign Relations*, 1946, vol. x, pp. 1069 ff.

requested the cancellation of the Bulk sale contract. I treated his remark as a jest and made no comment but I fear that is his mood at present. This matter came up in connection with our cancellation of contract 1270.⁴⁷ He claimed that if the U. S. could unilaterally cancel a contract after it was signed and money was paid, why could China not do the same thing.

In the meantime we move along in the old ruts toward the completion of the deliveries under the contract. We press Bosey to move more goods, we push Bosey to get on the Finschaffen deal, we urge movement of small ships from Manila and advise that Bosey is now owner and had better look after its property, but matters move at just the rate Bosey wants.

Commodore Erl Gould's⁴⁸ visit elicited many promises but nothing has changed. The change in policy by liberalizing the use of the shipping fund was hailed by Bosey but it will not cause freight to move any faster. The only gainers are American contracting firms who now see their refunds coming through. The activities of the contractors are still hampered and controlled by Bosey as before, and Bosey's authorization to them to act must still be obtained and this authorization still takes as long as before.

All of the above, which could be much expanded with examples and cases, brings one back to the original question. Do the Chinese want this contract to proceed or not. Do they want to raise a big claim under the disparity clause and make the failure of the plan a political issue between the two governments. Are they doing their best and is the mess wholly due to incompetence. A good case could be made out for either theory.

The failure of a satisfactory fulfillment of the contract is pregnant with repercussions at home and in China. The American Embassy is much worried. They see failure to realize any gold values from the deal.

Put this dim picture before the dimmer one of Chinese crises and there is little cheering to be found. Chiang Kai-shek's government is losing favor and his armies are being beaten by the Communists. There is a proposal that Southern China secede. The CN dollar went down during my stay there from 36,000 to 50,000 to the U. S. dollar. It looks as if disorder of a widespread nature would soon occur.

Sincerely yours,

JOHN B. STETSON, JR.

⁴⁷ For a summary account, see telegram No. 1596, December 31, 8 p. m., to the Ambassador in China, p. 939.

⁴⁸ Of OFLC.

893.24 FLC/6-1747: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 22, 1947—6 p. m.

903. [In] View [of] failure Chinese authorities correct erroneous statements⁴⁹ by Dr. George Yeh⁵⁰ June 4 press conference (Shanghai's 1475, June 17 to Nanking; repeated Dept 1465,⁵¹ and FLC Manila as 66) Dept releasing today following press statement which will be included Far East Wireless Bulletin and Voice of America:

"The China and Eastern Asia Office of the Foreign Liquidation Commissioner has announced that contrary to previous reports, as of May 31, 1947, about U. S. \$170,000,000 procurement cost of movable surplus United States Property had been made available to China. These turnovers were made under the terms of the Bulk Sale Agreement of August 30, 1946. The current figure represents the first part of the \$500,000,000 of property (procurement cost) provided for by the Agreement. Previous to the signing of the Agreement the United States Government had turned over to China a total of approximately \$324,000,000 of property at cost in addition to the \$500,000,000 of movable goods.

Movable property on which notices of availability have been sent to China include many types of equipment, including trucks, road and construction equipment, clothing, food and medical supplies, but specifically excluding aircraft, combat matériel, ships and other maritime equipment. The property is located in China itself and on 17 islands of the Pacific including Guam and Okinawa.

At the end of May, the Board of Supplies of the Executive Yuan had taken possession of \$59,700,000 procurement cost of movable property. The rate of acceptance by China necessarily lags behind notification by the Office of the Foreign Liquidation Commissioner due to transportation problems and arrangements.

The procedures have been set up and large amounts of movable property have already been transferred to China. The transfer rate is now accelerated and under these procedures it is to be expected that the transfer operation will be completed within the 22 months allowed by the basic contract."

Sent Nanking as 903, repeated Shanghai as 1204 and FLC Manila as 830.

MARSHALL

⁴⁹ These statements, reported in telegram No. 1217, June 5, from the Embassy in China, indicated that China had received only \$20,000,000 worth of goods, principally in the form of non-military trucks (893.24 FLC/6-547).

⁵⁰ Chinese Vice Minister for Foreign Affairs.

⁵¹ Not printed.

893.24 FLC/7-3147 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, July 31, 1947.

[Received July 31—8:20 a. m.]

1862. Official Central News Agency distributed following story 26th :

“Shanghai—In connection with the Associated Press cable from Washington under the date of July 22 and published in the local papers yesterday regarding American surplus property turned over to China, the Board of Supplies of Executive Yuan of the Chinese Government has issued the following statement :

As the figures contained in the Washington cablegram are apt to give to the general public a wrong impression about the actual quantity of surplus property received by China up to date, it is desirable to make clear that of the total estimated worth (original procurement cost) of U. S. \$500,000,000 of movable property which the United States Government intended to turn over to the Chinese Government under the over-all agreement of August 30, 1946, only material and equipment costing U. S. \$170,000,000 have been declared surplus, but this will not be all acquired by China as the declarations are subject to checkings and withdrawals. As far as the U. S. \$500,000,000 bulk sale of movable goods is concerned, China actually received about U. S. \$71,000,000 up to June 30, 1947.

The U. S. \$324,000,000 of property referred to under item 1 in the announcement is not a part of the U. S. \$500,000,000 bulk sale. This figure obviously represents the cost of fixed installations (U. S. \$84,000,000,000), covered by the same over-all contract of August 30, 1946, and the few deals such as the Calcutta stockpile,⁵² small ships,⁵³ miscellaneous sales, etc., which were closed prior to the signing of the over-all agreement and cannot be regarded as coming under the U. S. \$500,000,000 movable property bulk sales.

The statement that the United States in the 9 months has turned over to China or ‘made available’ to her American surplus property originally costing U. S. \$500,000,000 is misleading. Under the over-all agreement signed on August 30, 1946, the United States Government has yet to make available to China U. S. \$330,000,000 worth of surplus property.”

DAVIS

893.24 FLC/9-2647

The Consul General at Shanghai (Davis) to the Secretary of State

No. 1715

SHANGHAI, September 26, 1947.

[Received October 7.]

SIR: I have the honor to refer to the over-all agreement of August 30, 1946, covering the sale of certain surplus war property, and to

⁵² For correspondence on this subject, see *Foreign Relations*, 1946, vol. x, pp. 1060 ff.

⁵³ For correspondence on this subject, see *ibid.*, pp. 785 ff., *passim*.

transmit for the information of the Department and the Embassy, a memorandum prepared in the Commercial Section of the Consulate General, with attachments,⁵⁴ which describes the current status of the surplus property program insofar as sales to foreign buyers for foreign currencies are concerned. Not unless this memorandum were coupled with a formal request from the Chinese for foreign exchange assistance from the United States Government could there be a much more impressive illustration of the financial paradox that exists in China today—on the one hand, an all-out governmental effort to conserve foreign exchange at the expense of essential imports vital to sustained or increased production, and on the other, failure to exploit even half-heartedly a pool of assets readily convertible into foreign exchange with very little material loss to China.

This failure of the Chinese to capitalize upon what was originally an important potential source of foreign exchange income to them, before deterioration and competing post-war production in the United States could dissipate these values to a large extent, is most logically attributed to the administration of the surplus property program in China through the Board of Supplies, and the policies and procedures developed by its Director, General P. Kiang. It is fair to state, however, that not a little of the responsibility for the present impasse can be attributed to higher officials of the Chinese Government, who have failed to clarify satisfactorily either the basic policies or objectives of the surplus property program since the retirement of Premier T. V. Soong last winter.

Dr. Soong's demise was followed by a period of almost three months' duration of uncertainty for the Board of Supplies, during which time General Kiang tried repeatedly to either resign or establish a firm definition of his status. Finally a plan was evolved whereby other government agencies became priority claimants on surplus property instead of being made responsible for justifying their requirements through normal channels. This development was tantamount to withdrawal of the operating autonomy which General Kiang had insisted upon previously, and had obtained. He has carried on under the new system reluctantly and only because the Government could not, or would not, replace him.

The above-described tendency towards frustration which has become increasingly apparent within the Board of Supplies, and which has certainly tended to modify the zest with which the organization approached its problems, has been accompanied by other developments which contribute towards impairing operating efficiency. General Kiang's failure to delegate authority and responsibility, and his reluctance, bordering on refusal, to accept advice or assistance from foreign technicians and specialists have combined to stunt his organ-

⁵⁴ None printed.

ization's growth personnel-wise. Nor is the General any exception to the almost universal rule among Chinese Government officials that it is no longer wise to make bold decisions in view of the political persecution that may result. Rather, his tendency is to refer all substantive matters to the highest levels where political necessity demands inviolability.

There is a growing similarity between the surplus property disposal program as a whole and the UNRRA⁵⁵ program in its near-precipice stages of a year or eighteen months ago. The main effort on the part of the U. S. agencies actively concerned with operations, and on the part of the Board of Supplies, as the accompanying memorandum points out, is to move the property to China without adequate regard to the problems which are second in importance only from the standpoint of time—namely, inventorying, reconditioning, and disposal to qualified distributors or end users. There is now no doubt but that a reasonably satisfactory solution of these difficulties for either Government can only occur after a wholesale shake-up in the Board of Supplies administration, and in its relations with other agencies and departments of the Chinese Government.

Independently of, or as a step towards this objective, remonstrances can be made with the Chinese to develop more realistic sales policies in surplus property disposal, at least to apply to foreign buyers. This can be readily justified by reference to the stringency of the present foreign exchange position. It hardly seems advisable, however, for the United States Government to press at this late stage for attempts to rebuild only part of a foundation on which a dangerously rickety edifice now stands.

Respectfully yours,

MONNETT B. DAVIS

893.24 FLC/12-147

The Consul at Shanghai (Pilcher) to the Secretary of State.

No. 1904

SHANGHAI, December 1, 1947.

[Received December 10.]

The American Consul at Shanghai has the honor to refer to Airgram A-858 of November 26, 1947,⁵⁶ and to previous communications dealing with the disposal of surplus property located on certain Pacific islands, title to which was transferred to China under the Bulk Sale Agreement of August 1946.

The Consulate General has reported periodically that little progress was being made by the Board of Supplies of the Executive Yuan in

⁵⁵ United Nations Relief and Rehabilitation Administration.

⁵⁶ Not printed.

concluding sales of surplus property for foreign exchange. Eventually the Central Bank interested itself in the whole proceeding and, as reported in the Airgram under reference, concluded a contract with Bosey on November 25, 1947, wherein it undertook responsibility for the sale of the bulk of the surplus property declared available and not yet removed to the China mainland. It is felt the injection of the Central Bank into the picture of surprop sales may conceivably have been a roundabout, face-saving method of taking the matter out of Bosey's hands and placing it in those of a foreign organization better equipped technically, and with a knowledge of world markets, to conduct an effective sales program.

A translation copy of the agreement entitled "Contract between the Central Bank of China and the Board of Supplies for the Purchase of Surplus Property on the Pacific Islands" is appended as Enclosure No. 1.⁵⁷ It will be noted (Article 1) that the original "nine-island" program has been expanded to include all such property, wherever situated with the exception of Okinawa, and it is reported that, should further declarations of availability be made by the U. S. military, they will also fall within the scope of the subject agreement. Purchase price (Article 2) to be "paid" by the Central Bank to Bosey is stipulated as 31% of original U. S. procurement cost. In commenting on this phase of the agreement, General P. Kiang, Chief of Bosey, states that his policy throughout has been to sell for not less than 50% of U. S. procurement cost, terming the latter figure as reasonable and necessary to secure an adequate return to China, in view of the heavy expenses incurred administratively and otherwise. General Kiang reports that the 31% figure represents a compromise reached between the Central Bank and the Ministry of Finance, and he estimates that the difference between it and the previous Bosey selling average of 50% will reach US\$15 million in actual value when extended over the amount of surprop still to be sold.

E. A. Bayne, adviser to the Central Bank, has consistently advocated the appointment of a qualified [foreign]⁵⁸ sales agency to handle the Bank's sales program on a commission basis, thus reducing to a minimum the administrative burden of the Bank in respect to such sales. Certain qualified companies were suggested and considered, and on November 27th a "Memorandum of Agreement" was signed between the Central Bank of China and the Vinnell Corporation of California. Copy of the Agreement appears herewith as Enclosure No. 2, in which it will be noted the Vinnell Corporation is nominated as exclusive selling agent for the Central Bank of all sur-

⁵⁷ Enclosures not printed.

⁵⁸ Brackets appear in the original.

plus property within the scope of the Central Bank's agreement with Bosey. The agreement is to remain in force for an initial period of ninety days from date of signature, with the option of extension provided certain conditions of performance are met.

As previously reported, General Kiang has repeatedly referred to preemptive procurement by the military and other Chinese government agencies as the principal reason why foreign sales could not be realized to any appreciable extent. It now appears, in light of the inauguration of the Central Bank's foreign sales program, that such procurement will come to an end, or at best be accorded only secondary consideration. Asked to comment on this phase, General Kiang's rejoinder was that much of the surplus property obtained by the government agencies in the past was found to be in bad condition and hence of little immediate value, for which reason less opposition has now been voiced by such agencies to the foreign sales program than would otherwise be expected. It is at least conjecturable, 1) that procurement for government account may have already overreached itself quantitatively, and 2) that many of the items so acquired cannot be put to immediate practical use.

It appears the way is now cleared for Mr. Bayne to proceed to the Islands for the purpose of negotiating sales (in conjunction with the Vinnell Corporation) for the account of the Central Bank. He will in all probability be accompanied by Mr. Li Fa-tuan as Chinese counterpart and direct representative of the Central Bank, deputized to conclude sales agreements on its behalf.

It may be reasonably anticipated that sales for foreign exchange will receive additional impetus in the hands of the Central Bank's representatives, and the Department and the Embassy will be kept informed of the progress that is made.⁵⁹

⁵⁹ In despatch No. 1971, December 22, the Consul at Shanghai (Pilcher) reported that Mr. Bayne had proceeded to various Pacific islands accompanied by a Central Bank representative and Major Ivy and that they were laying "the groundwork for bulk sales of surplus property to certain American interests". (893.24 FLC/12-2247)

AGREEMENT BETWEEN THE UNITED STATES AND
CHINA RESPECTING THE UNITED STATES EDUCA-
TIONAL FOUNDATION IN CHINA, SIGNED AT NANKING,
NOVEMBER 10, 1947

893.24/4-547

The Acting Secretary of State to the Chinese Ambassador (Koo)

WASHINGTON, April 5, 1947.

EXCELLENCY: I have the honor to inform you that the Government of the United States of America stands ready to negotiate with the Government of the Republic of China an agreement for the use of funds made available in accordance with Article 6*b* (1) of the Surplus War Property Sales Agreement of August 30, 1946.¹

As your Excellency is aware, the provisions of Public Law No. 584² of the United States of America make it possible to devote certain funds, deriving from the sale of surplus war property, to the carrying out of an education program.

In view of the traditional friendship between our two countries, and particularly in view of the long history of intellectual association between the people of our countries, this government has expressed a desire that China be the first nation with which it will seek to negotiate an agreement for the execution of such a program.

I have great pleasure in transmitting herewith five copies of U. S. Public Law 584, an act to amend the Surplus Property Act of 1944³ to designate the Department of State as the disposal agency for surplus property outside the continental United States, its territories and possessions, and for other purposes, together with five copies of a draft agreement⁴ between the Government of the United States of America and the Government of the Republic of China for carrying out an educational program under the act.

I am convinced, as I am sure you will be, that the negotiation of such an agreement will contribute to the establishment of still stronger ties of friendship through the encouragement and facilitation of intellectual interchange between our countries.

¹ For text, see Department of State, *Report to Congress on Foreign Surplus Disposal*, October 1946, p. 40. For correspondence regarding the negotiation of this agreement, see *Foreign Relations*, 1946, vol. x, pp. 1033 ff.

² Approved August 1, 1946; 60 Stat. 754.

³ Approved October 3, 1944; 58 Stat. 765.

⁴ Dated March 14, not printed.

After you have had an opportunity to give ample study to the enclosed document, representatives of this government will be pleased to discuss with you or your representatives the details and terms set forth therein, which might form the basis of a final agreement to be reached between our two countries.

Accept [etc.]

DEAN ACHESON

811.42700 SE/3-2647 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 7, 1947—7 p. m.

410. On Apr 7 [5] Dept dispatched note to Chinese Ambassador stating readiness open negotiations Washington for agreement to implement Fulbright⁵ program and enclosing draft agreement for study prior negotiation. Depins 293 Mar 26 transmitted draft agreement.⁶ Dept would welcome Embs comments before opening discussions with Chinese here. Cabling program plans soonest.⁷

Sent Nanking 410, repeated Shanghai 573.

ACHESON

811.42700 SE/4-1647 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 16, 1947—7 p. m.

439. Further Deptel 410 Apr 7, proposed Foundation to operate under direction Ambassador assisted by Chief Public Affairs Officer and bi-national board directors. Suggested US \$250,000 initial installment to be followed by similar quarterly payments agreed upon as best means protecting conversion against inflation while guaranteeing adequate operating funds. Suggest Emb give immediate consideration personnel of board and preparation first annual budget including administrative expenses. Dept recommends selection local American as executive director. Proposed salary equivalent US \$10,000. Request Emb outline first year program with following in mind:

1. *US recipients.* US students to study in China will be selected on basis knowledge language and interest further language study in view fact no instructions available English. Dept querying US centers Chinese language and area studies for interested candidates. Embs suggestions requested re numbers graduate and undergraduate students advisable accommodate, recommended institutions, size of

⁵ Senator J. William Fulbright of Arkansas, author of educational exchange program legislation in Congress.

⁶ Neither printed.

⁷ *Infra.*

grants. Also re US professors to teach institutions China and recommended subjects, bearing in mind desired emphasis on liberal arts and sciences although some technology and agricultural extension may be included if Emb considers appropriate.

2. *Chinese recipients.* Purpose Act ⁸ is give foreign students countries concerned opportunity to experience and absorb American academic atmosphere and freedoms. This not now possible most institutions China where emphasis is on Kuomintang and Confucian ideologies. Grants to Chinese students to study in China would therefore be used sparingly for present. However travel grants for selected Chinese professors, students, etc., to port debarkation US and return China appropriate if payable in Chinese currency.

Dept concurs Embs recommendation Chinese grantees be selected for high standard language facility and academic standing to make exchange profitable. Other possible projects Emb may wish include are endowed chairs Chinese universities for US professors, special grants for concerts, exhibits, libraries, translation projects, etc., in China. Appreciate Embs comments recommendations.

Draft by-laws for Foundation being prepared. Will be forwarded.

For your info Dept understands Chinese Emb has referred draft agreement Fulbright funds to Nanking. Dept would be interested obtaining informal expression views concerned Chinese officials which would assist negotiating agreement here.

ACHESON

811.42700 SE/5-447: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 4, 1947—8 p. m.

[Received May 5—8:05 a. m.]

966. The Embassy was keenly interested to receive the Department's preliminary outline of proposals for implementation of the Fulbright Bill as given in Deptel 439, April 16, 7 p. m. and is giving consideration to its recommendations. It will be impossible for Embassy to reply in detail for some time since it will be necessary to consult with Consular and USIS ⁹ officers throughout China as well as with prominent and experienced American educators. The preparation of a reply is made more difficult by the absence of a chief public affairs officer and a cultural relations officer, thereby throwing the full burden on the Embassy which is at present preoccupied with many other matters and, furthermore, lacks the experience with and detailed knowledge of conditions in Chinese universities required for comprehensive and intel-

⁸ Public Law No. 584.

⁹ United States Information Service.

ligent recommendations. The Embassy is in fact of the opinion that of the Department's field officers only Wilma Fairbank¹⁰ is really qualified to draw up such a program and it is the Embassy's recommendation that she be consulted and that her recommendations be telegraphed to the Embassy for incorporation in its report. The Embassy does, however, wish at this time to make a few preliminary observations.

The Embassy believes that for the first year and in order to gain experience, program should be much more limited in scope than appears to have been planned, according to information locally available. The Embassy is already aware that most Chinese universities would be reluctant to take foreign students and in some instances have already flatly refused to do so, because the large numbers of Chinese students desiring admission, their own bad physical condition and inadequate facilities make it impossible for them to accept all the Chinese students who could and should attend.

There is the further serious difficulty that it will be impossible to plan a budget with any degree of accuracy. Certainty of continuing rapid economic deterioration and inflation and the uncertainty of the speed with which this process and the rate of exchange factor will develop, make it impossible to determine except on a day to [day] basis what American students or professors would need for subsistence during the year. Almost certainly the amount needed at the end of the year will be many times that needed today. This factor alone recommends a limited program in order to remain within the funds available for the ensuing year.

Present conditions indicate the desirability, during the first year, of concentrating on graduate rather than under-graduate students. Under-graduates, in order to get much out of a year in China, because of their lack of Chinese background, should live in the universities. Facilities are so limited in most places it is unlikely that the universities would be willing to accept them. Furthermore, the living standards of Chinese under-graduates at present are so low that only an unusual student of the hardy variety would be able to go through it without damage to his health or taking away an attitude of mind which would nullify the intention of the program. Under-graduates at the same time would in all probability not have sufficient knowledge of Chinese to enable them to participate in academic work and the universities with one or two exceptions are unable to provide instruction in English. Graduate students, on the other hand, would be engaged in research work not requiring class attendance. They would be individually tutored by prominent professors whose additional

¹⁰ Formerly Cultural Relations Officer at the Embassy in China.

compensation for this work would well provide a kind of subsidy enabling them to supplement their present tragically inadequate salaries. Graduate students could also live in town without detriment to their studies, though this points up the problem of finding housing in crowded urban conditions and making provisions for transportation. As a preliminary estimate it seems likely that perhaps 20 or 30 such students could be accommodated.

For the same reasons that would justify a limited number of graduate students, it seems probable that some arrangements could be made for a limited number of exchange professors who could teach English and American literature. Again, due to crowded conditions on the campus, they would have to live in town. The standard of English teaching and the knowledge of English of university students is now so low that it is a moot question as to how many courses could be taught in English.

It should be noted that travel grants for China would probably not be possible at present, since the Embassy is not aware of any steamship company which will accept Chinese National currency in payment.

It seems unwise to the Embassy, at any rate in the initial stages of the program, that any attention be paid to such empyrean endeavors as concerts, exhibits, and the like, until the student program has been fairly well established and the permanent staff of the foundation has had an opportunity to give detailed consideration to other types of activities, which the Embassy believes can eventually be usefully developed. It is the Embassy's view that projects such as special grants, endowed chairs, and library projects can indeed be most useful, but they should be carefully considered and should be the subject of negotiation between the director of the foundation and the educational institution and perhaps to relate to the student and visiting professor aspects of the program. In the Embassy's view the program should not consist of projects requiring continual support or merely passive acceptance by the Chinese (a glorified oriental boondoggle) but rather should act as a ferment and a catalyst in Chinese intellectual development, requiring that they too must offer something. Unless this factor is firmly in mind at all times the Chinese will inevitably tend to urge a concert-exhibit program. One example of what the Embassy believes might be a useful project is the merging of the oriental libraries in Peiping which will probably not take place without external stimulus, and which can contribute greatly to the development of a prominent research center.

All the above emphasizes what the Embassy believes to be the necessary first step, namely, the appointment of an executive secretary. This individual should not, in the Embassy's opinion, be someone

employed locally, because any such individual would necessarily have past ties as well as future associations making difficult impartial and effective administration of the program. Until an executive secretary has been appointed it will be impossible for the program to receive the detailed and thoughtful attention which it must have if serious errors are to be avoided. The secretary must become thoroughly familiar with conditions in individual educational institutions and relate those conditions in any given place to conditions throughout the country. That information can be obtained; the Embassy would strongly recommend that any plans for the coming academic year be considered as purely tentative and largely confined to placing graduate students. Embassy, therefore, recommends that the executive secretary be selected at the earliest possible date and sent out to China at once. The quality of the man, not the preconceptions of the blueprint, will determine the efficiency of a program which has great possibilities. He will need an able assistant to handle routine administration, since much of his time will necessarily be devoted to travel, and a clerk-secretary.

Draft by-laws for the foundation have been received and will be made the subject of a separate telegram as soon as the Embassy has had the opportunity of consulting informally with the appropriate Chinese officials.

STUART

811.42700 SE/5-447 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 14, 1947—7 p. m.

579. In general Dept concurs Embs recommendations Embtel 966 May 4. Appreciates difficulties owing absence cultural officer. Depts proposals prepared in consultation Wilma Fairbank. Airpouching for Embs comments tentative first year program¹¹ also prepared in consultation Fairbank. Specifically Dept agrees Embs recommendations re limited scope first year, desirability graduate rather than undergraduate students, exchange professors, and endorses Embs view projects should involve active Chinese cooperation. Dept agrees importance hiring executive secretary and staff soonest but impossible proceed any aspect Fulbright program until agreement with China concluded. Officer can be paid only Chinese currency hence doubtful he could be hired transported from U. S. although Dept exploring possibility. Awaiting Embs reactions regarding terms agreement establishing foundation.

MARSHALL

¹¹ Instruction No. 346, May 21, not printed.

811.42700 SE/5-2747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 27, 1947—7 p. m.

[Received 11:50 p. m.]

1155. Reference the Department's restricted airmail instruction No. 293, March 26,¹² which enclosed tentative draft of an agreement¹³ for the implementation of the Fulbright Bill.

Embassy is in general agreement with the draft as proposed, particularly approving its very general terms on the establishment of a foundation which leaves ample latitude for adjustment of the proposed program in the light of changing conditions. The Embassy would stress in particular the desirability of ensuring that any Chinese voice in the establishment of policy or the administration of the program should be wholly advisory. There will otherwise be strong and inevitable Chinese pressure for a kind of program of which we would in all probability not approve. Experience with this type of foundation has amply demonstrated that joint control seldom if ever has proven successful and would have even less prospect under current conditions in China. The Embassy would propose that there be no Chinese members of the board of directors but that there be attached to the board a number of Chinese advisers whose opinions and suggestions could be solicited as the occasion demanded.

Pending the receipt of Chinese reactions it would serve no useful purpose for Embassy to offer more detailed criticism of the draft agreement. Chinese authorities are not yet prepared to express any opinion, having had the draft only a short time. The Foreign Minister¹⁴ 4 months ago asked the Minister of Education¹⁵ to draw up Chinese suggestions. This has not yet been done. From preliminary conversations it is, however, apparent that the Chinese attitude can be expected to be widely at variance with the American. The Vice Minister of Education¹⁶ has spoken in general terms about a large-scale research program to which the entire fund would be devoted, completely under Chinese control, and perhaps administered in somewhat the same fashion as the Boxer Indemnity Fund.¹⁷ It is not unlikely that the Chinese Government will propose that the United States supplement Fulbright money with large dollar credits in the

¹² Not printed.

¹³ Dated March 14, not printed.

¹⁴ Wang Shih-chieh.

¹⁵ Chu Chia-hua.

¹⁶ Han Lih-wu.

¹⁷ The original concept of the indemnity fund was set forth in "Proposed Regulations for the Students To Be Sent to America" issued by the Chinese Government; for undated translation, see *Foreign Relations*, 1908, p. 71.

United States in order to enable the Chinese Government, without depleting its own reserve of dollar exchange, to send scholars to the United States.

The general impression obtained by the Embassy is that the Chinese Government is not at the moment any too anxious to conclude this agreement. There are undoubtedly serious struggles between the various factions desiring control of the fund, but there is also an apparent reluctance to undertake in the current inflationary situation any program which, from a Chinese financial standpoint, simply involves printing large additional quantities of money.

The Embassy is continuing to press the Ministry of Education for its views, which will be reported as soon as received.

STUART

811.42700 SE/6-647 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 6, 1947—9 a. m.

[Received June 6—4:25 a. m.]

1227. Reference Embassy's telegram 1155, May 27. Department's proposals in its restricted airmail instruction number 346, May 21,¹⁸ have been received and are now being studied by the Embassy.

Ministry of Education had indicated its willingness to initiate preliminary discussions on Fulbright Bill Agreement but has had to postpone them again because of preoccupation with current student difficulties throughout China.¹⁹

STUART

811.42700 SE/6-647 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 13, 1947—11 a. m.

710. Dept recd informally from preliminary conversation Chinese Emb similar reactions re preponderance American board members (Embtels 1155 May 27, 1227 Jun 6). Dept inclined agree Embs recommendation Chinese voice should be wholly advisory and requests Emb seek Chinese reaction to rewriting draft agreement accordingly. Dept believes important Emb emphasize to Chinese these funds differ entirely from Boxer Indemnity remissions. They are U. S. credits to be spent by U. S. Govt in China primarily to benefit

¹⁸ Not printed; it transmitted "Tentative Proposals for the First Year of the Fulbright Program in China".

¹⁹ For correspondence on this subject, see pp. 130 ff., *passim*.

U. S. citizens but which will also aid indirectly some Chinese institutions and some Chinese citizens who will receive grants to study at American institutions in China or travel to U. S. Dept discussing these points informally Chinese here. Appreciate Embs reactions.

MARSHALL

Nanking Embassy Files, Lot F79, 842 Fulbright Bill

*Revised Draft of an Agreement*²⁰
June 16, 1947

(Additions to draft of March 14 underscored,²¹ deletions in brackets [])

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE REPUBLIC OF CHINA FOR THE USE OF FUNDS MADE AVAILABLE IN ACCORDANCE WITH ARTICLE 6 *b*. (1) OF THE SURPLUS WAR PROPERTY SALES AGREEMENT OF AUGUST 30, 1946

The Government of the United States of America and the Government of the Republic of China;

Desiring to promote further mutual understanding between the peoples of the United States of America and the Republic of China by a wider exchange of knowledge and professional talents through educational contacts;

Considering that Section 32(*b*) of the United States Surplus Property Act of 1944, as amended (Public Law No. 584, 79th Congress; 60 Stat. 754), provides that the Secretary of State of the United States of America may enter into an agreement with any foreign government for the use of currencies or credits for currencies of such foreign government acquired as a result of surplus property disposals for certain educational activities; and

Considering that under the provisions of the agreement between the Government of the United States of America and the Government of the Republic of China for the sale of certain surplus war property, signed at Shanghai on August 30, 1946, it is provided that the Government of the Republic of China shall make available to the Government of the United States of America the equivalent of \$20,000,000 (United States currency) for research, instruction, and other educational activities under the terms of Section 32(*b*) of the Surplus Property Act of 1944, as amended,

²⁰ Copy transmitted to the Ambassador in China with Department operations memorandum of July 29.

²¹ Printed in italics herein.

Have agreed as follows:

ARTICLE 1

There shall be established [in the capital city of China] a foundation to be known as the United States Educational Foundation in China (hereinafter designated "the Foundation"), which shall be recognized by the *Government of the United States of America and the Government of the Republic of China* as [being a legal entity which shall have for its purpose] *an organization created and established to facilitate* the administration of the educational program to be financed by funds made available by the Government of the Republic of China in accordance with Article 6 *b.* (1) of the agreement for the sale of certain surplus war property signed at Shanghai on August 30, 1946. *Except as provided in Article 3 hereof the Foundation shall be exempt from the domestic and local laws of the United States of America and the Republic of China as they relate to the use and expenditure of currencies and credits for currencies for the purposes set forth in the present agreement.*

The funds made available by the Government of the Republic of China shall be used by the Foundation for the purpose, as set forth in Section 32(*b*) of the United States Surplus Property Act of 1944, as amended, of

(1) financing studies, research, instruction, and other educational activities of or for citizens of the United States of America in schools and institutions of higher learning located in China, or of the citizens of China in United States schools and institutions of higher learning located outside the continental United States, Hawaii, Alaska (including the Aleutian Islands), Puerto Rico, and the Virgin Islands, including payment for transportation, tuition, maintenance, and other expenses incident to scholastic activities; or

(2) furnishing transportation for citizens of China who desire to attend United States schools and institutions of higher learning in the continental United States, Hawaii, Alaska (including the Aleutian Islands), Puerto Rico, and the Virgin Islands and whose attendance will not deprive citizens of the United States of America of an opportunity to attend such schools and institutions.

ARTICLE 2

In furtherance of the aforementioned purposes, the Foundation may, subject to the provisions of Article 10 of the present agreement, exercise all powers necessary to the carrying out of the purposes of this agreement including the following:

(1) Receive funds.

(2) Open and operate bank accounts in the name of the Founda-

tion in a depository or depositories to be designated by the Secretary of State of the United States of America.

(3) Disburse funds *and make grants and advances of funds* for the authorized purposes of the Foundation.

[(4) Invest funds subject to the approval of the Secretary of State of the United States of America.]

(4) [(5)] Acquire, hold, and dispose of property in the name of the Foundation as the Board of Directors of the Foundation may consider necessary or desirable [.] *provided however that the acquisition of any real property shall be subject to the prior approval of the Secretary of State of the United States of America.*

(5) [(6)] Plan, adopt, and carry out [such] programs, in accordance with the purposes of [this agreement.] *Section 32(b) of the United States Surplus Property Act of 1944, as amended, and the purposes of this agreement.*

(6) [(7)] Recommend to the Board of Foreign Scholarships, provided for in the United States Surplus Property Act of 1944, as amended, students, professors, research scholars, resident in China, and institutions of China qualified to participate in the program in accordance with the aforesaid Act.

(7) [(8)] Recommend to the aforesaid Board of Foreign Scholarships such qualifications for the selection of participants in the programs as it may deem necessary for achieving the purpose and objectives of the Foundation.

(8) [(9)] Provide for periodic audits of the accounts of the Foundation as directed by auditors selected by the Secretary of State of the United States of America.

(9) [(10)] Engage administrative and clerical staff and fix the salaries and wages thereof, [subject to an annual budget approved by the Secretary of State of the United States of America.]

ARTICLE 3

[On the basis of the recommendations and advice of the Board of Directors of the Foundation, the program to be administered by the Foundation shall be determined annually by the Secretary of State of the United States of America.] *All expenditures by the Foundation shall be made pursuant to an annual budget to be approved by the Secretary of State of the United States of America pursuant to such regulations as he may prescribe.*

ARTICLE 4

The Foundation shall not enter into any commitments or create any obligation which shall bind the Foundation in excess of the funds.

actually on hand nor acquire, hold, or dispose of property except for the purposes authorized in the present agreement.

ARTICLE 5

The management and direction of the affairs of the Foundation shall be vested in a Board of Directors consisting of seven Directors (hereinafter designated the "Board").

The Principal Officer in Charge of the Diplomatic Mission of the United States of America to the Republic of China (hereinafter designated "Chief of Mission") shall be Honorary Chairman of the Board. He shall have the power of appointment and removal of members of the Board at his discretion. The members of the Board shall be as follows: (a) the Chief Public Affairs Officer of the United States Embassy in China, Chairman; (b) two other members of the Embassy staff, one of whom shall serve as treasurer; (c) two citizens of the United States of America, one representative of American business interests in China and one representative of American educational interests in China; and (d) two citizens of the Republic of China, one of whom shall be prominent in the field of education.

The four members specified in (c) and (d) of the last preceding paragraph shall be resident in China and shall serve from the time of their appointment until the succeeding December 31 next following such appointment. They shall be eligible for reappointment. The United States members shall be designated by the Chief of Mission; the Chinese members by the Chief of Mission from a list of names submitted by the Government of the Republic of China. Vacancies by reason of resignations, transfers of residence outside of China, expiration of term of service, or otherwise shall be filled in accordance with this procedure.

The Directors shall serve without compensation, but the Foundation is authorized to pay the necessary expenses of the Directors in attending meetings of the Board.

ARTICLE 6

The Board shall adopt such by-laws and appoint such committees as it shall deem necessary for the conduct of the affairs of the Foundation. [All by-laws adopted by the Board shall become effective upon approval by the Secretary of State of the United States of America.]

ARTICLE 7

Reports as directed by the Secretary of State of the United States of America shall be made annually on the activities of the Foundation to the Secretary of State of the United States of America and the Government of the Republic of China.

ARTICLE 8

The principal office of the Foundation shall be in the capital city of China, but meetings of the Board and any of its committees may be held in such other places as the Board may from time to time determine, and the activities of any of the Foundation's officers or staff may be carried on at such places as may be approved by the Board.

ARTICLE 9

The Board may appoint an Executive Officer and determine his salary and term of service [.] *provided however, that in the event it is found to be impracticable for the Board to secure an appointee acceptable to the Chairman, the Government of the United States of America may provide an Executive Officer and such assistants as may be deemed necessary to ensure the effective operation of the program.* The Executive Officer shall be responsible for the direction and supervision of the Board's programs and activities in accordance with the Board's resolutions and directives. In his absence or disability, the Board may appoint a substitute for such time as it deems necessary or desirable.

ARTICLE 10

The decisions of the Board in all matters may, in the discretion of the Secretary of State of the United States of America, be subject to his review.

ARTICLE 11

The Government of the Republic of China shall, within 30 days of the date of the signature of the present agreement, deposit with the Treasurer of the United States of America an amount of Chinese national currency equivalent to \$250,000 (United States currency). Thereafter, commencing with [July 1,] *October 1, 1947*, the Government of the Republic of China shall similarly deposit on [every July 1,] *October 1, January 1, April 1, and July 1*, of each calendar year within the period [July 1] *October 1, 1947* to [March 31] *June 30, 1967*, inclusive, an amount of Chinese national currency equivalent to \$250,000 (United States currency). [The Government of the United States of America shall deposit all Chinese national currency so received to the credit of the Foundation in a depository to be designated by the Secretary of State of the United States of America.] The rate of exchange to be used in determining the amount of Chinese national currency which shall be considered equivalent to \$250,000 (United States currency) shall be the rate agreed upon from time to time by the Government of the Republic of China and the Government of the United States of America for transactions pursuant to Article

6 (b) of the agreement for the sale of certain surplus property signed on August 30, 1946.

The Secretary of State of the United States of America will make available to the Foundation Chinese national currency in such amounts as may be required by the Foundation, but in no event in excess of the budgetary limitation established pursuant to Article 3 of the present agreement.

ARTICLE 12

Furniture, equipment, supplies, and any other articles intended for the official use of the Foundation shall be exempt in the territory of the Republic of China from customs duties, excises, and surtaxes, and every other form of taxation.

All funds and other property used for the purposes of the Foundation, and all official acts of the Foundation within the scope of its purposes shall likewise be exempt from taxation of every kind in the territory of the Republic of China.

ARTICLE 13

The Government of the Republic of China shall extend to citizens of the United States of America residing in China and engaged in educational activities under the auspices of the Foundation such privileges with respect to exemption from taxation, and other burdens affecting the entry, travel, and residence of such persons as are extended to Chinese citizens residing in the United States of America engaged in similar activities.

ARTICLE 14

Wherever, in the present agreement, the term "Secretary of State of the United States of America" is used, it shall be understood to mean the Secretary of State of the United States of America or any officer or employee of the Government of the United States of America designated by him to act in his behalf.

ARTICLE 15

The present agreement may be amended by the exchange of diplomatic notes between the Government of the United States of America and the Government of the Republic of China.

ARTICLE 16

The present agreement shall come into force upon the date of signature.

IN WITNESS WHEREOF the undersigned, being duly authorized thereto by their respective Governments, have signed the present agreement.

DONE at in duplicate, in the English and Chinese languages, this day of , 1947.

For the Government of the United States of America :

.....

For the Government of the Republic of China :

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811.42700 SE/6-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 20, 1947—11 a. m.

[Received June 20—8:45 a. m.]

1350. Reference Department's No. 710, June 13, 11 a. m. The Ministry of Education has agreed to following changes in article V of the draft agreement ^{21a} for utilization of funds in accordance with article VI b (1) surplus war property sales agreement: that clause d of the second paragraph shall be omitted, that in paragraph 3 the second word be changed to "two" and the words "and (d)" be omitted and the phrase "[the] Chinese members by the Chief of Mission from a list of names submitted by the Government of the Republic of China" be also omitted. In lieu thereof, there shall be inserted in article V the following paragraph :

"In order to draw most effectively on the knowledge and experience of distinguished Chinese who are prominent in the field of education and culture, the board, in consultation with the Government of the Republic of China, shall designate a number of such persons to serve as advisors to the board, the number to be mutually agreed upon. The terms of tenure of advisors shall be the same as for the regular members of the board, as provided in article V."

The Ministry approves of all other provisions as drafted.

Embassy wishes to suggest change in article XI. Given the uncertain and rapidly changing foreign exchange situation, Embassy believes it would be unwise to provide that Government of China would deposit specified sums of money on given dates. In lieu of this provision, it is recommended that the article be rewritten to read that the Government of China will deposit such sums and at such times as the board may so order it and at the exchange rate prevailing on the date on the order or otherwise agreed upon but the total be drawn not to exceed United States dollars one million in any given fiscal year.

Embassy wishes to suggest advisability, in any negotiations the

^{21a} The draft agreement referred to here is that of March 14; pertinent references to it can be followed through the draft of June 16, *supra*, which spelled out additions to and deletions from the earlier draft.

Department may have with the Chinese Embassy in Washington, that any *pro forma* concession requested be granted, in order that we can secure the maximum of the substance we desire. One illustration of this is a request by the Ministry of Education that the Department consider some name other than United States Educational Foundation in China in order to convey the idea that effective cultural relations are reciprocal regardless of who puts up the money or actually directs any given program. A tentative suggestion by the Ministry is the United States-China Educational Foundation.

STUART

811.42700 SE/6-2047: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 30, 1947—7 p. m.

808. Dept gratified learn Ministry's approval substance draft Fulbright agreement (Embtel 1350 June 20). Dept concurs suggested changes Article 5 and insertion paragraph re Chinese advisors. Dept agrees in principle Emb substitution Article 11 and recommendation *pro forma* concessions be granted incl name of foundation. Inc these changes new draft which will be discussed with Chinese here. Will keep Emb advised.

MARSHALL

811.42700 SE/7-747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 7, 1947—10 a. m.

[Received July 7—7: 55 a. m.]

1468. ReDeptel 808, June 30, 7 p. m. Embassy would appreciate knowing if new draft on Fulbright Agreement has yet been handed to Chinese Embassy at Washington. Even though the Ministry of Education has approved the draft as stated in Embassy's 1350, June 20, Embassy now understands that Foreign Office has interested itself in the question. Will probably propose number of additional changes. Embassy believes that our present favorable position on this draft will in all probability be compromised unless speedy action is taken.

Embassy would also appreciate knowing if any consideration has been given by the Department to the provision of a certain amount of dollar exchange without which proper implementation of program will be impossible. There is no reason to believe that the Chinese Gov-

ernment would be willing to provide dollar entrance [*exchange*] nor in the Embassy's opinion would it be wise to raise the issue.²²

STUART

811.42700 SE/7-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 8, 1947—6 p. m.

[Received July 8—9: 07 a. m.]

1483. Foreign Office has now repudiated the agreements made by Minister of Education as contained in Embassy's 1350, June 20 and has proposed number of additional changes as follows:

1. Article I—The name of the Foundation "United States Education Foundation in China" to be changed to read "Sino-American Educational Foundation in China".

2. Article II—Section 5 to be deleted to ensure that the entire fund of \$20,000,000 be spent within 20 years. It is the Foreign Minister's fear that the holding of property by the Foundation would leave a residue which the Chinese Govt would consider undesirable. Minister further states that he sees no reason why Foundation should hold real property in any event.

3. Article IV—To insert at the beginning of article IV the following paragraph: "The Foundation shall plan its annual programs in such a way that use shall as far as possible be made of the funds made available for each year. In case of a surplus from the funds of any one year, it shall be devoted to the program for the following year". Also, in view of the deletion of section 5 of article II also to delete that phrase in article IV which reads "nor acquire, hold or dispose of property except for the purpose authorized in present agreement".

4. Foreign Minister further proposes that the Chief of Mission shall be chairman of the board rather than honorary chairman in order to lend the Foundation the necessary prestige. He fears that if the chief public affairs officer of the Embassy is chairman, the Foundation will not be taken with sufficient seriousness by Chinese public opinion. Minister further proposes that the board shall be composed as follows: "The other six members of the board shall be as follows: (a) Two members of the Embassy staff, one of whom shall serve as treasurer; (b) one citizen of the U. S. of America; and (c) three citizens of the Republic of China, two of whom shall be prominent in the field of education".

Minister proposes following additional changes in article V, paragraph 2, after the phrase "U. S. members shall be designated by the Chief of Mission," the following to be added, "and may be removed at his discretion"; phrase "Chinese members by the Chief of Mission from a list of names submitted by the Govt of the Republic of China" be amended to read "Chinese members shall be selected by the Chief of Mission from a list of names recommended by the Ministry of Educa-

²² In telegram No. 848, July 10, 4 p. m., the Department indicated it was not authorized to provide dollar exchange for implementation of the program.

tion of the Republic of China and may be removed only after consultation with the said Ministry”.

5. Article XI—The last sentence therein to be amended to read “The rate of exchange to be used in determining the amount of national currency which shall be considered equivalent to \$250,000 (U. S. currency) shall be the official rate of exchange prevailing at the time each deposit is made.” Minister states that Chinese law cannot permit an exchange rate other than the official one to be quoted in any written agreement.

6. Articles XII and XIII to be deleted since the Chinese Govt cannot agree to tax exemption for persons or property other than diplomatic.

It is apparent from the proposed changes that the only really serious point of difference is on the composition of the board of directors. Foreign Minister states that he feels very strongly on this point, that he can under no circumstances accept agreement made by the Minister of Education. He says he realizes that this Foundation differs from the Boxer indemnity remissions and that the funds to be utilized are credits of the U. S. Govt for which the Govt of China has no direct responsibility, but that it will be impossible to explain these distinctions to Chinese public opinion which will consider the Chinese Govt has in fact a direct responsibility since the credits (*sic*) were made available by the Chinese Govt and further that a lack of Chinese vote on the board would be interpreted as a lack of interest. He therefore insists that there shall be three Chinese votes and states that he cannot entertain a proposal that Chinese participation be solely advisory.

Embassy believes there are actually two considerations involved in his thinking; one is the question of face and the second is that of extremely heavy pressure from the various Chinese organizations to have a hand in expenditures from this fund. The Chinese ability to influence the uses to which the fund would be put would be seriously weakened should Chinese participation be purely advisory, whereas having 3 out of 7 votes—the seventh being that of the Chief of Mission—would enable them to present to their own countrymen a Chinese versus American bloc with readily exploitable possibilities.

It is precisely this sort of position which reinforces the Embassy's conviction that the Chinese vote on the board could only be productive of conflict and embarrassment. The Embassy's position at the present moment is admittedly weak and difficult since, as the Minister was quick to point out, the stand which he is taking is only a mild variant of the original Departmental proposal to the Chinese Embassy in Washington, on which Embassy was not consulted and from which Dept and Embassy now wish to withdraw. It is further apparent that the Embassy's position is made more difficult by the fact that the Dept has been holding conversations on this question with the Chinese Embassy

in Washington, the nature of which the Embassy is unaware, and which the Chinese are now attempting to exploit for their own ends. It is the Embassy's conviction, therefore, that the present impasse can only be resolved by the Dept in Washington or else that the Embassy should be given full authority to continue the negotiations in Nanking with a consequent elimination of Chinese officials in Washington from the picture.

Dept's instructions are requested.

STUART

811.42700 SE/7-847 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 30, 1947—6 p. m.

939. Dept authorizes Emb negotiate educational foundation agreement China (Embtel 1483 July 8) eliminating further discussions here. However Dept points out Emb been informed all negotiations thus far undertaken Washington and no conversations held with Chinese this subject except re points raised Embtel 1350 June 20.

Dept reemphasizes that program is to be financed with US funds which US has agreed to accept in local currency and which Chinese would otherwise have to pay in dollars, and that US must control their expenditure. Agrees with Emb most workable arrangement is for US board directors to direct program assisted by Chinese advisers whom Dept willing have appointed and dismissed by Min of Education. No objection making chief of mission chairman rather than honorary chairman but Dept resolutely opposed appointment more than two Chinese board members, if inclusion board members only alternative acceptable Chinese.

Because of US financing believe name Sino-American Educational Foundation inappropriate misleading. Agreeable to U. S. Educational Foundation in China or U. S. China Educational Foundation.

For Embs info in carrying on negotiations, Depts thinking Reftel as follows: Suggest we [are] seeking right acquisition real property with view to donating it Chinese later, but no strong objection deleting Sec 5 Art 2.

Agreeable using full million as far as possible each year and will make every reasonable effort expend entire 20 million within 20 years. However language of Act prohibits expenditure more than 1 million any 1 year. Possible Act be amended later to permit increase if circumstances warrant.

No objection amending Art XI if contrary to Chinese law. Suggest following alternative: "The rate of exchange between currency of

the Government of the Republic of China and United States currency to be used in determining the amount of currency of the Government of the Republic of China to be deposited from time to time hereunder, shall be at the par value between Chinese dollars and US dollars established in conformity with procedures of the International Monetary Fund or at an equitable rate upon which Governments of China and US may mutually agree."

Dept suggests adding following para Art XI "The Government of China shall guarantee the United States of America against exchange loss resulting from any alteration in the above rate of exchange with respect to any currency of the Government of China received hereunder and held by the Treasurer of the USA or by the Foundation by undertaking to pay to the Government of the USA such amounts of currency of the Government of China as are necessary to maintain the dollar value of such currency of the Government of China as is held by the Treasurer of the US or the Foundation. The purpose of this provision is to assure that the operations of the Foundation will not be interrupted or restricted by any deficits resulting from alterations in the above rate of exchange."

Re Chinese Govt objection Art XII Dept feels strong effort should be made to secure customary tax exemption for programs this character; and that in any event privileges requested Art XIII are reciprocated by US in case of Chinese citizens in US.

While Foundation would undertake no projects objectionable Chinese, Dept reiterates necessity complete US control these US funds and program projects. Agrees Emb opinion this accomplished more smoothly expeditiously board directors composed USA citizens.

MARSHALL

811.42700 SE/8-1947: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 19, 1947—9 a. m.

[Received August 19—5:20 a. m.]

1743. ReDeptel 939, July 30, 6 p. m. Having made little progress in dealing with the Vice Minister of Foreign Affairs²³ on differences of opinion concerning the draft agreement to implement the Fulbright Bill, an officer of the Embassy discussed the matter with the Foreign Minister. He at once and without argument completely reversed Foreign Office position on the major points. He offered, on his own initiative, to agree that the name of the foundation should be U. S. Educational Foundation in China. He then expressed com-

²³ Liu Shih-shun.

plete agreement with the American viewpoint on the composition of the Board of Directors and agreed that the Foreign Office would strongly support, with the Minister of Finance, the American proposals on the exchange rate to be used. The only request he made was that U. S. make concessions on the articles involving freedom from taxation and other similar immunities. He justified this request on the grounds that the Legislative Yuan would probably refuse to recognize any agreement which would restrict its freedom of legislation on such subjects.

The Embassy feels strongly that since the Foreign Office has agreed to all the major points which we desired, that the U. S. must be prepared to make concessions on relatively minor points such as those mentioned above.

The Minister, in conclusion, stated that he would instruct the Vice Minister and Chief of American Section²⁴ to straighten out all minor points with Embassy within 1 week. Embassy inclined to believe, however, that the exchange rate question, since it involves several other agencies of the Chinese Government may yet cause a little difficulty and postpone final agreement, somewhat beyond the limit of 1 week proposed by the Minister.

STUART

811.42700 SE/8-2647: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 26, 1947—10 a. m.

[Received 10:10 a. m.]

1806. Reference the August [*June*] 16, 1947 revised draft of agreement to implement the Fulbright Bill and surplus property agreement, following are the results of negotiations with the Foreign Office. All references are to June 16 draft.

Preamble agreed.

Article 1—Deletions and additions approved except on two points:

1. Foreign Office prefers that the phrase "in the capital city of China" be left in. Embassy concurs. Last sentence of first paragraph inserted by Department and beginning "except as provided in Article 3." Foreign Office states it cannot accept this provision since it is not clear what its intention is, it is too broad in scope and constitutes an unnecessary limitation on Chinese legislation. Embassy is inclined to agree.

Article 2—Section 4. Foreign Office holds to previous view that this section should be eliminated. Since the agreement does not spe-

²⁴ Tung Ling.

cifically prohibit the acquisition of real property, Embassy does not believe that this provision is worth arguing about. Other deletions and additions approved.

Article 3—approved. Article 4—the Foreign Office proposes following wording for article 4: [“] The Foundation shall plan its annual programs in such a way that full use shall as far as possible be made of the funds made available for each year. The Foundation shall not enter into any commitments or create any obligation which shall bind the Foundation in excess of the funds actually on hand.” Embassy recommends approval.

Article 5—in view of Foreign Office agreement that the Board of Directors shall be composed solely of American citizens with Chinese advisors, Embassy and Foreign Office agree on following wording of article 5:

“The management and direction of the affairs of the Foundation shall be vested in a Board of Directors (hereinafter designated the ‘Board’) consisting of five directors.

The principal officer in charge of the diplomatic mission of the U. S. of America to the Republic of China (hereinafter designated ‘Chief of Mission’) shall be chairman of the Board. He shall have the power of appointment and removal of members of the Board at his discretion. The four other members of the Board shall be as follows: (a) two members of the Embassy Staff, one of whom shall serve as treasurer; and (b) two citizens of the U. S. of America, one representative of American business interests in China and one representative of American educational interests in China.

The two members specified in (b) of the last preceding paragraph shall be resident in China and shall serve from the time of their appointment until the succeeding December 31 next following such appointment. They shall be eligible for reappointment. All the four members shall be designated by the Chief of Mission. Vacancies by reason of resignations, transfers of residence outside of China, expiration of term of service, or otherwise shall be filled in accordance with this procedure.

The Chinese Govt shall appoint a number of advisors to the Board, who shall attend all the meetings of the Board and participate in its discussions. The advisors shall have no vote but their opinions shall be given due consideration by the Board at all its deliberations.

The directors and advisors shall serve without compensation, but the Foundation is authorized to pay the necessary expenses of the directors and advisors in attending meetings of the Board.”

Articles 6, 7, 8, 9, and 10. Agreed.

Article 11—Foreign Office agrees that this article shall now read as follows, in accordance with suggestion in Dept’s 239 [939], July 30, 6 p. m.:

“The Govt of the Republic of China shall, within 30 days of the date of the signature of the present agreement, deposit with the

Treasurer of the U. S. of America an amount of Chinese national currency equivalent to \$250,000 (U. S. currency). Thereafter commencing with January 1, 1948, the Govt of the Republic of China shall similarly deposit on every January 1, April 1, July 1, October 1, of each calendar year within the period January 1, 1948, to September 30, 1967, inclusive, an amount of Chinese national currency equivalent to \$250,000 (U. S. currency). The Govt of the U. S. of America shall deposit all Chinese national currency so received to the credit of the Foundation in a depository to be designated by the Secretary of State of the U. S. of America. The rate of exchange between currency of the Govt of the Republic of China and U. S. currency to be used in determining the amount of currency of the Govt of the Republic of China to be deposited from time to time hereafter, shall be at the par value between Chinese dollars and U. S. dollars established in conformity with procedures of the International Monetary Fund or determined on an equitable basis upon which the Govts of China and the U. S. may mutually agree."

It will be noted that there are two changes. The first is the first payment shall be January 1, 1948, since it will be too late for any effective use to be made of payment during fourth quarter of 1947. The second change is that the second paragraph on guarantee against exchange loss, as proposed in the Dept's telegram under reference, is eliminated since Foreign Office believes that the provision for determining the exchange rate on an equitable basis mutually agreed upon constitutes sufficient protection. In lieu of the second suggested paragraph, Embassy has therefore proposed that the second sentence of the first paragraph shall read as follows: "Thereafter, commencing with January 1, 1948, the Govt of the Republic of China shall similarly deposit during every quarter of each calendar year upon demand within the period January 1, 1948, to September 30, 1967, inclusive, amounts of Chinese national currency whose total amounts shall not exceed the equivalent to \$250,000 (U. S. currency)." Foreign Office is considering this change.

Articles 12 and 13—Foreign Office still insists that these two articles must be deleted, since this agreement must be ratified by the Legislative Yuan. Foreign Office alleges that the Yuan will not approve any agreements specifying these types of exemption for other than diplomatic personnel. Foreign Minister admits that he foresees no difficulty in granting these exemptions in actual practice but that he cannot agree to their incorporation in the agreement. In view of the nature and importance of the concessions made to the U. S. by China on this agreement, Embassy is inclined to believe that articles 12 and 13 are not of sufficient importance to warrant an argument. Department's instructions are requested.

Articles 14, 15, and 16. Agreed.

STUART

811.42700 SE/8-2647: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, September 12, 1947—6 p. m.

1150. Dept gratified learn (Embtel 1743 Aug 19) Foreign Minister's general agreement Fulbright June 16 draft. Results Embs negotiations with Foreign Office outlined (Embtel 1806 Aug 26) also gratifying. Dept's reactions follow:

Article 1. Dept agrees retain phrase "in the capital city of China." Re sentence beginning "except as provided in Article 3," Dept feels essential keep reference to domestic laws USA inasmuch as laws drafted to control domestic expenditures would prove cumbersome when applied to operations of Foundation. In view operational difficulties which might be encountered if this sentence were deleted Dept hopes Emb can make clear intention this provision to satisfaction Chinese. Exemption from Chinese laws included because of reciprocal nature of agreement and to safeguard Foundation Funds from any local laws dealing with currencies and credits which might impose restrictions on Foundation's activities. Similar exemption clauses form part of educational foundation agreements signed with South American countries and operating successfully many years.

Article 2, Section 4, Dept only seeking right of Foundation to acquire permanent office space and equipment necessary for successful operation. Dept willing concede elimination of right to acquire real property if Emb believes rental satisfactory. Points out however that Foundation may be precluded from buying real property unless specifically authorized in agreement. Section 9, Dept suggests addition of two words "and pay" following word "fix."

Article 4. Dept agrees proposed Foreign Office wording with addition of words "to the Foundation" following "available" in first sentence, and if in Emb's view second sentence would *not* preclude entering long term lease if such proved desirable. In this connection, for Embs info Dept believes quite unlikely Foundation able expand full million first year operation because of normal difficulties attendant inauguration program.

Article 5. Dept agrees Foreign Office wording with two small changes: Sentence beginning "The Chinese Govt shall appoint" should read "The Chinese Govt shall appoint a number of advisors not to exceed five, who may attend all meetings of the Board and participate in its discussions." This adds phrase "not to exceed five" and substitutes word "may" for "shall."

Article 11. Dept accepts Foreign Office language in first sentence. Dept now believes that fixed dates of payment specified in second sentence are undesirable because of possible currency fluctuations.

Dept prepared accept Emb's recommendation (Embtel 1350 June 20) that commencing January 1, 1948 Board may determine amounts and dates of payment aggregating not more than one million dollars each calendar year. Dept points out that third sentence beginning "The Govt of USA shall deposit" was deleted in June 16 draft and should not be included as part of agreement. Dept recommends final sentence commencing "The rate of exchange" beginning with word "or" should be changed to "or in the absence of such a par value the rate shall be determined on an equitable basis upon which the Govt of China and the US may mutually agree."

Re guarantee against exchange loss Dept believes this language important since Article 4 now requires Foundation have on hand necessary funds for full year's grant before making such commitment, and authority to invest funds is eliminated. Thus Foundation or grantee would be at complete mercy of exchange market during each 12 months period.

For Embs information exchange guarantee clause is being negotiated in all Fulbright agreements. Standard clause has now been modified from language supplied Emb in June 16 draft as follows: Word "exchange" should be deleted before word "loss" in first sentence second paragraph and phrase "or from any currency conversion" should be inserted after words "rate of exchange" in same sentence. Phrase "or from currency conversion" should be added at end of last sentence in paragraph.

Articles 12 and 13. Dept willing accede Emb's recommendation eliminate these. However in view reciprocal aspects Article 13 and possibility of heavy taxation curbing scope of program, suggest Emb explore securing informal exchange of notes between Ambassador and Foreign Office covering these points.

MARSHALL

811.42700 SE/9-2447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 24, 1947—6 p. m.

[Received September 25—5:25 a. m.]

1986. ReDeptel 1150, September 12, 6 p. m. Discussions with FonOff on changes and suggestions contained in telegram under reference have produced following tentative agreements, some of which are still subject to confirmation by FonOff with other interested Chinese authorities.

FonOff agrees to reconsider inclusion of sentence beginning "except as provided in article 3" though it may make a counterproposal to

retain the reference to American law and eliminate the reference to Chinese law. Article 2, section 4, FonOff will reconsider Department's views and probably accept. Addition to section 9 acceptable.

Article 4. In order to avoid the necessity of having the funds for any given year on hand at the beginning of that year and in connection with changes in article 11 discussed below, Embassy rewrote and FonOff accepted the second sentence to read as follows: "The foundation shall not enter into any commitments or create any obligation which shall bind the foundation in excess of the funds to be received during any given calendar year." Department's concurrence requested.

Article 5. Proposed changes tentatively approved, though FonOff may not have fully realized that one change limits the number of Chinese advisors to five. Department's authorization is requested to increase number of advisers if FonOff so requests. Embassy does not believe that increasing the number of advisers would constitute any material change and might assist in securing other concessions.

Article 11. Second sentence altered and mutually agreed upon to read as follows: "Hereafter commencing with January 1, 1948, the Government of the Republic of China shall, during each calendar year within the period January 1, 1948 to December 31, 1967 inclusive, deposit upon demand of the foundation, amounts of Chinese national currency not to exceed the equivalent of one million dollars (U. S. currency) in any given year. The first deposit of Chinese national currency equivalent to \$250,000 (U. S. currency) shall be considered as part of the deposits for the calendar year 1948."

The third sentence in article 11 concerning the rate of exchange is still causing difficulty. The Ministry of Finance states that it can never get the Legislative Yuan, which will have to ratify the agreement, to accept the provision that "the rate shall be determined on equitable basis" since the Yuan feels this to be an unwarranted infringement on its right to pass laws. The Ministry therefore proposed that the rate be either the par value as established by the International Monetary Fund or in the absence of the par value, the open market rate as determined by the Central Bank. The Embassy refused to accept this proposal on the grounds that although the open market rate would be eminently satisfactory today, it might not be so later and in any event, under present conditions in China might be abolished leaving U. S. without any rate. The Embassy, therefore, proposed and Ministry tentatively accepted the following wording after the phrase "in conformity with procedures of the International Monetary Fund" to include the following: "Or in the absence of such a par value, the rate shall be the open market rate as established by the Central Bank.

Should this latter rate for any reason appear to be inequitable or should it be abolished by the Govt of the Republic of China, a new rate can be the subject of discussion between the two Govts". Embassy believes that the new provisions in articles 4 and 11 constitute adequate guarantees against exchange losses and fluctuations and in view of these new provisions, Embassy recommends that Dept accept continued FonOff insistence that the second paragraph of article 11 concerning losses from exchange be eliminated. FonOff still maintains that legislative Yuan will not accept this kind of general provision but will accept the type of guarantee outlined above. The third sentence beginning "The Govt of the U. S. A. shall deposit" deleted.

Articles 12 and 13 eliminated. FonOff states it will probably accept suggestion for inclusion of the sense of article 13 in an informal exchange of notes.

STUART

811.42700 SE/9-2447 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 3, 1947—1 p. m.

1223. Dept greatly pleased Embs progress negotiations Fulbright agreement outlined Embtel 1986 Sept 24. Comments follow:

Art 1. Should FonOff make counter proposal to retain reference to American law and eliminate reference to Chinese law, Dept prepared accept, and Emb authorized concede.

Art 4. Dept concurs Embs revision second sentence.

Art 5. Emb authorized determine acceptable maximum number advisers in consultation with FonOff.

Art 11. Dept approves new wording second sentence with slight alterations as follows: "Thereafter commencing with January 1, 1948, the Govt of China shall during each calendar year, deposit with the Treasurer of the U. S. upon demand of the Govt of the US amounts of Chinese national currency not to exceed the equivalent of one million dollars in any given year, and in aggregate totalling the equivalent of \$20,000,000. The first deposit of Chinese national currency equivalent to \$250,000 shall be considered as part of the deposit for the calendar year 1948."

This wording substitutes "US Govt" for "Foundation" and eliminates reference to 1967 as concluding year. Thus if Foundation finds it necessary spend less than million dollars one year it can draw less than million dollars following year and reduce cash on hand. Fulbright Act limits expenditures to one million annually. Proposed language affords further precaution against inflation. Dept still accepts first

sentence Art 4 and does not consider this proposal inconsistent therewith.

Dept approves Embs wording third sentence Art 11 and concurs Embs recommendation eliminate second paragraph re exchange guarantee in view new provisions in Articles 4 and 11.

Reftel makes no mention informal understanding FonOff substance Article 12. Dept believes important obtain informal assurances that Central Govt taxation be waived or that it not seriously handicap Foundation. Dept also hopes assurances on substance Article 13 obtainable. Emb authorized accept best obtainable assurances both points. Informal verbal assurances on these points adequate since Dept informed any exchange of notes must be registered UN²⁵ and would therefore involve same difficulties presented by inclusion in agreement.

Dept hopes early signature possible in view present agreement all controversial points.

LOVETT

811.42700 SE/10-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 8, 1947—6 p. m.

[Received October 8—7 a. m.]

2047. ReDeptel 1223, October 3, 1947, 1 p. m. Negotiations have been successfully concluded on the Fulbright Agreement. Text will be telegraphed as soon as final checking on details has been completed with Foreign Office.

Foreign Office now seeking final approval from Foreign Minister concerning oral assurances on substance of original articles 12 and 13 which was in the beginning given by Senior Vice Minister Foreign Affairs.

STUART

811.42793 SE/10-1447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 14, 1947—6 p. m.

[Received October 14—1:15 p. m.]

2071. Embassy's immediately following *en clair* telegram²⁶ contains text agreed upon by FonOff. Dept will note following minor changes. Article 1—the reference to Chinese law has been eliminated.

²⁵ United Nations.

²⁶ Telegram No. 2072, October 14, not printed.

Article 2—section 4, FonOff has accepted wording with the addition after the words “Secretary of State of the U. S. of America”, of the following phrase “and also such conditions and requirements as are or may be prescribed by laws and regulations enforced in the territory where the property is situated.” Article 5—FonOff accepts limitation of five Chinese advisers to the board. Article 11—FonOff accepts Dept’s new wording of second sentence.

Authorization for signature requested. Embassy and FonOff agreeable simultaneous announcement Washington and Nanking. Signature would probably be delayed for 10 days in order to prepare Chinese texts.

STUART

 811.42793 SE/10-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 17, 1947.

[Received October 17—1:57 p. m.]

2089. ReEmbtel 2072, October 14.²⁷ Embassy has agreed on minor changes of article 11 which now reads as follows:

Article 11: “The Government of the Republic of China shall, within 30 days of the date of the signature of the present agreement, deposit with the Treasurer of the U. S. of America an amount of Chinese national currency equivalent to \$250,000 (U. S. currency). Thereafter commencing with January 1, 1948, the Government of the Republic of China shall during each calendar year, deposit with the Treasurer of the U. S., upon demand of the Government of the U. S., amounts of Chinese national currency not to exceed the equivalent of \$1,000,000 (U. S. currency) and in aggregate totalling the equivalent of \$20,000,000 (U. S. currency). The first deposit of Chinese national currency equivalent to \$250,000 (U. S. currency) shall be considered as part of the deposit for the calendar year 1948. The rate of exchange between currency of the Government of the Republic of China and U. S. currency to be used in determining the amount of currency of the Government of the Republic of China to be deposited from time to time hereafter, shall be at the par value between Chinese dollars and U. S. dollars established in conformity with procedures of the International Monetary Fund or in the absence of such a par value the rate shall be the open market rate as established by the Central Bank of China.

Should this latter rate for any reason appear to be inequitable or be abolished, it can be the subject of discussion between the Government of the Republic of China and of the United States of America.”

Department is requested to expedite urgently approval and authorization for signature.

STUART

²⁷ Not printed.

811.42793 SE/10-1747: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 22, 1947—4 p. m.

1293. Dept notes omission important para Article 11 as quoted Embtel 2072, Oct 14²⁸ and 2089, Oct 17. Should include as final paragraph "The Secy of State of USA will make available to Foundation Chinese national currency in such amounts as may be required by Foundation but in no event in excess of budgetary limitation established pursuant Art 3 of present agreement."

If Dept's impression correct that paragraph above omitted in error, Dept approves text and authorizes Emb set date for signature (Embtel 2071, Oct 14). Would prefer substitution words "the rate" for "it" last clause sentence beginning "Should this latter rate" Article 11.

Dept suggests Emb name Board members, invite Chinese appoint advisers. If Emb agrees Dept favors announcing American Board members simultaneously with signing of agreement. Dept requires minimum 3 days obtain clearance here for two Board members not on Emb staff. If delay in clearance encountered Dept favors signing agreement without announcement Board members.

LOVETT

811.42793 SE/11-1047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 10, 1947.

[Received November 10—3:39 p. m.]

2225. Reference Embtel 2205, November 6.²⁹ Fulbright Bill Agreement signed 4:30 p. m., November 10.³⁰

STUART

²⁸ Not printed.²⁹ Not printed (811.42793SE/11-647); it gave the text of a proposed Embassy press release which was worded similarly to the one issued by the Department on November 10, printed in Department of State *Bulletin*, November 23, 1947, p. 1005.³⁰ For text, see Department of State Treaties and Other International Acts Series No. 1687, or 61 Stat. (pt. 4) 3582.

AGREEMENT BETWEEN THE UNITED STATES AND
CHINA REGARDING RELIEF ASSISTANCE TO CHINA,
SIGNED OCTOBER 27, 1947

893.48/12-2646

The Chinese Ambassador (Koo) to the Secretary of State

The Government of the Republic of China is gratified to learn that the President of the United States of America is undertaking to recommend to Congress for an appropriation for purposes of post-UNRRA ¹ relief to be extended to friendly countries which have been devastated by the war and will still be in need of aid after the termination of the UNRRA operations. It is earnestly requested that China, in view of her pressing need for postwar relief and her inability to pay for the necessary supplies on account of the lack of adequate reserve in foreign exchange, will be included among the recipient countries.

The present UNRRA Program for China provides for only about one-fourth of her estimated total needs for postwar relief and rehabilitation. When the original relief and rehabilitation program was drawn up by the Chinese Government in 1944, it was ascertained that requirements for immediate postwar relief and for the rehabilitation of the economy of the country to the 1937 level would require approximately 10,000,000 tons of supplies, involving an expenditure in U. S. currency of some \$2,000,000,000. Of this figure the most urgent requirements, which amounted to 4,000,000 tons of supplies and were estimated at \$945,000,000, were requested from UNRRA. Recent country-wide surveys have indicated and reaffirmed that the original estimate is correct as regards the amount of supplies required as well as their categories.

On account of the limitation of financial resources, the UNRRA allocation for China was reduced to \$535,000,000. The UNRRA Program for China when successfully consummated can only be expected to furnish supplies to meet about one-fourth of the total needs of China. It is apparent, therefore, that the task of relief and rehabilitation can not be terminated with the UNRRA Program for China and that substantial requirements for the meeting of these needs have to be sought from other sources.

The main requirements urgently needed for relief are within the

¹ United Nations Relief and Rehabilitation Administration.

categories of food, raw cotton, agricultural supplies, and medical supplies. The necessity for transportation equipment should also be stressed, as China's transportation system had been seriously damaged on account of the war and it has to be restored and properly maintained for the distribution of such supplies. The procurement for the necessary supplies to meet these urgent deficiencies for the period beginning from May 1947 to April 1948, together with ocean freight charges, costs for petroleum, oil and lubricants, and salaries for the technical personnel, will total approximately \$200,000,000.

In view of China's meager foreign assets a good part of which has been earmarked for monetary stabilization, her unfavorable position in the international balance of payment due to the destruction and dislocation of the economy of the country, and of the fact that production and trade have not yet been restored to their normal conditions to acquire the necessary foreign exchange, China is not in the position to finance the procurement of the necessary supplies and services to meet the deficiencies referred to above. The Chinese Government should feel deeply grateful if the most favorable consideration would be accorded to its request for an appropriate share in the post-UNRRA relief to be undertaken by the United States Government. The Chinese Government on its part will ensure the proper utilization and the prompt distribution of all the relief articles to be thus allocated to China.

The Chinese Ambassador desires to inform the Secretary of State that the Washington Office of the Chinese National Relief and Rehabilitation Administration has been authorized by the Chinese Government to exchange views with the designated officials of the United States Government on all technical questions arising out of the post-UNRRA Relief Program for China.

[WASHINGTON,] December 26, 1946.

893.48/1-2747

Memorandum by Mr. C. Tyler Wood, Deputy to the Assistant Secretary of State for Economic Affairs (Thorp), to the Under Secretary of State for Economic Affairs (Clayton)

[WASHINGTON,] January 27, 1947.

CHINA'S 1947 INTERNATIONAL FINANCIAL POSITION WITH REFERENCE
TO NEED FOR POST-UNRRA RELIEF

In view of unsettled conditions in China, only a tenuous basis exists for prediction of that country's 1947 balance-of-payments position. According to the Department's estimates, however, China's im-

ports in 1947 should total \$943 million (CIF), of which UNRRA will probably supply about \$280 million, leaving some \$663 million to be purchased commercially. Estimating probable commodity exports at \$275 million, and taking into account invisible exports (and imports), China's deficit in the current accounts of its balance-of-payments should be no larger than \$203 million.² China's limited distribution capacity, which will be burdened in any case by import of UNRRA goods, surplus property,³ capital equipment obtained under 1946 credits, and some Japanese reparations goods, may require a reduction of projected commercial imports and thereby reduce the current account deficit.

Unlike European countries included in the Department's Post-UNRRA program, China possesses foreign exchange in an amount greater than its estimated maximum 1947 deficit. To meet this deficit China presently has available official holdings of foreign exchange of approximately \$400 million (including \$118 million in gold). In addition, private Chinese holdings abroad of sterling and dollar balances, not now subject to control, are estimated at slightly over \$100 million. Undisbursed Export-Import Bank⁴ and Canadian credits amounting approximately to \$50 million may in part be used to meet the 1947 deficit. Under negotiation also, are Maritime Commission credits totalling \$76 million for purchase of 159 vessels⁵ (over 1500 tons) under the Merchant Ship Sales Act of 1946.⁶ Such coastal vessels, together with smaller craft and facilities acquired under Surplus Property account may meet the main part of China's estimated water transport needs, and reduce the deficit by at least \$50 million.

The Chinese maintain that their present holdings should not be drawn down to meet the expected 1947 deficit, but should be retained as a reserve for monetary stabilization. It is not the Department's or Treasury's view, however, that China's exchange holdings should be so regarded; and it is believed that for currency stabilization to become a practical possibility, China must first take effective steps toward political accord, increase of revenue, reduction of military expenditure, et cetera.

China must retain some working foreign exchange reserve, and should not be expected to completely dissipate its foreign exchange holdings to meet 1947 essential needs. In addition China has urgent

² Attached to this memorandum is a statistical estimate of China's 1947 balance of payments, not printed.

³ For correspondence on this subject, see pp. 1242 ff.

⁴ For correspondence on Export-Import Bank credits to China, see pp. 1030 ff., *passim*.

⁵ For correspondence on this subject, see pp. 942 ff.

⁶ Approved March 8, 1946; 60 Stat. 41.

needs for foreign exchange for such purposes as shipment and installation of equipment to be received as reparations from Japan, and for purchases of repair parts to make usable the surpluses recently acquired from the United States. The Chinese have indicated informally that in view of the pressure to maintain imports of commercial and rehabilitation items it is not likely that a sufficient amount of official gold and dollar holdings would in fact be released for purchases to cover all imports of food needed for relief purposes.

Access to new loans or credits, including the \$500 million earmarked by the Export-Import Bank, to meet the drain on its resources in 1947 will be difficult for China as long as its unsettled political and inflationary situation remains without improvement.

If it were concluded that some amount should be included in the Congressional relief bill for possible use in China, an amount of \$40 million would be appropriate. This would be intended to meet possible food relief requirements in food deficit areas in China which may not be met from indigenous sources. An amount of \$40 million compares with \$55 million food imports required for 1947, excluding UNRRA receipts.⁷

893.48/2-347

*Memorandum by the Director of the Office of Far Eastern Affairs (Vincent) to the Under Secretary of State (Acheson)*⁸

[WASHINGTON,] February 3, 1947.

Subject: Post UNRRA Relief for China

I talked about this with Will Clayton last week and thought the "play" then was whether I had any objection to the inclusion of China to the tune of 40 million. I told him I did not. There was some question as to whether China would be "insulted" by the small size of the sum, since they could probably make a case for a much larger amount. I said that it would take a lot less than \$40 million to insult the Chinese.

In spite of the memorandum about the balance of payments,⁹ et cetera, I still think the Chinese should be included in the figure for relief. As a matter of fact, I think the balance of payment statement gives too rosy a picture from the Chinese point of view. They are

⁷ In a memorandum of January 31 the Under Secretary of State (Acheson) requested the Director of the Office of Far Eastern Affairs (Vincent) to "look at this [memorandum] so that I can make a recommendation to the Secretary as to including or excluding \$40,000,000 for China. At present such an amount is included in the \$450,000,000 which the Budget Bureau is considering. The final figure includes \$90,000,000 for Poland. It may be that either or both should be eliminated."

⁸ Sent also to the Under Secretary of State for Economic Affairs (Clayton).

⁹ *Supra*.

going to need relief in greater amount than they are going to be able to pay for. As a matter of fact, more Chinese are liable to die in the next year from need of relief than will die in all the other countries put together. But I suppose this can be called "normal."

Another thought. If China is not included and the over-all figure is reduced by 40 million, my guess would be that a pro-China lobby in Congress would probably be effective in getting China a slice of the reduced figure. I am quite sure that the question will be raised by Judd¹⁰ and others as to why China is excluded while Italy, Greece, Austria and (Lord help us!) Poland are included.

As you know I do not indulge in special pleading for my area, and I am not doing it here. But I think the Chinese deserve at least 40 million, and I think the betting average would favor their getting it out of Congress even if *we* did not think they deserved it.¹¹

J[OHN] C. V[INCENT]

893.48/12-2646

The Secretary of State to the Chinese Ambassador (Koo)

The Secretary of State presents his compliments to His Excellency the Chinese Ambassador and has the honor to refer to the *note verbale* of the Ambassador dated December 26, 1946, concerning the program for post-UNRRA relief.

The considerations in respect to the need for post-UNRRA relief in China have been carefully considered by the Department. It is expected that the Congress will begin its consideration of the President's relief proposal in the near future and that the needs of China as well as of other countries will be considered in these deliberations.

In the meantime, of course, the UNRRA program for China will continue for some months in order to meet urgent current needs.

WASHINGTON, February 27, 1947.

800.48/3-347 : Telegram

*The Secretary of State to the Minister in Austria (Erhardt)*¹²

WASHINGTON, March 3, 1947—7 p. m.

144. President has requested \$350 million for foreign relief¹³ to consist largely of basic essentials primarily food. At public hearing

¹⁰ Congressman Walter H. Judd, of Minnesota.

¹¹ Attached to this memorandum is a draft report on the status of the UNRRA China program as of January 31, 1947, not printed.

¹² Repeated to the Ambassador in China as No. 255.

¹³ In a message to Congress, February 21; Department of State *Bulletin*, March 2, 1947, p. 395.

before House Foreign Relations [*Affairs*] Com Clayton testified¹⁴ Austria, Greece, Hungary, Italy and Poland appeared to need further relief following UNRRA. Indicated also China might need free food imports to prevent serious situation later in year in certain areas. Total needs all countries \$610 million. Hoped other contributors would make up balance and indicated desirability of not earmarking definite amounts for particular countries at this time in order permit integration our program with that of other contributors and adjust to changing needs in future.

In secret document given Com members¹⁵ Dept indicated its present estimates by countries of \$610 million total need based on difference between minimum imports and resources available for their procurement as follows: (in millions of dollars) Austria, 148; Greece 56; Hungary 40; Italy 158; Poland 128; Trieste 20 (on tentative basis). In China total emergency food imports were estimated at \$60 million.

As stated in public hearing US relief would be confined to few basic essentials primarily food. Depending upon Congressional action expected that shipments will start about May 1st and continue until end 1947. Clayton stated did not believe further relief would be necessary with possible exception Austria. General reaction Com appeared favorable, all members expressing great interest in controls which would be instituted to protect integrity of operation. Dept proposes following plan of operation:

Agreements would be concluded with recipient govt providing, (a) Our purpose in providing relief for general benefit of all people in country to prevent suffering and permit further efforts toward recovery; (b) Procurement restricted to types and quantities approved by US. Dept would approve from time to time target programs for say 3 month periods authorizing procurement of given types and quantities of supplies; (c) Receiving country would supply current reports of procurement and shipping activities including copies contracts and other documents. Dept would from time to time advance cash to be used by procuring country in meeting current obligations; (d) Distribution of supplies to be through regular channels in country with special provision for meeting needs of indigents; (e) Local proceeds arising from sale of supplies to be deposited in special account and used for jointly agreed relief and rehabilitation programs within country including relief for indigent. Would also be available for small local costs of US in supervising program. (f) Country to maintain fair and effective rationing and price control

¹⁴ See *Relief Assistance to Countries Devastated by War: Hearings on February 25 and 26, 80th Cong., 1st sess., pp. 1-52.* Mr. Clayton's prepared statement also printed in Department of State *Bulletin*, March 9, 1947, p. 440.

¹⁵ Not found in Department files.

system and distribute without discrimination relief supplies whether US, produced locally or imported from other sources. Country not to divert such supplies to non-essential uses or for export. (g) Recipient govt to maintain most effective possible procedure for collecting local crops. (h) Recipient govt to provide reports covering arrival US supplies, allocation of supplies through commercial or other channels, use of supplies for free distribution, current inventories and forecasts of availability of local supplies. (i) Right of US representatives to be free to observe and report on all operations with full cooperation of local govt. (j) Representatives of US press and radio to be given complete freedom observe and report on relief distribution. (k) Recipient govt to cooperate fully in providing adequate publicity regarding arrival and distribution US supplies and utilization local funds accruing from their sale. (l) US reserves right to stop or adjust program at any time for any reason.

It is planned to attach small staff consisting relief adviser, 3 or 4 observers and clerical help to Emb for observing distribution supplies, approving use local proceeds, obtaining full reports on operations and in conjunction with other officers in Emb submitting reports to Dept re economic and supply conditions within the country which might affect need for future shipments. In addition one man representing State Dept will travel from country to country advising with Emb and staff concerning relief programs and providing coordination between staff in Dept and in field re relief matters. Dept consulting with missions concerned about possible procurement and shipping arrangements and will keep you informed re progress discussions.

Ur comments concerning proposed program and suggestions as to modification or amplification of any points listed above with any pertinent background info urgently desired by Dept to be used for developing further plans.

MARSHALL

800.48/3-1447: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 14, 1947—8 a. m.

[Received March 14—5: 55 a. m.]

557. 1. Embassy is in accord with general position taken by Department before House Committee, and particularly with reservation on earmarking definite amounts for particular countries of post-UNRRA relief for reason stated. (Deptcirtel March 3, repeated Nanking as 255).¹⁶ Also believe \$60,000,000 is adequate relief target for China,

¹⁶ *Supra.*

assuming normal crop and having in mind previously reported Chinese minimum estimate of 1947 food import requirement at \$80,000,000. Expectation here is that proposed U. S. expenditure would be restricted to food, fertilizers, seeds and possibly medicine as justified relief items, but not cotton or other materials.

2. Following comments submitted on points of agreement with recipient governments outlined by Department:

(a) through (c). Agree.

(d) In China questions immediately arise as to extent of direct relief for expected famine areas in interior compared with imported food needs in large coastal cities, and as to methods by which each type of distribution can best be accomplished.

(e) Very necessary provision for any Chinese agreement. Same approach now recommended for completion basic objectives of UNRRA program, using raw cotton as earning asset. Chinese Government has thus far failed to make available adequate local currency financing for relief or rehabilitation purposes and its budget stringency will be even greater in coming months as inflation continues.

(f) This suggested condition presents peculiar problem for China. Rationing and price controls have heretofore been resisted by National Government as impractical. Tentative plans now being developed for Shanghai and Nanking under emergency economic regulations promulgated February 16.¹⁷ System may later be extended to other important cities. Success of new measures at present problematical, and would have [to be judged] flexibly by U. S. in recommending amount of food for distribution in urban areas if based upon adequacy of rationing or price controls. As protective measure in case of China, therefore believe U. S. should insist, with respect to relief supplies furnished by it, on advance mutual agreement covering (1) amounts of food to cities having price and rationing controls as against amounts allocated to direct relief, and (2) agencies or methods of distribution in both instances.

On point (2) above we need to know more of Chinese plans for distribution of food under new price and rationing measures, and whether normal or Government controlled outlets will be used to control distribution. In interior, question arises as to possible use voluntary agencies or retaining present CNRRA¹⁸ distribution machinery in certain regions. These alternatives being studied and more detailed report will follow, including best available forecast of famine relief areas. Unwise in Embassy's opinion to make any new program the occasion of extending CNRRA and its past relief activities any longer than necessary. Also appears in U. S. interest to use voluntary agencies for relief distribution wherever possible.

(g) through (l). Agree these points necessary in any agreement with Chinese Government.

3. Question remains to be decided whether we should make even tentative approaches to Chinese Government now on possible arrangement should it be Department's intention to go through with China

¹⁷ See telegram No. 299, February 17, from the Ambassador in China, p. 1071.

¹⁸ Chinese National Relief and Rehabilitation Administration.

program, and at what time we should commit ourselves to the Chinese in view of broader political ramifications. At same time we should not lose sight of advantages of coordination of distribution of substantial existing undistributed UNRRA food stocks and balance of UNRRA food arriving with what U. S. may later supply, nor of fact that possibility of post-UNRRA relief to China, even in absence of commitments, would be useful leverage in effective utilization of balance of UNRRA supplies. Embassy would appreciate guidance on above.

4. Recognizing unwisdom of Department or its representatives abroad assuming direct administrative responsibilities in country with relief distribution problems such as exist in China, Embassy supports fully proposal to attach relief adviser and staff, including observers, to Embassy in implementation this program. Desirable to make budget provision for extensive internal travel both in following success of relief efforts and in obtaining other relevant economic information. Embassy would appreciate being consulted before appointments of senior officers this connection are confirmed and may have specific suggestions. Possibly, desirable candidates can be found in present UNRRA staff operating in China. Qualifications and experience of some of these employees well known and continuity of their work perhaps desirable if no significant opposition exists in U. S. to utilizing UNRRA-trained Americans for subsequent unilateral aid program. Embassy believes it important, however, to avoid any possibility of selecting relief adviser and assistants on basis of UNRRA or other previous experience who might prove unsatisfactory to Chinese or ineffective in dealing with them in present difficult circumstances.

5. With reference to Department consulting missions concerned about procurement and shipping arrangements, Embassy hopes that all but detailed arrangements can be discussed with Chinese Government here in first instance rather than their representatives in Washington. Chinese coordination and lines of communication between Washington and Nanking have been disappointing in past, and have led to difficulties in dealing with Chinese here when even subsidiary policy questions were raised with Washington representatives.

6. Until further instructions received from the Department, no indication of relief plans under consideration is being given to Chinese.

STUART

893.48/4-747: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 7, 1947—7 p. m.

409. In general Dept agrees comments in Ur 557 Mar 14 re post-UNRRA relief. Believe too early to make even tentative commit-

ment to Chinese since neither extent of need particularly re food nor form of US legislation are now known. In any case program would probably be restricted to food with such limited seeds, fertilizer and pesticides as might be obtainable and possibly medical supplies. Repeated to Shanghai as Depts 572. In meantime Dept desires any info or comments which could lead over next few weeks to decision whether program should be undertaken and if so tentative character and extent. Cheng Paonan CNRRA representative here has made inquiry re US plans and has been advised re tentative overall plans and procedures proposed by Dept for handling post-UNRRA relief generally. No definite indications have been given re program for China. Dept concurs that formal negotiations if undertaken could best be handled in Nanking. No approach should be made however at this time although there is no objection to giving info with proper qualifications as to its tentative nature concerning general operating arrangements and conditions of agreements which we proposed. Most of this info is contained in public testimony before Congressional Com and in relief bill now under consideration by Congress.¹⁹ Dept will consult Emb re appointments of senior officers should mission be established and in meantime would appreciate names of qualified persons. Believed unwise in view of public opinion in US to employ a large number from UNRRA although a few could be used. Dept will advise Emb further developments and airmailing tentative draft standard agreement²⁰ for Embs suggested comments or modifications in relation conditions in China.

ACHESON

893.48/4-1047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 10, 1947—3 p. m.

[Received April 10—8:06 a. m.]

777. Chinese Govt has now made formal approach for post-UNRRA relief from U. S. A. (ReDeptel 409, April 7, 7 p. m.) Following is translation formal note dated April 7 addressed by Dr. Wang Shih-chieh, Foreign Affairs Minister:

“I have the honor to state that while UNRRA is about to wind up its task, China still needs large quantities of relief supplies. Among these supplies, the article of which a shortage is most acutely felt is food itself. For example, the program for the resumption of agricultural activities along the Yellow River basin will require at least 160,000 tons of food (principally wheat flour) before the end of this

¹⁹ H. J. Res. 134.

²⁰ Instruction No. 322, April 25, not printed.

year, but UNRRA can only supply 21,000 tons of these. For further instance, barrenness has already become apparent in the land in the northern part of Anhwei in Hunan and in Kwangsi, and according to UNRRA's food program rice and wheat flour as allotted to these various regions do not exceed 28,000 tons at the most. During these few months of food shortage, external relief will certainly be urgently needed. With regard to UNRRA's medical program, owing to the inability to acquire various necessary supplies and equipment on schedule, and to the transfer of available funds for uses elsewhere, the implementation (of the program) has had to be sharply restricted. The complete medical supply program as drawn up by UNRRA was originally determined on a basis of minimum requirements; at that time it was perhaps not anticipated that actual requirements would increase rather than decrease. For this reason, various medical supplies and equipment will continue to be urgent needs after the termination of UNRRA.

It will be greatly appreciated if Your Excellency will transmit the above to the Govt of the U. S. so that relief may be accorded in respect of various relief supplies needed by China after the termination of UNRRA."

Embassy informing Dr. Wang that substance his note being transmitted to Dept. Meanwhile Embassy's comments on note and on points raised reference Deptel to follow.²¹

Repeated Shanghai 337, April 10, 3 p. m.

STUART

893.48/4-1247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 12, 1947—5 p. m.
[Received April 13—2:50 a. m.]

798. Embassy regards formal Chinese request for post-UNRRA assistance as primarily an effort to conserve its foreign exchange resources against diversion to essential but expendable imports (reEmb-tel 777, April 10, repeated Shanghai 337). Government can ill afford internal costs of direct relief on any substantial scale. Department should therefore not anticipate any really wide relief distribution in China with either indigenous or imported supplies this year. China obviously needs to continue to import food however and Embassy would favor allocation of post-UNRRA relief funds to China. It does so fully realizing that there may be other claimant countries which can give assurance of accepting what Chinese Government cannot—namely, the creation, adequate financing with local currency and completion of a program of direct relief where it is really needed.

²¹ *Infra.*

2. Information and reports presently available, most of which have been already transmitted to the Department, do not indicate existence of potential famine areas (even in provinces mentioned specifically in Foreign Office note) if serious maldistribution of indigenous production can be avoided, and imports of food to meet part of coastal cities requirements could undoubtedly contribute to such avoidance. (Re-Deptel 409, April 7, repeated Shanghai 572.) Yellow River is probably region requiring direct relief on large scale. Survey of this now being made after which report and conclusions will be filed.²²

3. Embassy suggests formal reply to Foreign Office note, receipt of which has merely been acknowledged with statement that substance thereof being transmitted to Department be considered along following lines, assuming U. S. Government contemplates including China among recipients of post-UNRRA relief: Advise that no decision will be made as to countries definitely eligible for post-UNRRA assistance from U. S. or to what extent until pending legislation has been acted upon and until Congressional conditions such aid have been fully clarified, at same time giving information with proper qualifications concerning general operating arrangements and conditions. Suggest meanwhile that Chinese Government should appoint representatives who can consult informally with appropriate Embassy officers. Purpose of such exploratory talks would be to develop tentative conditions which will be required by U. S. in new relief program, justification of Chinese needs for review by Department vis-à-vis other such applications being presented and other pertinent data.

4. Embassy believes more useful recommendation can be made by it following conclusions procedure suggested paragraph 3 above. This will also permit maximum flexibility in negotiating with Chinese for important guarantee for other operating conditions in connection with this program without having to give even indirect assurances amounts which may be involved. There are indications here that Chinese are expecting determination of post-UNRRA assistance to be made early in May and apparently without presentation of further detailed information or advance discussion of other conditions. Further delay in exploratory talks may also lead Chinese to permit outstanding feed allocations to lapse without completing procurement arrangements.

Sent Washington 798, repeated Shanghai 352, April 12, 5 p. m.

STUART

²² Despatch No. 1122, April 23, from the Consul General at Shanghai, not printed.

893.48/4-1247: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 23, 1947—7 p. m.

479. You are authorized to reply to Chinese request for post UNRRA relief along lines para 3 Ur 798 Apr 12 but should include a note of caution stating that once Congress has provided authorization final determination will depend upon ability of Chinese Govt to justify US aid. Emb should undertake exploratory talks re tentative conditions and justifications of needs keeping Dept advised of developments Reur 777 Apr 10. Sent Nanking as Depts 479 repeated Shanghai as Depts 662.

ACHESON

893.48/5-1747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 17, 1947—4 p. m.

[Received May 17—8:10 a. m.]

1081. Embassy replied under date May 6 to FonOff note²³ containing request for post-UNRRA relief, our response drafted according Deptel 479, April 23, 7 p. m., repeated Shanghai 662.

Foreign Minister replied under date May 14 stating following designated to conduct exploratory talks with Embassy: P. H. Ho, Director General of CNRRA; Li Cho-min, Deputy Director CNRRA; Dr. Tung Ling, adviser and currently director, American Affairs Dept, FonOff; FonOff Adviser Dr. Cheng Hsi-meng, former Director, FonOff American Affairs Dept.

Informal conversations initialled [*initiated*] May 15 with Foreign Minister, Butterworth,²⁴ Gilpatric²⁵ and Boehringer²⁶ participated with me on behalf Embassy while Chinese present, included in addition to Foreign Minister, Cheng Pao-nan and those listed preceding paragraph.

Agree that exploratory talks will continue in Nanking through working group headed by Li Cho-min for China. Embassy will be represented by Butterworth, Adler,²⁷ Gilpatric, and Boehringer. Chinese understand that we are interested in receiving promptly their statement of specific relief requirements and will submit this on a

²³ See Embassy's telegram No. 777, April 10, 3 p. m., p. 1302.

²⁴ W. Walton Butterworth, Minister-Counselor of Embassy in China.

²⁵ Donald S. Gilpatric, Attaché at the Consulate General at Shanghai.

²⁶ Carl H. Boehringer, Assistant Commercial Attaché in China at Nanking.

²⁷ Solomon Adler, Treasury Representative in China.

project basis to greatest extent possible. They were cautioned to limit total of such requests to \$60,000,000 or less and reminded that this maximum estimate of China's need as stated by Dept in Congressional hearings in no way indicate U. S. commitment to supply any particular portion of that need, especially in view of expected cut in original amount requested.

Working party meeting later agreed tentatively on schedule and method of relief project presentation which will be reported promptly. Immediately apparent (ReEmbtel 557, March 14, 8 a. m. paragraph 2, point f-2) that Chinese envisage primarily relief through CNRRA along lines previously followed with UNRRA supplies, including maintenance of CNRRA regional office structure and work relief projects, most of which have been carried on in non-deficit food areas. Embassy representatives expressed view that Dept did not have any such program in mind for post-UNRRA period but rather desired to concentrate on direct distribution in areas and amounts where need could be proven, in cash or supply relief through competent voluntary agencies, and on sale through normal channels in cities where rationing and price controls were in force. Embassy has in mind use of post-UNRRA program to induce rationing if possible and, in any event, does not favor extension of CNRRA except where no satisfactory alternative exists. Dept's determination of this major policy point will be most helpful in negotiating with Chinese application to China of draft post-UNRRA agreement, article II, paragraph *a*, *b*, *d*, and *e*.

Embassy representatives also brought up question of Chinese procurement in U. S., referring especially to point (*b*) article IX of draft agreement. Chinese expressed opinion procurement might be made by Universal Trading Corporation, New York City, and/or Chinese Supply Commission, Washington. They stated that UTC qualified as a regular commercial concern and that it would charge only one percent commission for handling procurement details. Embassy representative expressed opinion that UTC was generally considered in American business circles and in U. S. Govt as official Chinese Govt agency; that UTC and Chinese Supply Commission appeared to qualify as official purchasing offices which U. S. Govt had last year requested foreign Govts to withdraw soonest possible, and that Chinese might be severely criticized for handling procurement of relief supplies by use of U. S. Govt funds through these two agencies, especially UTC.

Embassy requests information re Chinese procurement in U. S. under UNRRA program, which Chinese members of working committee assert was done mainly by UTC and/or Chinese Supply Commission. Information also requested Dept's policy re future use those agencies

for procurement under post-UNRRA program. If Dept attitude negative, would suggestion made by Embassy representatives to have Chinese Supply Commission effect procurement, presumably without charging commission, by means of tenders on C. I. F. basis submitted by American firms be acceptable? Please instruct soonest possible.

Sent Dept 1081, repeated Shanghai 457, May 17, 4 p. m.

STUART

893.48/5-1747: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 22, 1947—8 p. m.

610. Although relief act ²⁸ authorizes procurement by foreign governments it clearly indicates preference for U. S. Federal procurement. Arrangements now being made for Dept Agric to procure all food-stuffs and contract for and schedule shipping. Point of transfer to Chinese would be at shipside U. S. port. Reurtel 1081 May 17 repeated Shanghai 457 May 17, supplies remain subject to diversion by U. S. at all times.

Extent and nature of post-UNRRA relief program if any for China depends upon amount of final appropriation and economic and food conditions in China which may develop over next few months. If final appropriation should be limited to \$200 million extremely doubtful whether any program for China or at any rate more than token program could be undertaken. Dept agrees with statement in Urtel 1081 May 17 that continuation of CNRRA program on present basis is not feasible under new program. Tentatively agree that program might center around direct food distribution in deficit areas and sale through commercial channels under rationing and price controls where they are in force with the caution of course that such relief supplies cannot alone support this ration system. Suggest Emb request Chinese submit limited food program designed meet urgent needs, and indicate quantities and method of distribution each area involved. Further comments and recommendations from Emb on nature of program and method distribution which will be most effective within relatively limited scope would be helpful.

Qualifications of Ennis Reurtel 1025 May 12 ²⁹ repeated Shanghai 440 May 12 appear to be satisfactory. However in view of extensive discussions in Congress highly critical of UNRRA believe it would be

²⁸ Public Law 84 approved May 31, 1947; 61 Stat. 125.

²⁹ Not printed; it asked for the Department's instructions as to recruitment and organization of a relief advisory staff and passed along the Consulate General's recommendation to consider R. B. Ennis, "now with UNRRA and CNRRA", as Senior Relief Adviser (893.48/5-1247).

inadvisable to use former UNRRA employee as chief relief adviser. Suggest further inquiries be made to see if another qualified person can be obtained.

Final relief act provided several restrictions not contemplated in early draft agreement and later draft being airtailed immediately.³⁰ Bill authorizes assistance limited to food, medical supplies, processed and unprocessed materials for clothing, fuel, fertilizer, pesticides and seed. Congress included fuel and processed and unprocessed materials for clothing only after considerable discussion and statement by Dept representative that these items would be restricted to small amount primarily in Austria. Sent to Nanking as Depts 610 repeated to Shanghai as Depts 838. Questionable therefore whether they could or should be included in any program for China Reurtel 1005 May 9³¹ repeated Shanghai 423 May 9.

MARSHALL

893.48/5-3147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 31, 1947—1 p. m.

[Received May 31—9:25 a. m.]

1184. There follows text of letter from Foreign Minister to me together with its memorandum enclosure concerning distribution of foodstuffs under post-UNRRA relief program in China:

“On behalf of Chinese delegates I am sending you herewith a memo on post-UNRRA relief aid which is based upon result of discussions between representatives of Chinese Government and of your Embassy. As this matter is very urgent, I hope you will be kind enough to transmit immediately suggestions contained in this memorandum to your Government. An early reply will be much appreciated.

“MEMORANDUM ON FOODSTUFF DISTRIBUTION UNDER THE POST-UNRRA PROGRAM

“The suggested agreement between the U. S. and countries which are recipients of post-UNRRA relief sets forth certain conditions with regard to distribution (article II paragraphs (a) through (f)) to creation and utilization of sales proceeds (article III) and to maximization of both indigenous production and equitability in internal distribution (article IV). The Chinese Government, having an ur-

³⁰ Presumably draft agreement between the United States and Italy dated May 26, not printed; it was sent to the Embassy in China the same day for information purposes.

³¹ Not printed.

gent and growing need for continued relief assistance after food supplies contributed by UNRRA have been exhausted, will endeavor to meet those conditions to greatest extent possible. Following measures are proposed in connection with foodstuff distribution under post-UNRRA program:

1. Controlled distribution of foodstuffs to manageable population groups. Chinese Government will inaugurate a plan of controlled food distribution to economically significant categories of citizens in large urban centers. To begin with, this plan will be initiated in metropolitan areas on or near China coast including Shanghai, Nanking, Canton, Foochow, Swatow, Amoy, Tientsin, [Peiping], and Tsingtao. In these centers controlled distribution will be applied tentatively to direct-relief and institutional claimants; civil servants including police, teachers and students, industrial workers, communication and transport workers, unskilled laborers where sufficiently organized, and other special categories.

This system of controlled distribution will be initiated in areas mentioned and within groups specified as quickly as administrative arrangements can be completed, including availability of foodstuffs to insure regular allotments to groups being serviced. First steps will be taken in Shanghai where detailed plans have already been drawn and where further delay would endanger social stability. Similar plans will be put into force in other cities as soon as national and municipal government services involved agree upon details. Pending decision on final amount of post-UNRRA appropriation for China, it is estimated that a minimum requirement of 300,000 tons of food in 6 months through November will be necessary for proposed program in areas mentioned. Of this amount at least 200,000 tons will be rice. Further details as to requirements and methods of distribution will be submitted later.

2. Rationing. The proposals described in paragraph 1 above would be incomplete in meeting the needs of the critical population areas unless they were supplemented by a direct rationing program to unorganized majority of urban population. Program will begin from lower income groups and is to be extended gradually to entire unorganized populace. Establishment of identification systems, ration units and controlled sales outlets will however require tremendous organization and staff work, particularly when rationing has not previously been attempted by National Government in most of these large cities. Perfection of system, therefore, will probably take a longer period to put into useful effect than direct controlled distribution to particular groups. Ration program will require approximately 390,000 tons of food.

3. Relief and work projects. The direct distribution of relief supplies in interior of China as previously attempted with UNRRA supplies is a program which cannot be continued because of lack of internal transportation facilities. Nor is it feasible to institute a system of rationing in most parts of interior. The only way to meet these substantial relief needs is therefore through direct-relief and work projects. Most urgent of such projects including Yellow River area reclamation project, conservancy projects of Tangku Harbor

and Yungting River, relief projects for famine areas of Hunan, Kwangsi and Kwangtung, et cetera, are being submitted as part of Chinese post-UNRRA requirements. These, according to present plans, will be financed from proceeds of sale of post-UNRRA supplies in urban areas under direct-distribution schemes. A list of projects with descriptive information and food requirements involved, as well as estimated local currency requirements, is to be submitted at a later juncture.

4. Use of foreign agencies and advisors. The Chinese Government, while recognizing need for mobilizing all Chinese who have been trained in relief and welfare activities, also realized necessity of recruiting assistance from foreign experts particularly those who have had previous experience in China. Foreign voluntary agencies in China will also be invited to furnish advisors and help in work of relief and work projects when so requested by Chinese Government.

5. Efficient utilization of indigenous production. The measures outlined in preceding 4 paragraphs affect utilization of indigenous Chinese food production in 2 particularly important ways. By establishing means of coordinated and controlled distribution in large urban centers, existing congestion of internal transportation facilities will be reduced and present pressure on internal regions which are deficit food producers to contribute to needs of adjacent cities will be reduced. In other words, utilization of imported food supplies to greatest extent possible in coastal areas will permit more equitable distribution and utilization of indigenous stocks in interior and will induce greater productivity.

At same time Government recognizes that needs of urban centers cannot be met from imports alone. Inadequacy of world food supply and meagerness of Chinese Government's foreign exchange holdings even allowing for additional foreign relief grants necessitate an improvement in collection and transportation of surplus food in interior of China for benefit of large cities. To achieve this, Government will attempt to develop constructive programs of transport coordination, production and distribution of incentive goods, and control of wasteful practices in zones of interior which produce food in surplus to their needs.

The above steps constitute a program which is of vital importance to China but which is in present circumstances an ambitious one for Chinese Government to undertake. Hence post-UNRRA relief supplies will be essential to success of this program. Chinese Government on its own part will endeavor to take following steps:

1. At national, provincial and municipal government levels, most able and experienced officials available will be selected to take charge of this program and will be given maximum discretion in implementing it.

2. Out of estimated 690,000 tons of food which are needed as tentative minimum to insure success of rationing and controlled distribution program previously mentioned, Chinese Government will undertake in course of 6 months between June and end of November to provide 190,000 tons of rice or wheat from indigenous production and

200,000 tons of rice or wheat from 1947 foreign allocations made to China. For balance of food needs, it will require not only foreign exchange assistance but also assistance in obtaining rice allocations.

3. Efforts will be made by Chinese Government as soon as possible to collect adequate stocks from 1947 crop to maintain after November rationing and distribution systems being inaugurated. But reliable reports have indicated famine conditions in South China (north Kwangsi and Kwangtung, southern Hunan) and drought in North China. It is therefore earnestly hoped that U. S. Government in its continued assistance within scope of post-UNRRA program will see its way to contribute to successful continuation of these schemes after November 1947. Programming of such requirement will be submitted in due time.

4. Chinese Government will establish at governmental level organization or measures which are deemed essential for achieving objectives in post-UNRRA relief program. Experience, staff and established facilities of CNRRA will be fully utilized.

5. Chinese Government will welcome consultation or requests for additional information with regard to program set forth in this memorandum." May 30, 1947.

Embassy comment will follow in separate telegrams.³²

Sent Department 1184; repeated Shanghai 494.

STUART

893.48/6-1247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 12, 1947—10 [11] a. m.

[Received June 12—9: 13 a. m.]

1275. Second meeting of post-UNRRA Working Party held morning June 9 at FonOff request (reEmbtel 1080 [1081], May 17, repeated Shanghai 457) Embassy represented by officers designated in third paragraph reference telegram. Chinese wanted to discuss Foreign Minister's memo of May 30 transmitted in Embtel 1184 of May 31 with particular regard to (a) tentative U. S. reactions to proposal; (b) Embassy's comments on two supplemental memoranda on controlled distribution and rationing filed by China last week informally in accordance with paragraphs 1 and 2 of original FonOff memo; and (c) presentation of preliminary data on other relief projects as foreshadowed in paragraph 3 of same.

2. With respect to (a) above, Chinese were disappointed to learn that no word had been received from Department indicating approval of scope and objectives contained in their proposals. They were advised that Washington's action on such important matters within a

³² *Infra.*

week was hardly to be expected, and particularly when so little detailed information originally made available for study. Believe, however, China will exert continued pressure to secure support or disapproval in principle of their program. Embassy believes early consideration of this by Department desirable, especially as to availability of supplies requested.

3. Embassy's representatives made several observations on basis of preliminary study origin of FonOff memo as follows: Referring to paragraph 4, it was emphasized that U. S. rather than Chinese Govt would be expected to take lead in finalizing any program for participation of voluntary agencies. China argued that they should be responsible for action in this matter. They were advised, however, that unless Department took contrary view Embassy through its Relief Advisory Staff would take positive interest in this phase of post-UNRRA relief and in determination of extent to which voluntary agencies would be invited to take part. Please instruct. Believe in view of widespread criticism among voluntary agency personnel of UNRRA-CNRRA program that Embassy should take definite steps to initiate and later guide voluntary agency and American community participation in post-UNRRA program.

4. Referring to penultimate paragraph of basic memo, Chinese were again reminded of our intent not to have post-UNRRA program become the occasion for continuing either CNRRA projects or CNRRA organization weaknesses in any form. Assurances were given by China that wording of this paragraph in the memo did not imply CNRRA would be used as such but merely noted Chinese Government's willingness to make experienced personnel or established facilities of CNRRA available where continuity was desirable. Embassy believes this tendency must be discouraged except where irreplaceable candidates or services are involved.

5. On point (b) above, Chinese had presented 2 memoranda to Embassy outlining in greater detail proposals for use of post-UNRRA supplies in development of rationing and controlled distribution plans. They were advised that since these documents had only been received on June 4, there had not been opportunity to study feasibility of proposals and that Embassy's informal comments would be delayed for further meeting. Embassy representatives reiterated that U. S. willingness to provide post-UNRRA supplies in connection with such distribution plans would be conditioned upon prospect of its successful operations and clear understanding both private and public that U. S. was not undertaking responsibility to furnish food supplies essential to maintenance of program. It was also pointed out that controlled distribution and rationing would ultimately have to be merged in order to provide equitable treatment to all classes of population, and to avoid

accusation that controlled distribution of food to groups is essentially means of using scarce food as currency. Memos referred to are being transmitted by despatch.³³

Embassy will file further comments on general nature of proposals after study of all data available.

6. Reference (e) paragraph 1, additional relief and project requirements were tentatively estimated by Chinese representatives as including approximately 870,000 tons of food and 23 million dollars worth of supplies. In latter total Chinese mentioned \$1,300,000 for seeds, 5,000,000 for fertilizers, 900,000 for pesticides, 150,000 for veterinary supplies, and 1,350,000 for tractor project, POL³⁴ and spare parts. These expenditures were justified as agricultural rehabilitation in deficit and famine areas (mainly Yellow River flooded regions) for increasing food production to avoid recurrence of relief need next spring. Medical supply requirements, including those for epidemic control and replenishment of expendable stocks, amounted to 12 million. A separate requirement of \$2,200,000 was presented to cover POL needs for relief and food collection purposes in the first semester of 1948. Most of this according to Chinese would be used for operation of UNRRA supplied equipment in transportation and agricultural projects (CNRRA waterways, transport, CNRRA highway transport, and fisheries rehabilitation administration).

7. Above food requirement assures substantial purchases internally with local currency proceeds of U. S. post-UNRRA contribution and includes 350,000 tons for distribution in flooded areas, 220,000 tons for distribution in famine areas and 180,000 tons for distribution in draught areas. Further comments³⁵ will be made after review of information on hand with Agriculture Attaché.³⁶ Embassy's preliminary reaction is that relief project needs, especially food, are unrealistic in terms of transportation and administration facilities available. They will be screened carefully as is already procedure being followed on Yellow River requirements.

8. In two meetings with Chinese as thus far reported, total requirements for post-UNRRA aid have been submitted in excess of \$60,000,000. After screening in further joint meetings and by U. S. representative here, total dollar cost will doubtless reach target originally set as maximum for planning purposes by Department. With reference to paragraph 2 above and Deptel 610, May 22, repeated Shanghai 838, Department will note that at least two-thirds of anticipated post-UNRRA grant will, according to present Chinese plans, be spent along with more than equivalent amount of Chinese Govern-

³³ No. 803, June 13, not printed.

³⁴ Petroleum supplies.

³⁵ Not found in Department files.

³⁶ Owen L. Dawson.

ment funds to inaugurate controlled distribution and later rationing in key urban areas. Embassy believes and has repeatedly emphasized in meeting with Chinese that honest, efficient and effective administration of such a program must be apparent in planning and later in operation. Have also reminded Chinese that success in this effort, or failure, may have most significant bearing on later U. S. efforts to assist China economically. Despite such firm threats, Embassy is aware of and believes Department must also accept inevitable risks of our being implicated, however indirectly, in any failures.

Sent Department, repeated Shanghai 530, June 12, 11 a. m.

STUART

S93.48/6-1247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 12, 1947—noon.

[Received June 12—8:15 a. m.]

1276. Following observations designed to point up some of problems in connection with post-UNRRA relief and suggest possible lines of solution. (ReEmbtel 1275, of June 12, 11 a. m.)

1. Need for post-UNRRA relief program for China on humanitarian basis is quite apparent. Moreover, as far as over-all American policy towards China is concerned, post-UNRRA relief program is politically most opportune, since some assistance to Central Government is undoubtedly called for, and this is a most convenient method of making it available. This consideration is reinforced by fact that there is considerable non-Communist sentiment in Nationalist areas which would oppose many forms of American aid but which cannot very well oppose this aid. In my opinion, there is everything to be said for giving China the maximum proposed allocation of \$60 million if reasonably effective use of it can be made.

2. At same time in view of this Embassy's responsibility to Department and Department's responsibility to the Congress, we cannot afford a repetition of UNRRA-CNRRRA pattern of maladministration and misuse. The danger is all the greater in view of the general condition of admittedly low Chinese morale and administrative standards as result of hyper-inflation, and in view of attitude to American aid groups in Nationalist areas mentioned above. To avoid this, the following are needed:

a) A much tougher basic agreement than UNRRA basic agreement.³⁷

³⁷ Signed at Chungking, November 13, 1945, by representatives of UNRRA and China; United Nations Relief and Rehabilitation Administration, *UNRRA in China, 1945-1947* (Operational Analysis Papers No. 53, April 1948), p. 365.

b) A larger group than is apparently intended in other countries, this group to have specific powers of veto as well as broad consultative and advisory powers. While Embassy would welcome Department's choosing and sending out member or members from Washington such member not to [be] a man of good will *per se* but someone with experience of very difficult operations—Embassy will need some latitude in appointment of members of group on spot.

c) Concentration of program on as few and as simple measures as possible; in my opinion there is everything to be gained from confining program to provision of food and possibly medical anti-epidemic control measures and eliminating virtually all Chinese proposals for what is essentially continuation of certain uncompleted CNRRA projects. While I have emphasized and reemphasized that post-UNRRA relief program is not designed as a vehicle to permit continuance of CNRRA projects and have spoken most frankly to Chinese on political dangers to them of abuse of American post-UNRRA relief assistance, it is clear that it will be necessary to keep on disabusing Chinese on this score and to prevent maladministration or diversion of post-UNRRA relief funds for this purpose.

d) Concentration of procurement and shipping in hands of U. S. Government agencies. Embassy welcomes arrangement whereby Department Agriculture will handle purchase of food and suggests that should medical supplies be included in program their procurement should also be handled by appropriate U. S. Government agency. At second meeting with China on June 8 reported in Embtel 1275 of June 12, 11 a. m., China wished to know who would handle shipping. I suggest it also be handled by appropriate U. S. Government agency and upon Department's confirmation of this suggestion Chinese will be so informed.

3. Chinese major proposal with respect to post-UNRRA relief is to combine food made available by post-UNRRA relief with food to be made available by Central Government or a scheme of controlled distribution and rationing primarily for what are in fact key economic and political groups in major cities. In effect, such a scheme entails payment of wages and allowances to such groups importantly in form of food, i. e., its use as currency. While this scheme has great advantages from American view of serving: (a) to permit continued functioning of major cities as economic organisms; (b) to prevent social unrest therein; (c) to ensure continued support of key groups to Central Government; and (d) to relieve pressure on food-deficient areas in interior; it also has certain disadvantages.

a) It may be difficult to justify to Congress use of food not only for relief purposes but as rations for key groups.

b) Fusion of Chinese and our food supplies into one program will make it more difficult to check use of food made available by U. S.

c) It will be difficult for U. S. to avoid at least implied responsibility both as far as Congress and American public opinion and as far as Chinese opinion are concerned for any failure of over-all Chinese scheme.

Nevertheless Embassy has been pushing China to adopt some scheme for rationing and controlled distribution of food both because with continued and sustained depreciation of the currency adoption of some such program is in any case inevitable, and because it appears most feasible mechanism for utilization of post-UNRRA relief supplies. At same time I believe the Department should be clearly aware of its disadvantages and of need for taking and backing up strong line with China, who will otherwise tend readily to make agreements on paper and in principle, but to drag their feet in implementation therefore in expectation that we will let matters slide into the UNRRA-CNRRRA groove.

Repeated Shanghai 531, June 12, noon.

STUART

893.48/6-1247 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 17, 1947—8 p. m.

738. Discussions here to date indicate that target for US relief program for China should be approximating \$30 million. While Emb should not disclose exact figure, it may find it necessary to discourage Chinese officials from planning program based on expectations of greater assistance. Total availability US funds prevents supplying full needs originally estimated by Dept for all countries.

Commodities would consist principally of food items, i. e., wheat and rice, with possibly some medical supplies. Chinese officials should be informed that US program will probably not result in substantial increased supplies of commodities under international allocation.

Dept in complete accord Emb position re desirability maximum utilization voluntary agencies per Embtel 1275 para 3, and need for Emb assume dominant position in directing participation these groups. While recognizing basis Chinese proposal combine post-UNRRA relief with government scheme controlled distribution and rationing, Dept believes relatively small amount of relief available requires maximum efficiency [in] distribution to most needy and that utilization of voluntary agencies in program correlated with but independent of government action might be most effective way of distributing substantial part of US assistance. Emb may wish point out to Chinese authorities that such a program would be in accordance with established tradition US assistance to China and would bring into service people with long experience this field. There is also important factor Congressional and public opinion which has been critical of results past US relief expenditures and which might not understand failure to make use of agencies which have proven

competence and which have confidence of US public as demonstrated past generous contributions.

Bearing in mind general objectives of (a) having relief distributed where most needed (b) using most efficient methods of distribution (c) avoiding dissipation of relatively small relief program, Dept would like Emb's comments accompanied if possible by tentative plan as to extent voluntary agencies can profitably be used. In this connection Dept wishes Emb explore possibility United Service's participation. Lennig Sweet³⁸ has informally indicated willingness cooperate and expressed opinion they could handle \$5 to \$10 million program.

Dept in accord Emb view necessity eliminate Chinese proposals for continuation uncompleted CNRRA projects (Embtel 1276 June 12 para 2c). Dept also opposed to sales U. S. supplies in urban areas as means financing distribution relief supplies in interior. It is believed here relatively small size of program requires reasonable concentration of distribution in order to obtain greatest benefit. If Emb considers it expedient, however, Dept would not object to sale of some quantities of relief supplies in urban coastal centers as means of providing token aid for controlled distribution and rationing plans.

Dept of opinion Chinese Govt should assume inland transportation costs [of] distribution U. S. supplies.

Emb should make clear to Chinese that there is no basis for assuming that Congress will authorize a subsequent relief program.

Dept would welcome Emb comments above program. In this connection Dept notes Emb's clear understanding problem and fact it thinking along same lines as Dept. Please inform Dept your estimate when program could be formulated and actually commenced.

You may inform Chinese that U. S. agencies will be responsible for all procurement and shipping from U. S. To extent rice is procured in Siam procurement and shipping would have to be arranged by Chinese Govt under plans approved by us. Telegram on this point will follow.

[Here follows a discussion of staff recruitment matters.]

Sent Nanking as Depts 738 repeated Shanghai as Depts 1009.

MARSHALL

893.48/6-1847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 18, 1947—3 p. m.

[Received June 18—4:10 a. m.]

1324. Embassy has now received from Foreign Office detailed requests for post-UNRRA relief along lines described Embassy's tele-

³⁸ Program Director, United Service to China, Inc.

gram 1274 [1275], June 12, 11 a. m., together with request third meeting Sino-U. S. working group be held June 20 to discuss them.

Embassy expressed unwillingness to discuss request (copies being airmailed³⁹) without opportunity to inspect them closely and agreed meeting be held June 23. Accordingly Embassy should receive Department's instructions, especially with reference Embassy's telegram 1184, May 31, 1 p. m.; Consulate General's telegram Shanghai 1325, June 1, 1 p. m.;⁴⁰ Embassy's telegram 1275, June 12, 11 a. m., and Embassy's telegram 1276, June 12, noon, to be despatched by urgent telegram from Washington not later than Friday⁴¹ p. m. Washington time.

Highly desirable that clear cut statements of policy and plan for future operation of post-UNRRA relief be given Chinese now.

Sent Department, repeated Shanghai 548.

STUART

893.48/6-2147: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 21, 1947—7 p. m.

[Received June 21—8: 28 a. m.]

1370. There are two major points raised in Deptel 738, June 17, 8 p. m., which call for immediate comment and clarification:

- (1) Reduction of amount to approximately \$30,000,000;
- (2) Statement that "Chinese officials should be informed that U. S. program will probably not result in substantial increased supplies of commodities under international allocation."

Both of these tentative decisions seem to be inconsistent with third paragraph of Deptel 736, June 17, 9 p. m.⁴² If it is in our interest to do something to arrest course of developments in China and if one of the main difficulties is finding practicable means of doing so, then it would seem to follow that full advantage be taken of one of the few unobstructed avenues open to us (see paragraph numbered 1, Embtel 1276, June 12, noon).

As regards (2) above, net effect of Department's proposal would not be to increase supplies of needed rice and wheat available to China, but merely to provide foreign exchange for a small part of China's requirements which the Chinese are ready to buy with their own foreign exchange. At the same time it would divert to no doubt worthy but nonetheless eleemosynary activities some food which

³⁹ Despatch No. 817, June 18, not printed.

⁴⁰ Telegram No. 1325 not printed.

⁴¹ June 20.

⁴² *Ante*, p. 1140.

Chinese could use to achieve greater political stability and *ipso facto* create unnecessarily resentment on part of Chinese who would rightly take exception to the attaching of conditions without net gain in food for them.

An early indication Department's final decision would be appreciated.

Detailed comments on other points in reference telegram will follow.⁴³

STUART

893.48/6-2447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 24, 1947—8 a. m.

[Received June 24—6:15 a. m.]

1380. Embassy hopes reconsideration of Department's tentative conclusions as to nature and extent post-UNRRA aid to Chinese, as set forth in Deptel 738, June 17, is being undertaken in viewpoints raised Embtel 1370, June 21. Following additional comments relevant in Embassy's view:

(1) Limiting program here to maximum of \$30,000,000 would undoubtedly have unfortunate political repercussions. Chinese have been aware all along that Department's presentation of post-UNRRA plans to Congress was based largely upon unagreed total essential requirements with only China's \$60,000,000 target set at substantially less than was discussed, and that U. S. was proposing to finance 60% of these needs. Reference Depcirtel March 3, repeated Nanking 255. U. S. decision now to reduce that percentage in case of China alone, in face of passage Greek aid bill⁴⁴ and China's efforts to develop definite program for more effective utilization of imported food-stuffs and other relief supplies, is bound to be interpreted here as pointed loss of confidence on our part in present Government. Nor is it felt, in view of paragraph 8 Embtel 1275, June 12, and nature of preliminary negotiations to date, that Embassy can abruptly tell Chinese to plan relief program within almost token limitations.

(2) Embassy agrees that Chinese post-UNRRA planning should be based almost exclusively on food and a carefully screened, ample medical program. This has already been repeatedly emphasized to Chinese as being both realistic restriction and proper application to Chinese of Congressional relief mandate. Embassy also welcomes

⁴³ See *infra*.

⁴⁴ Approved May 22, 1947; 61 Stat. 103. Turkey also was granted aid under this Act.

full support from Department of its conviction that we must assume dominant role here in developing and guiding voluntary agency participation in the post-UNRRA program. Beyond considerations this regard set forth in Embtel 1370, June 21, Department should, however, not lose sight of fact that very little food can be handled by existing voluntary agency facilities in China because (a) these have been restricted to supply distribution of medical items in most cases, (b) cash relief has been used wherever possible rather than foodstuffs, (c) voluntary agencies cannot afford internal transportation costs on any large scale in using imported foodstuffs for direct distribution and relief activities in the interior.

(3) Dwight Edwards, local director of United Service for [to] China, has submitted at Embassy's request a preliminary estimate of such voluntary agency needs as are assumed available from post-UNRRA program. Subject to further verification of details, to be followed by submission of breakdown by agency and project, Edwards believes approximately U. S. \$10,000,000 could be effectively administered by private groups here. Of this, half would be in imported supplies, mostly medical, and half in cash converted to local currency. Latter need emphasizes desirability of some sales at least under controlled distribution in urban centers since U. S. supplies would thereby serve dual purpose of supporting both Government and voluntary agency programs. Embassy finds it difficult to envisage these two efforts being any more closely "correlated". On contrary, it believes voluntary agencies will resist any plan to link their activities with those of Chinese Government. They need supplies and local currency financing for established activities and projects, but it is doubtful that they would or could entertain any significant expansion in China under present circumstances in connection with direct relief under post-UNRRA program.

(4) Department's opposition to "sales U. S. supplies in urban areas as means financing distribution relief supplies in interior" not understood here. Chinese obviously submitted plan outlined Embtel 1184, May 31, in order to meet basic conditions our Congressional legislation particularly section 3, paragraphs (e) and (h). Tentative plan for diversion of sales or credit proceeds from controlled distribution and rationing to relief activities in interior, including purchase and distribution of food from surplus areas, seeds, etc., has been pressed by Embassy in accordance Deptel 610, May 22, paragraph 2, as means of increasing effectiveness and public appreciation in China of post-UNRRA aid as well as to insure U. S. participation in relief effort along broadest and most practicable lines. If Department opposed to food sales in China despite evidently urging this procedure in other

countries, or to Embassy's participation in determining use these proceeds, Embassy has been acting on two basic misunderstandings and would like to be explicitly corrected.

(5) In addition to comment already made in Embtel 1370, June 21, as to Department's opinion that U. S. program will probably not result in substantial increased supplies, believe serious floods in Canton area and probable loss to North China of all food availabilities from Manchuria, must be given due weight as basis for increasing allotments of food for China, especially in view of fact that existing international allocations are far below normal average of Chinese imports. Effect on over-all supply position of both developments China was being followed closely. Embassy believes that to extent increased needs are justified, U. S. Government should take more than sympathetic interest in helping to meet them.

[Here follows paragraph 6, a discussion of staff recruitment.]

(7) Embassy definitely of opinion that it is not "thinking along same lines as Department" on two major points as follows: Embassy believes post-UNRRA funds should be made available for China at least to extent requirements of other countries being met and preferably to meet full \$60,000,000 target. Embassy also believes that China's controlled distribution and rationing plan deserves our conditional support with understanding that we will make nature of this support fully clear in official negotiations and public pronouncements, and that we will withdraw if reasonably satisfactory implementation of basic objectives of this program are not being achieved. Clarification of Department's position on these two issues now highly important.

Sent Department; repeated Shanghai 573.

STUART

893.48/6-2547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, June 25, 1947—4 p. m.

[Received June 25—9: 22 a. m.]

1395. For Under Secretary Acheson from Butterworth. Would greatly appreciate it if you would take note of recent interchanges between Department and Embassy on subject of post-UNRRA relief for China in which three important questions were raised: (1) whether the program will be \$30,000,000 or \$60,000,000; (2) whether it will result in China getting more wheat and rice; and (3) methods of distributing relief.

The importance of (1) and (2) requires an early and, I believe, favorable decision. I might add that while, from a political point of

view, having in mind present precarious situation in China, non-extension of Eximbank earmark,⁴⁵ and limited practicable means of assistance open to us, it seems highly desirable that we give China \$60,000,000 for post-UNRRA relief and obtain for China increased international allocations of rice and wheat, Department should be under no illusions that a completely satisfactory scheme for the utilization of post-UNRRA relief can be worked out and implemented in the China of today. Therefore, as regards (3) I would suggest the sending to China, at any rate on a brief trip, of an informed and responsible officer from the Department who would be able to play an authoritative and decisive part in discussions on the mechanism of distribution and relief. Chinese authorities have now indicated their desire to conclude a formal contract as rapidly as possible and, therefore, designated officer should depart shortly by air.

For your ready reference, following are recent and pertinent telegrams: Embtels 1370, June 21, 7 p. m.; 1380, June 24, 8 a. m.; Deptel 738, June 17, 8 p. m.; Embtels 1275, June 12, 11 a. m., and 1276, June 12, noon. [Butterworth.]

STUART

893.48/6-1847: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 25, 1947—7 p. m.

775. Definite authorization re negotiation relief agreement can be sent quickly (Reurtel 1324 June 18 repeated Shanghai 548) upon receipt of reply to Deptel 738 June 17. Proposed text of relief agreement being negotiated with Italy being sent in immediately following cable⁴⁶ based largely on terms of relief Act. Ur comments and suggestions for modification to meet situation in China are desired. Sent Nanking as Depts 775 repeated to Shanghai as Depts 1060.

MARSHALL

893.48/6-2147: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 1, 1947—4 p. m.

812. In presenting relief needs to Congress it was pointed out that total needs of all countries amounted to \$610 million. (Appropri-

⁴⁵ See Department's telegram No. 736, June 17, 9 p. m., p. 1140.

⁴⁶ Telegram No. 776, June 25, 7 p. m., not printed; for text of agreement between the United States and Italy regarding relief assistance, signed at Rome on July 4, 1947, see Department of State Treaties and Other International Acts Series No. 1653, or 61 Stat. (pt. 3) 3135.

tion Committee has been advised that this has since been increased to \$665 million.)

Figure of \$60 million re China was cited as representing total 1947 minimum food import requirements exclusive of UNRRA deliveries. This figure taken from CNRRA estimate given Dept Dec 1946. Dept regarded \$60 million as maximum relief goal, exact amount to be determined in light China's ability to provide foreign exchange to meet food needs and pointed out to Congress that program would be undertaken only if needed to assist in meeting emergency famine conditions Reuters 1370 June 21, 1380 June 24, 1395 June 25. Of \$350 million authorized minimum \$15 million and possible maximum \$40 million will be transferred to International Childrens Fund. Additional \$5 million is reserved for ocean shipping cost of private voluntary donations. This means US would be able to meet less than half of estimated needs. It is not yet certain that Congress actually will appropriate even the full \$350 million appropriation.

It seems unlikely that more than \$30 million could be allocated to China assuming full \$350 million. This based on need for meeting proportionate share in European countries where these resources may be sufficient to have marked effect in preventing economic collapse. In case of China it is clear that funds in any case are insufficient to make appreciable effect on Chinese economy. Therefore our objectives can be only (a) to help meet spot hunger conditions in particular areas and (b) to give token of our interest in Chinese. It is unfortunate that Chinese may have assumed they could get program of \$60 million but it should be pointed out to them that (a) all countries estimated their needs at much higher levels than our estimates and (b) the appropriations authorized would provide for less than half of our own estimates of relief needs, leaving balance for other contributors.

Since purpose of relief program is to provide foreign exchange to countries which otherwise could not purchase food and other relief supplies, the existence of relief program cannot of itself effect national or international allocations of items in short supply. US representatives on allocating bodies will give sympathetic consideration to Chinese requirements in light of other needs and availability of supplies.

Dept favors sales of supplies to extent they are made available under reasonably controlled price and distribution arrangement to people having local funds. However believe that distribution at interior points could in some cases be most effective if supplies given directly in exchange for work.

Emb is correct in assumption that proceeds of any sales can and should properly be used for relief work in China. Both private

agencies and Chinese program for assistance in interior could benefit from such funds. It was tentative view here that Chinese should themselves agree to finance actual distribution costs of US imported relief supplies. This matter however certainly open to reconsideration if it is not feasible.

Dept is quite willing to give conditional support to controlled distribution plan, re para 7 Embtel 1380, but in view limitations on amount of our relief program for China believe careful consideration should be given to quantity of supplies which should (a) be sent to particular areas in interior (b) be distributed through private agencies (c) be devoted to support of controlled distribution system. In any case we should not get ourselves in a position where Chinese could place blame on us for any breakdown in the controlled distribution system.

MARSHALL

800.48 FRP/7-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 8, 1947—2 p. m.

[Received July 8—9: 20 a. m.]

1482. 1. All program planning for U. S. foreign aid to China in post-UNRRA period will be kept within foreign exchange expenditure limit of \$30,000,000 accordance Deptel 812, July 1, 4 p. m. Chinese will be advised also that this is conditional maximum pending final appropriation by Congress of full \$350,000,000 and further review in Washington by Department of all claims.

2. Reference telegram's repeated emphasis on famine relief as basis desired in Department for foreign aid raises questions as follows, which need specific answers promptly and prior to planning program here along lines presently envisaged after consideration of all factors involved:

(a) Is U. S. Government bound in any way to use the post-UNRRA aid program in China for direct famine area relief? Reference telegram advises Congress told "program would be undertaken only if needed to assist in meeting emergency famine conditions", and later states Department's "objectives can be only to help meet spot hunger conditions in particular areas". These points have not been made in any previous telegrams or instructions received; also Embassy in past few months has proceeded on assumption that Department accepted its contrary conclusion that large-scale direct relief operations in interior were impractical for many reasons. Besides, insistence on such operations in case of China would be exception to policy being followed in Europe as indicated Italian agreement quoted Deptel 776, June 25.⁴⁷ As Chinese had copy of original draft agreement, it is

⁴⁷ Not printed.

obvious that they are aware of general plan being followed by Department.

(b) Are Embassy and Chinese Government now to infer that program in case of China is not designed to "provide foreign exchange to countries which otherwise could not purchase food and other relief supplies"? From political, economic and bargaining viewpoint, it has been assumed here that foreign aid program should be integrated with any constructive Chinese efforts to put their house in order, and achieve thereby not only greater internal stability but also more effective utilization of indigenous and imported food supplies. Statements [in] Department telegram that Chinese program is not expected to "have marked effect in preventing economic collapse" as apparently envisaged in European countries, and that, for China, "funds in any case are insufficient to make appreciable effect on Chinese economy" imply rejection of Embassy's thesis that \$60,000,000 could have provided constructive and measurable support to Chinese economic position at this time.

(c) Is Department, as indicated in reference telegram, still of positive view that we should expect Chinese Government to finance almost entirely "actual distribution costs of US imported relief supplies", and in that connection, that we accept principle of work relief on a large scale? Chinese Government's inability to afford and unwillingness to provide extensive local currency expenditures for relief, and misuse throughout China of vital food supplies in connection with work relief programs are two most outstanding lessons learned in course of UNRRA experience here. Embassy has grave doubts that past ills and abuses this connection could be overcome in new program of comparatively token proportions.

3. Butterworth prepared to discuss the above and other topics relevant to post-UNRRA program on his arrival in Washington. Suggest he be consulted prior to dispatch of any reply since he is conversant in detail with thinking here. It seems almost imperative that there be higher accord achieved between views held in Washington and those developed here, or that Department proceed to prepare independently instructions which can guide operations of relief advisory staff when latter is finally selected and organized.

Sent Department as 1482; repeated Shanghai as 610 July 8, 2 p. m.

STUART

800.48 FRP/7-847: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 11, 1947—2 p. m.

856. RAP⁴⁸ 10. We are not bound to use post-UNRRA program solely for direct famine area relief Reurtel 1482 July 8 repeated

⁴⁸ Under the terms of a circular telegram of June 26, 8:10 a. m., the code "RAP" was to be used to identify Department telegrams to the field relating to the United States Foreign Relief Program (USFRP); and "PAR" was to be used in communications of this type sent by the field to the Department (800.48 FRP/6-2647).

Shanghai as 610. Decision was made on basis info and recommendations from Emb to authorize program which could, as indicated in Deptel 812, include support to programs of private agencies, and distribution in cities. Dept believes, however, that some portion of our aid should be used to assist in at least 1 or 2 spots in interior where suffering is likely to be most acute providing reasonable transportation could be arranged. Sent Nanking as Depts 856 repeated to Shanghai as Depts 1133. Extent of such aid would depend upon practicability of arrangements and judgment of Emb as to amount which could profitably be used in this way.

In answer to (b), as indicated in Deptel 812 relief program is intended to finance imports of certain needed supplies which could not otherwise be paid for. Dept believes it quite proper to assist in some measure in support of controlled distribution plan. To extent such a plan can be developed on a reasonably fair and equitable basis it clearly falls within the conditions of the Relief Act and should result in benefits to Chinese people.

In brief, Dept believes relief supplies should be apportioned among (a) private agencies (b) certain interior areas as mentioned above and (c) controlled distribution plan in coastal cities.

In apportioning among these programs Dept prepared to be guided largely by judgment of Emb and relief staff based on study of particular programs and plans of Chinese and of private relief agencies.

In accordance suggestion Embtel 1482 further comments and advice will be transmitted after consultation with Butterworth who is expected here early next week. In particular will cover question of financing local distribution costs raised in para (c). Dept fully aware of difficulties in this regard in connection with UNRRA program and would not of course desire to impose any conditions which would jeopardize effective distribution.

MARSHALL

800.48 FRP/7-2247: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 22, 1947—8 p. m.

904. RAP 18. Following are proposals for Ur review for US Foreign Relief Program to China following discussions with Butterworth:

a. Approximate target \$30 million for China was determined for following reasons. It was recognized in discussions with Congress that on strictly comparable basis with European countries there was no real deficit in balance payments that could not be met out of China's own resources. The \$60 million figure initially considered as a relief

goal was estimated by taking Chinese food requirements during 1947 as a guide to need. Total relief authorization of \$350 million covers only about one-half of the deficits in all countries mentioned in Relief Act. Therefore \$30 million was then considered to be fair share to China.

Approaching problem from supply position, we have explored possibilities of allocation of rice from Southeast Asia, South America, and rice and other grains from US during period in which program will operate—shipments July through Dec 1947. Maximum current or prospective allocations are as follows: Siam 15,000 tons; Burma 7,000 tons; Ecuador 10,000 tons (these are quantities still remaining to be picked up from 1947 rice allocations for China); from US 43,000 tons of rice for Oct–Dec shipment and maximum possible allocations of wheat or flour 100,000 tons for Sept–Dec shipment. Value of these items would be about \$30 million. If to this were added \$3 or \$4 million in medicines, etc., total is only slightly higher than target of \$30 million contribution to China. For Ur info, 6 percent (\$21 million) limitation on procurement outside US for total relief program does not apply pro rata by countries. In view of other urgent requirement for procurement outside US only about \$5 million can be used for rice procurement in Southeast Asia and South America.

For Ur info, should be noted if 100,000 tons allocation other grains from US is made it would represent supplies in excess of current or present prospective allocations which have recently been at rate of only 12,000 tons per month. It is not at all clear that allocation of 100,000 tons can be made from US.

b. Program now proposed as follows :

1) A major proportion of cereals for delivery to proposed controlled distribution and rationing system.

2) Medical supplies up to \$3 or \$4 million, special foods probably \$1 million or \$2 million, and if desirable small amounts of rice and flour to be given volunteer agencies for their distribution.

3) Limited direct supplies for 2 or 3 restricted and accessible famine areas where effectiveness of small program could be shown. This would be coordinated with volunteer agency program. Dept especially interested in this possibility for as much as feasible although recognizes limitations on control and transportation.

4) \$CN⁴⁹ from receipts of supplies sold under 1) above to be turned over to volunteer agencies in part and supplementing direct famine area supply programs and also for internal transportation costs in so far as Chinese Govt cannot be prevailed upon to assume. With respect to matter of internal transportation following is an excerpt from report of House Appropriations Committee:⁵⁰ "It is

⁴⁹ Chinese National currency.

⁵⁰ Report No. 990, *Supplemental Appropriation Bill, 1948*, July 18, 1947. 80th Cong., 1st sess., p. 6.

the most earnest desire of the committee that in administering this account the State Dept will require the govts of any recipient country to make specific detailed and itemized recommendations for such assistance as the State Dept may desire, including a statement of the necessity for such assistance, and that, insofar as it may be done, agreements will be made with the recipients that they shall make contributions to the cost of the assistance provided, such contribution to be in addition to the amounts that this country shall furnish and insofar as it is possible to do so that waterborne transportation of supplies to such countries and the distribution therein be provided to the fullest possible extent by the recipient countries."

Dept willing to authorize distribution of supplies under controlled system since this shows some promise of achieving more equitable distribution than under present conditions and in present circumstances appears to be most feasible avenue of approach. However, Dept shares Emb apprehension re controlled distribution plan both as regards ability Chinese to administer such a program and ease with which it could in fact be used to favor certain groups which government for political reasons desired to favor. It hopes that all possible steps will be taken to avoid our being maneuvered into position of sharing responsibility and public criticism if plan fails on account of these points both of which would involve violations of Provisions of Sec. 3 in relief authorization act. We also desire avoid becoming subject to pressure by Chinese to continue assistance beyond the relief program in order to prevent collapse of distribution plan early in 1948. Dept feels, therefore, that every possible precaution should be taken before final commitment to Chinese to see that scheme is developed in most feasible manner and that limit of our responsibility is clearly understood.

Believe above proposed program is essentially in accordance with July 5 Gilpatric memo⁵¹ to Butterworth. Ur evaluations of above proposals and Ur positive and detailed recommendations urgently requested. Sent Nanking as Depts 904 repeated Shanghai as Depts 1208.

MARSHALL

800.48 FRP/7-2547 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 25, 1947—8 p. m.

923. In conversation with Asst. Secy Thorp July 24 Chinese Amb inquired re total prospective funds for China under US Foreign Relief Program and emphasized importance large US grant and in-

⁵¹ Not printed.

creased food allocations to success controlled distribution system [in] coastal cities. Thorp replied along lines section (a) Deptel 904 July 22. Chinese Amb indicated he would convey info Nanking and that unavailability imports in magnitude envisaged for controlled distribution plan would require reconsideration its application. Thorp stressed doubling present rate wheat allocations from US during Sept–Dec, without which entire \$30 million could not be procured, would require showing by Chinese relief imports could be distributed effectively. Amb stated Chinese intended apply IEF⁵² increased allocations and hoped US would support application. Thorp replied tentative estimate possible availability 100,000 tons wheat from US Sept to Dec presumed Chinese could present effective case, but we could not undertake support Chinese application until program controlled distribution revised in light probable import availabilities could be reviewed.

Amb also indicated China about to present case Eximbank 7-year term credit finance cotton imports during remainder 1947 and first 9 months 1948.⁵³ Thorp emphasized uselessness, his opinion, apply Eximbank for longer than 30 months term and 18 months more usual, and in any case credit would have to be self-liquidating through export requisite proportion textiles to hard currency areas. Amb stated short term difficulties since would require release more textiles for export and dollars than China could afford, but he would reexamine case.

MARSHALL

800.48 FRP/8-247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 2, 1947—1 p. m.

[Received August 2—9: 32 a. m.]

1641. PAR. 4. Believe proposals in RAP 18 (Deptel 904, July 22, repeated Shanghai) approximate closely Embassy's conclusions and previous recommendations for foreign aid program in China. Specific points on which agreement or parallel thinking now presumably exists enumerated herewith. Additional unanswered points or open items on which Dept's advice or confirmation desired, set forth alphabetically in PAR 5⁵⁴ following this message.

1. Target expenditures. Total program will be budgeted at \$30,000,000 with slight leeway understood to exist in excess thereof.

⁵² International Emergency Food Council.

⁵³ For a summary of the Chinese request, see telegram No. 1009, August 12, 6 p. m., to the Ambassador in China, p. 1177.

⁵⁴ Embassy's telegram No. 1642, *infra*.

Medical supplies, non-basic foods and special items will be kept within \$5,000,000 portion of this if possible. Latter limit also applies purchases outside U. S., including rice Southeast Asia and South America.

2. Supplies. Procurement in U. S. will, unless particular exceptions agreed by U. S., be handled by Agriculture Dept. Except as noted paragraph 1 above, purchases will cover minimum 43,000 tons U. S. rice already allocated for October–December shipment, 50,000 tons flour or wheat equivalent September–December shipment plus additional equal amount flour or wheat equivalent in same period subject to detailed justification and favorable allocation by IEFEC. (ReDeptel 923, July 25.) Supply program will now be developed here to provide satisfactory coordination of and integration with Chinese Govt import plans, and future allocations indigenous supplies, in order to meet controlled distribution and rationing needs adequately and efficiently.

3. Voluntary agencies. These will be relied upon for direct relief activities, including distribution supplies and expenditures sales proceeds, to greatest extent possible. Specific projects setting forth both types of assistance now in preparation by various agencies. When available early this month, these will be presented in consolidated schedule for concurrence by Chinese. Latter still taking position they are primarily responsible for selection both agencies and projects. Rather than argue further principle involved, Embassy intends to complete preparation this part foreign aid plan and seek its acceptance by Chinese prior to signing of relief agreement, on assumption Dept has already indicated support this procedure.

4. Relief for famine areas. Where feasible and to greatest extent possible, U. S. foreign aid supplies or sales proceeds therefrom will be used to alleviate suffering in interior where serious food shortages develop. Present UNRRA efforts this direction, which now utilizing balance of previous relief imports, will be supplemented by effective administrative organization, either Govt or private, remains established to implement these efforts. Expect voluntary agencies to inherit these responsibilities generally as CNRRA liquidates and to submit plans for consideration as noted paragraph 3 above.

5. Controlled distribution and rationing. Major portion of cereals in program will be used to support inauguration these urban consumption and price control measures. Rate of flow and term of U. S. supply support will be made most explicitly flexible in agreement, however, and subject to (a) effectiveness, in our judgment, of Chinese development these plans, (b) Chinese efforts as new crops come in to build adequate stocks to maintain system, (c) administration and selection of groups with economic rather than political

objectives in predomination and (d) progress towards full-scale rationing and equitable distribution.

6. Sales proceeds. Supply distribution under paragraph 5 above will bring regular yield of CN local currency to support (a) expenses in China of relief adviser staff, (b) activities envisaged paragraphs 3 and 4 above, (c) food-producing rehabilitation activities and (d) more effective indigenous crop collection to support controlled urban distribution. Embassy proposes to negotiate at regular intervals these sales prices in CN after deliveries in order to protect program against inflationary price changes. Funds will be kept with Central Bank and only disbursed on order relief adviser or with his concurrence.

7. Transportation and storage. Because of shortages in Chinese ocean shipping, U. S. flag vessels, or charters approved by U. S., will presumably be used to bring program supplies to China. Chinese will be pressed to assume maximum share internal transport costs, mainly by giving special rates on rail movements and warehouse charges from Govt-owned godowns.

8. Relief agreement. Revision Italian agreement on basis above points being prepared. ReDeptel 775, June 25. Gilpatric, on basis his knowledge details involved, being asked refer this to Dept from Shanghai for clearance prior to submission Chinese. Latter now pressing for early understanding and believe it desirable present draft for final negotiations soonest.

Sent Dept, repeated Shanghai 673 by courier.

STUART

893.48/8-247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 2, 1947—1 p. m.

[Received August 2—10:17 a. m.]

1642. PAR 5. Following points and comments require clarification or consideration by Dept in connection with foreign aid program.

(a) Staff. Development of U. S. position and negotiation on major points with Chinese have reached a stage where organization of relief advisory staff is most urgent matter. Neither Boehringer nor Adler, Embassy officers presently taking lead in policy formulation this program, can be spared for further active role other than advisory. Gilpatric only officer in Shanghai familiar with relief problems. Because of uncertainty his stay in China after Sept and numerous other responsibilities including continuing UNRRA problems, he may not be readily available this purpose beyond assisting completion of negotiations, helping to organize relief advisory group and participating in working out of controlled distribution program. U. S. Mission in

China, as Butterworth can attest, therefore needs entirely new staff for foreign aid program, and particularly competent one in view of complications involved.

[Here follows discussion of staff recruitment.]

(b) Embassy desires clarification proposed term of foreign aid operations in China. RAP 18⁵⁵ indicates shipments may not be made from U. S. during first semester 1948. Believe shipments next year may be useful for China by staggering deliveries when needs are most acute from February on, and in event anticipated food allocations during fall do not fully materialize. Other supplies should be permitted to arrive throughout fiscal year 1948. It is assumed wind-up of local currency expenses and allocations of sales proceeds can continue after June 1948, for reasonable time.

(c) To provide funds for voluntary agency activities and local operating expenses of U. S. relief advisory mission, [Central] Bank will make unlimited no-rate and no-interest advances of CN funds to be repaid from sales proceeds. Does Dept authorize such *ad hoc* financial arrangements, based upon anticipated delay of supply arrivals during next few months?

(d) In view UNRRA experience under basic agreement and uncertainty of distribution controls here, would Dept favor title on supplies to China to remain in hands of relief advisory mission at ports of entry? Embassy believes this would have advantages in maximizing allocations to voluntary agencies and would insure regulated U. S. participation in controlled distribution as well, thereby preventing abuse of U. S. supplies. Point has been raised with [Chinese] but should be introduced prior to negotiation of relief agreement if Dept concurs.

(e) Embassy desires to avoid potential inconsistencies in allocation and delivery procedure as follows:

(1) Not clear here whether food allocation is flour or wheat equivalent. RAP 18 leaves this point open. Cirairgram from Agriculture of June 20, 8 a. m.,⁵⁶ indicates quantities available are in long tons of wheat rather than flour (Chinese, incidentally, will probably want at least half their deliveries in wheat to keep local milling industry operating);

(2) Flour imports presently being returned to normal channels under certain conditions based upon controlled distribution plan objectives (See ConGentel Shanghai 1741, July 18 to Dept; Deptels 785, June 26 and 901, July 22 to Nanking, and Embtel 1591, July 26.⁵⁷) If Chinese agree this arrangement on flour, Embassy hopes

⁵⁵ Telegram No. 904, July 22, 8 p. m., to the Ambassador in China, p. 1326.

⁵⁶ Not printed.

⁵⁷ None printed.

to have foreign aid program procurement merged with it to extent that flour is involved.

Repeated Shanghai 674 by courier.

STUART

800.48 FRP/8-247 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 8, 1947—5 p. m.

985. PAR 47. Points mentioned PAR 4 (Embtel 1641 Aug 2) all agreed by Dept. Should be pointed out in connection with Item c, Para 6 that under terms Relief Act local proceeds may be used only for relief and work relief. Work relief can of course include payment of wages on work projects which accomplish rehabilitation purposes. However Senate Committee seemed intent on restricting authorization either to direct relief or to payment of wages in lieu of direct relief. In view legislative history Dept desires to be consulted as plans are developed re categories of work relief projects. Sent Nanking as Depts 985, repeated Shanghai as 1333.

Following comments re points raised PAR 5 (Emtel 1642 Aug 2) :

a. Dept glad authorize Emb to recruit personnel relief mission but desires approve adviser and two assistant advisers. Under Relief Act all members must of course be Amer citizens and investigated by FBI⁵⁸ and subject to such regular FonServ⁵⁹ personnel check as to qualifications for their positions in FonServ Reserve. Meantime Dept also collecting names and qualifications candidates in order expedite recruitment. Will clear with Emb before any appointments made. Relief adviser cannot be chosen from UNRRA staff. Sentiment in Appropriation Committees even stronger than Foreign Affairs Com[mittees] against use UNRRA personnel in key positions. Dept realizes that number these persons have extensive experience and excellent qualifications for assisting in US program and can agree that 2 or 3 such persons be employed. Dept has no info [that] Ritchie Davis⁶⁰ unavailable. Expect communicate with him and advise Emb if he will accept.

b. USFRP⁶¹ presented to Congress primarily to take care needs calendar year 1947. Depts representatives indicated to Congressional committees that bulk of supplies would be shipped by end this year although expected some shipments may slip over into first part 1948. Emb therefore should plan program for shipments from U. S. in 1947 although recognizing some slipovers may occur as result failure to achieve complete procurement of all allocations during this period. If necessary distribution of supplies arriving in Jan or Feb could be

⁵⁸ Federal Bureau of Investigation.

⁵⁹ Foreign Service.

⁶⁰ Formerly Associate Legal Counsel, UNRRA Shanghai Office.

⁶¹ United States Foreign Relief Program.

retarded to some extent. Re local currency, Public Law 84 specifies that Congress must approve disposition unencumbered local currency funds remaining on June 30, 1948.

c. Subsequent to signing relief agreement no objection Central Bank making advances to be repaid from proceeds sales.

d. Dept raises question whether relief advisory mission would be in position to assume responsibilities of unloading, warehousing and primary distribution which would normally result from retention of custody of supplies at ports of entry. It may therefore be necessary transfer supplies [to] Chinese at U. S. ports. Possibly your objectives can be accomplished through your advice on shipments from U. S. and by reason your power of control over supplies within recipient country as required by Public Law 84 and proposed relief agreement. Further believe transfer at U. S. ports result in administrative advantages both here and in China. Dept not prepared insist transfer at U. S. ports if Emb believes this procedure would prevent achieving objectives. Further comments requested.

e. (1) Proposed maximum wheat and flour allocation likely from U. S. in Sept-Dec period is 100,000 long tons wheat equivalent of which no more than half would be in wheat.

(2) See no objection to channelling of USFRP flour through normal channels upon arrival in China under certain conditions based upon controlled distribution plan objectives. Flour will be bought by Dept Agric here and shipping arrangements made by it to port destination in China.

MARSHALL

893.48/8-1247 : Telegram

The Consul at Shanghai (Meyer) to the Secretary of State

SHANGHAI, August 12, 1947—7 p. m.

[Received August 13—2:05 a. m.]

1956. PAR 6. Following draft proposed for text of relief agreement with China excluding preamble and articles IV through VIII and X which it is assumed will be same as in agreement with other countries. (See Deptel 776, June 25 to Nanking,⁶² repeated Shanghai as 1061.)

[“]Article I. *Furnishing of supplies.*

(a) The program of assistance to be furnished shall consist of such types and quantities of supplies, and procurement, storage, transportation and shipping services related thereto, as may be determined from time to time by the U. S. Government after consultation with the Chinese Government in accordance with Public Law 84, 80th Congress, May 31, 1947, and any acts amendatory or supplementary thereto. Such supplies shall be confined to certain basic essentials

⁶² See footnote 46, p. 1322.

of life, namely, food, medical supplies, processed and unprocessed material for clothing, fertilizers, pesticides, fuel, and seeds.

(b) Subject to the provisions of article III the United States Government will make no request, and will have no claim, for payment for United States relief supplies and services furnished under this agreement.

(c) The United States Government agencies will provide for the procurement, storage, transportation, shipment (unloading and warehousing at ports of reception in China of United States relief supplies) except to the extent that the United States Government may authorize other means for the performance of these services in accordance with the procedures stipulated by the United States Government. All United States relief supplies shall be procured in the United States except when specific approval for procurement outside the United States is given by the U. S. Government.

(d) The Chinese Government will from time to time submit in advance to the U. S. Government its proposed programs for relief import requirements. These programs shall be subject to screening and approval by the U. S. Government and procurement will be authorized only for items contained in the approved programs.

(e) Transfers of U. S. relief supplies shall be made under arrangements to be determined by the U. S. Government in consultation with the Chinese Government. The U. S. Government, whenever it deems it desirable, may retain possession of any U. S. relief supplies, or may recover possession of such supplies transferred, up to the city or local community where such supplies are made available to the ultimate consumers.

Article II. Distribution of supplies in China.

(a) All U. S. relief supplies shall be distributed by the Chinese Govt, [or] established voluntary agencies in China, under the direct supervision and control of the U. S. representatives and in accordance with the terms of this agreement. The distribution shall be through commercial channels to the extent feasible and desirable.

(b) All U. S. relief supply imports shall be free of fiscal charges including customs duties up to the point where they are sold for local currency as provided by article III of this agreement unless when because of price practices, it is advisable to include customs charges or Govt taxes in prices fixed, in which case the amount thus collected on U. S. relief supply imports will accrue to the special account referred to in article III. All U. S. relief supply imports given freely to indigents, institutions, and others, and those turned over to voluntary agencies for distribution shall be free of fiscal charges including customs duties.

(c) The Chinese Govt will designate a high-ranking official who shall have the responsibility of liaison between the Chinese Govt and the U. S. representatives responsible for the relief program.

(d) U. S. relief supplies and similar supplies produced locally or imported from outside sources shall be so conducted [*distributed*] as to assure a fair share of the supplies to all classes of the people to the greatest extent possible.

(e) A control system shall be inaugurated in the major urban centers of China (including Amoy, Canton, Nanking, Peiping, Shanghai, Swatow, Tientsin and Tsingtao) to provide for the distribution of relief supplies being so conducted that all classes of the population, irrespective of their purchasing power, shall receive their fair share of supplies covered in this agreement. This controlled distribution and rationing plan for the major cities in China will be developed in full consultation with U. S. Govt representatives. It is understood and agreed between both Governments, however, that in permitting the use of U. S. relief supplies to be utilized in support of this Chinese effort to improve consumption and price controls, the U. S. Government undertakes no responsibility for the success of these urban programs and reserves the right unilaterally to withdraw from any or all of them, or to postpone even nominal supply participation in them, if the limitations on the extent of the U. S. relief contribution to China or adverse developments of any kind make such withdrawal prudent.

Article III. Utilization of funds accruing from sales of U. S. supplies.

(a) The prices at which U. S. relief supplies will be sold in China shall be agreed upon between the Chinese Govt and the U. S. Govt.

(b) When U. S. relief supplies are sold for local currency, the amount of such local currency shall be deposited by the Chinese Govt in a special account in the name of the Chinese Govt.

(c) Until June 30, 1948, such funds shall be disposed of only upon approval of the duly authorized representative of the U. S. Government for relief and allied or special purposes within China, including local currency expenses of the U. S. incident to the furnishing of relief. Any unencumbered balance remaining in such account on June 30, 1948, shall be disposed of within China for such purposes as the U. S. Govt, pursuant to act or joint resolution of Congress, may determine.

(d) The Chinese Govt [will upon request] advance funds to the U. S. representatives to meet local currency expenses incident to the furnishing of relief, including the operation of the U. S. relief mission in China and certain urgent relief projects being undertaken by Chinese Govt organs and voluntary agencies.

(e) While it is not intended that the funds accruing from sales of

the U. S. relief supplies normally shall be used to defray the local expenses of the Chinese in handling, transporting internally, and distributing the U. S. relief supplies, including local currency cost of discharging cargo and other port charges, the U. S. representatives will consider with the Chinese Govt the use of the funds to cover the unusual costs which would place an undue burden on the Chinese Govt.

(f) The Chinese Govt will each month make available to the U. S. representatives reports on collections, balances and expenditures from the fund.

(g) The Chinese Govt will assign officials to confer and plan with the U. S. representatives regarding the disposition of funds accruing from sales to assure a prompt and proper use of such funds.

Article IX. Termination of relief assistance.

The U. S. Govt will terminate any or all of its relief assistance at any time whenever it determines (1) by reason of changed conditions, the provision of relief assistance of the character authorized by Public Law 84, 80th Congress, May 31, 1947, is no longer necessary; (2) any provisions of this agreement are not being carried out; (3) U. S. relief supplies, [or] an excessive amount of similar supplies produced locally or imported from outside sources are being used to assist in the maintenance of armed forces in China, or (4) U. S. relief supplies or similar supplies produced locally or imported from outside sources are being exported or removed from China. The U. S. Govt may stop or alter its program of assistance whenever in its determination other circumstances warrant such action."

Sent Dept. as 1956, August 12, 7 p. m., repeated Nanking as 1407.

MEYER

800.48 FRP/8-1247 : Telegram

The Consul at Shanghai (Meyer) to the Secretary of State

SHANGHAI, August 12, 1947—8 p. m.

[Received August 13—3:42 a. m.]

1960. PAR 7. Re draft relief agreement submitted in PAR 6,⁶³ following comments apply to changes proposed:

1. In article I sections *a*, *b*, *d*, and *e*, are unchanged. Section *c* has been revised to permit U. S. agencies to provide for "unloading and warehousing at ports of reception in China" in addition to functions of "procurement, storage, transportation and shipment" as set forth in agreements with other countries. Inclusion is intended to be permissive and function may be delegated in option of relief

⁶³ *Supra*.

adviser as article itself specifically provides for exceptions. Point is technically covered also in second sentence of section *e* in article I. Modification of section *e* prepared in accordance with reasoning noted in paragraph 5 Dept's reservations on assumption of this responsibility as set forth in paragraph *d* of RAP 47⁶⁴ just received and will not be overlooked. Believe that specific provision permitting U. S. control of supplies in China should be left in first draft submitted to Chinese. Several complications such as (1) participation of private American import firms in flour allocation, (2) development of coordinated Chinese food procurement and import program and (3) workable procedure for quick turnover of supplies to Vol⁶⁵ agencies. All ports of entry can, it is hoped, be satisfactorily worked out here in course of negotiations prior to signing of relief agreement. Maintaining of U. S. position that we intend to retain control of U. S. relief supplies up to point of allocation and primary distribution in China unless alternatives of our own choosing can be agreed upon with Chinese will expedite solution of complications mentioned.

2. In article 2 section *e* remains the same. Section *a* and *b* are expanded to cover explicitly activities through the Vol agencies. These insertions may be objected to by Chinese Govt on ground that they were not included in agreements with other countries and may, on that count, have to be later withdrawn or modified. Their inclusion in first draft will, it is felt, expedite the negotiation of satisfactory arrangements for the Vol agency programs.

Section *d* is revised to prohibit any U. S. relief supplies from being used by the military in China on the assumption that program here will be of a narrower scope than that proposed for European countries and that in any event we would not want to be accused of directly supporting the Nationalist Army. Sections *e* and *f* have been revised to take into account the fact that Chinese-controlled distribution plans are just getting started and therefore uncertain.

3. In the revised article 3 sections *a*, *b*, *f* and *g* remain the same. Section *e* has the words "allied or special" substituted for "work relief" because of the unfortunate connotation of the latter term with certain CNRRA efforts in the past. Caveat given in RAP 47 replying to item *e* of paragraph 5 on same subject noted and will be carefully observed. Chinese will be informed that Dept must be consulted in advance on local currency expenditures other than relief in view of Congressional reservation. Also full report present plans this regard will be submitted as soon as possible.

Section *d* is expanded to spell out the type of local currency ad-

⁶⁴ Department's telegram No. 985, August 8, 5 p. m., p. 1333.

⁶⁵ Voluntary.

vances which will be needed immediately after the agreement is signed. Section *e* has had added reference to the cost internal transportation in view of comment in paragraph 4 RAP 18.⁶⁶

4. Article IX is altered for the same reason that article II *d* has been changed. If these two changes are not made immediate foreign press reaction is anticipated when [text of finally] agreed document is published in view of previous criticism that UNRRA relief supplies have been used to support civil war.

5. Suggest Dept's comments be sent to both Nanking and Shanghai and that they include in first instance all instructions as to substantive changes so that draft can be presented to Chinese as soon as possible. All changes proposed by the Chinese thereafter will be referred to Washington for approval.

Repeated Nanking by courier as 1408.

MEYER

800.48 FRP/8-1247 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, August 21, 1947—2 p. m.

1048. RAP 70. Following are comments re proposed text relief agreement transmitted Shanghai's 1956 Aug 12 (PAR 6). Subject to these comments you are authorized immediately to negotiate agreement with Chinese. In view of legislative history and positive language of Relief Act which are reflected in wording of parts of proposed agreement Dept desires to be consulted before any modifications are agreed.

Addition of words "unloading and warehousing at ports of reception in China" in Article I Para *c* indicates intention to assume responsibility for these functions. Persons here concerned with supply operations believe this would be most difficult to handle with personnel which can be made available to mission. Since it appears from statement in Shanghai's 1960 Aug 12 that this provision is largely for bargaining purposes in order to obtain satisfactory commitments from Chinese it would seem that objective could be achieved by emphasizing in discussions our right if necessary to retain title and possession to US supplies under Para 1 *e* unless satisfactory arrangements at ports were agreed to by Chinese.

Dept assumes first sentence Article II Para *a* should read as follows: "All US relief supplies shall be distributed by the Chinese Govt and by established voluntary agencies in China, under the direct

⁶⁶ Telegram No. 904, July 22, 8 p. m., to the Ambassador in China, p. 1326.

supervision and control of the US representatives and in accordance with the terms of this agreement.”

Following para which coincides closely with final draft Italian Agreement and is in line with Relief Act provisions should be inserted as Para *d* Article II. “US relief supplies and similar supplies produced locally or imported from outside sources will be distributed by the Chinese Govt and voluntary agencies without discrimination as to race, creed, or political belief and the Chinese Govt will not permit the diversion of any of such supplies to non-essential uses or for export or removal from the country while need therefor for relief purposes continues. The Chinese Govt will not permit the diversion of US relief supplies or an excessive amount of similar supplies produced locally or imported from outside sources in the maintenance of armed forces.” Para *d* as proposed in Shanghai’s 1956 would then become Para *e*. Dept assumes in latter para that “distributed” should be substituted for “conducted” to make sentence grammatically correct.

In connection Para *e* Article II as proposed in Shanghai’s 1956 Dept raises question whether it is necessary to include reference to distribution system in such precise detail in relief agreement. From our standpoint would seem preferable to refer in more general terms to installation control systems with objective of assuring distribution of relief supplies to all classes of population irrespective of their purchasing power. Reference in written relief agreement to specific cities and to consultation with US representatives gives impression that as condition of relief we intend officially to participate in development of details of control distribution plans and thereby assume large measure of responsibility for its operation. Could we not achieve same end by more general type of reference suggested above coupled with informal understanding with Chinese that we would be consulted in development of plans? Under other provisions of the agreement we can, of course, withdraw our assistance at any time if we are not satisfied with the way the Chinese are operating program. Dept would appreciate further comment on this point before approving this para.

Dept tried without success to alter language Relief Act which requires local sales proceeds be used for relief and work relief. Language similar to that proposed in Shanghai’s 1956 in Para *c* Article III was specifically rejected by Congressional Committee. In view this history feel it necessary to use original language “relief and work relief” although recognize unfortunate connotation “work relief” in China.

In connection with Para *d* Article III Dept not clear as to meaning

of "certain urgent relief projects being undertaken by Chinese Govt organs and voluntary agencies". We have no objections to this on assumption that projects referred to are ones which would normally be eligible for assistance from proceeds sale US supplies and Chinese would be reimbursed for such advances from the special fund when sales were made. Sent Nanking as 1048 repeated Shanghai as 1404. Rome for Allen ⁶⁷ as 1469.

LOVETT

800.48 FRP/8-2647 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, August 26, 1947—11 a. m.

[Received August 26—5:09 a. m.]

2053. PAR 10. 1. In accordance with comments made in RAP 70 sent Nanking as 1048, August 21, repeated Shanghai as 1404 and to Rome for Allen as 1469, changes noted in following paragraphs be made in draft agreement for China as submitted in PAR 6.⁶⁸ Accordingly revised draft will be transmitted to Embassy ⁶⁹ for submission in latter's discretion to Chinese this week. Department should instruct Embassy ⁷⁰ otherwise if this is not intent in ref tel as assumed here.

2. Article I, section *c*, will have phrase "unloading and warehousing at ports of reception in China" deleted. Article will then be identical with drafting in previously executed agreements. Department will be consulted later if Chinese assurances on points which original wording was intended to cover are not deemed adequate. UNRRA experience with supply turnover to Chinese Government at ship's tackle or prior thereto has been most unsatisfactory and it is felt that proper safeguards to avoid past difficulties with relief supplies can only be obtained at time of negotiating agreement even though the specific conditions agreed upon are not actually incorporated on agreement.

3. Article II, section *a*, will read as quoted in Deptel message.

4. Section *d* in article II will also read as quoted in Department's telegram. Garble in either PAR or RAP message under reference does not make clear Department's recommendation to wording of article II, section *e*. In draft to be presented to Chinese this will match iden-

⁶⁷ Richard F. Allen, Field Administrator, Foreign Relief Program.

⁶⁸ Telegram No. 1956, August 12, 7 p. m., from the Consul General at Shanghai, p. 1334.

⁶⁹ Despatch No. 288, September 2, not printed.

⁷⁰ In telegram No. 1105, September 4, 3 p. m., to the Ambassador in China, the Department agreed that the Embassy undertake negotiations with the Chinese on the basis proposed in telegram here printed.

tically similar paragraphs in Greek and Italian agreements⁷¹ although Chinese inability to live up to such a commitment is so obvious that clause would be better deleted altogether.

5. Section *f* in article II proposed to read as follows in view Department's comments:

"A distribution and price control system shall be inaugurated in the major urban centers of China with the intent of insuring that all classes of the population irrespective of their purchasing power shall receive a fair share of imported or indigenously produced relief supplies. In permitting United States relief supplies made available under this agreement to be utilized in support of Chinese efforts to improve consumption and price controls, it is understood that the U. S. Government undertakes no responsibility for the success of these urban programs and reserves the right to withdraw from or postpone supply participation in any or all of them, in the sole discretion of its approved representatives.["]

Suggest unless Department prepared to determine exact wording this section immediately that it be submitted to Chinese in above form for purposes of discussion.

6. Article III, section *c* will use original language "relief and work relief".

7. Department's assumption to article II, section *d* is correct. It is believed most advisable to submit this suggestion as drafted in PAR 6.

Sent Department as 2053, repeated Nanking 1477. Department please repeat to Rome.

DAVIS

800.48FRP/9-1347

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 13, 1947—11 a. m.

[Received 11:22 a. m.]

1917. PAR 17. Summary of tentative Chinese reactions to draft relief agreement given in following paragraphs. (Reference PAR 10,⁷² PAR 16⁷³ and Deptel 1105 to Nanking of September 4,⁷⁴ repeated Shanghai.) In two meetings with Foreign Office on September 9 and 10, Chinese representatives emphasized that their objections and rec-

⁷¹ The relief assistance agreement with Greece was signed at Athens on July 8; Department of State Treaties and Other International Acts Series No. 1047, or 61 Stat. (pt. 3) 3017. The agreement with Italy was signed at Rome on July 4; Treaties and Other International Acts Series No. 1653, or 61 Stat. (pt. 3) 3135.

⁷² *Supra*.

⁷³ Telegram No. 1898, September 11, 1 p. m., not printed; it indicated that there were no substantive obstacles to reasonably early conclusion of an agreement (800.48FRP/9-1147).

⁷⁴ See footnote 70, p. 1341.

ommendations were being informally and tentatively submitted. Chinese apparently desire to sound out U. S. reactions to their proposed changes before submitting them formally. Substance of comments made by Embassy representatives noted with points to which they were addressed. Department may also find it useful to refer to Consulate General's despatch 288 to Nanking of September 2⁷⁵ in connection with considerations involved.

1. Article I (*a*). Chinese said they felt that amount of program should be stated under this section and suggested adding at end of it "with a delivered value of not less than U. S. \$30,000,000". Chinese were informed that it was unlikely, in view of flexibility inherent in program for China thus far discussed and in view absence such commitment in agreements already signed [with other countries, that mention of any specific figure in agreement would be concurred in by U. S. Emb representatives suggested as possibility that separate]⁷⁶ letter might be given to Chinese at time agreement was signed setting forth target size and supply nature of program. Believe this will satisfy Chinese. Please confirm if acceptable, in which event Embassy will submit to Department in advance proposed text of supplementary letter.

2. Article I (*d*). Chinese requested revision beginning second sentence and reads as follows: "The U. S. program for relief in which requirements shall be agreed upon by the Chinese Government and the Government of the U. S., and the procurement shall be confined to items contained in such program". It was recognized and pointed out to the Chinese that this change would impair freedom of action on the part of the U. S. Chinese emphasized the political importance to them of maintaining the principle of consultation and joint agreement. Assume Department will insist upon original wording. Please instruct.

3. Article I (*e*). Chinese strongly urged deletion of whole second sentence on grounds of Chinese political sensibilities or alternatively to amend sentence to read "the U. S. Government, whenever it deems it desirable, may retain possession of any U. S. relief supplies, or may recover possession of such supplies transferred for reallocation within the country". Recognizing that bulk of supplies would be distributed in receiving ports or larger bank [*large urban*] centers, and that those sent to interior would be largely in hands of voluntary agencies, Embassy representatives suggested compromise whereby last phrase of sentence reading "up to the city or local community where

⁷⁵ Not printed; it reported at length the views on the draft treaty held by Dr. C. M. Li, Deputy Director General of CNRRA (893.48/9-247).

⁷⁶ Bracketed insertions in this telegram on basis of copy in Embassy files.

such supplies are made available to the ultimate consumers" would be deleted. Believe this concession warranted since China program is on much smaller scale than European counterparts and since Embassy assumes Department will resist most other changes proposed by Chinese in agreement.

4. Article II (a). Chinese wish to incorporate wording which would insure voluntary agencies being used only with Chinese approval, and affirmed that they were most unhappy with the inclusion of phrase "direct supervision and control". They suggested paragraph should read "all United States relief supplies shall be distributed by the Chinese Government and by established voluntary agencies in China as agreed upon between the two governments. Such distribution will be under the supervision of the United States representatives and in accordance with the terms of this agreement".

Whereas it is Embassy's intent to proceed wherever possible along lines mutually agreed upon, including the extent of voluntary agency participation, it is believed desirable to adhere to the wording originally proposed. Chinese obviously are primarily motivated by sovereignty considerations in attempting to soften wording of this paragraph, and Embassy feels for that very reason that right of U. S. to supervise and control distribution must be specified.

5. Article II (d). Chinese wish to delete condition of non-discrimination because of implied obligation to treat command national [*Communist- and Nationalist-*] held areas equally. Embassy representatives suggested that only qualification of discrimination reading "as to race, creed or political belief" be removed to meet Chinese point. Believe it desirable to go this far in meeting Chinese position and request Department's approval of this minor change. It has been emphasized to Chinese that political discrimination within zones which National Government administers without challenge will not be tolerated.

Chinese urged that reference to "similar supplies, etc." should not be made on ground that from a practical standpoint Chinese Government could not give undertakings on this question and live up to them. Chinese also questioned how we would determine the diversion of an "excessive amount" of relief supplies for military purposes. Embassy accepts Chinese qualifications as sincere and valid, and suggests revision of paragraph to read "the Chinese Government will distribute United States relief supplies without discrimination and will not permit the diversion of any such supplies to nonessential uses or for export or removal from the country while need therefor for relief purposes continues. The Chinese Government will not permit the diversion of United States relief supplies for any kind of military usage whatsoever".

6. Article II (*e*). Chinese raised similar objections as noted in paragraph 5 above and suggested deletion of this section altogether. Embassy representatives recommended rather that last two words "throughout China" be left out and insertion made at the opening of section so that it would read "the Chinese Government will endeavor so to conduct etc". Recommend Department's acceptance of this in view of distribution difficulties here in China.

7. Article II (*f*). After considerable discussion, revision to meet Chinese objections was proposed as follows:

"A distribution and price-control system shall be inaugurated in such major urban centers of China as circumstances permit, with the intent of insuring that as many of the population as possible, irrespective of their purchasing power, shall receive a fair share of imported or indigenously produced relief supplies. U. S. relief supplies made available under this agreement may be utilized in support of these Chinese efforts to improve consumption and price controls to the extent agreed upon from time to time by the appropriate representatives of the two Governments. It is understood, however, that the U. S. Government, in so permitting the use of relief supplies furnished by it, can undertake no responsibility for the success of these urban-controlled distribution programs, and reserves the right to withdraw from them in the event that the stated objectives are not being achieved."

Believe revised wording protects U. S. interests and gives U. S. fully adequate flexibility. Request Department's approval therefor.

8. Article III (*e*). Chinese desire words "with approval" instead of "upon approval". Embassy representatives see no objection.

9. Article III (*d*). Chinese requested insertion to read "advance funds against proceeds from the sale of relief supplies to the U. S. representatives". Embassy agreed subject to Washington concurrence. Request this in view of fact that supplies would not arrive Shanghai for some time whereas we wish to draw on local currency account at early date.

10. Article IV. Chinese proposed deletion of entire article containing provisions which were not really necessary in view of the limitations on and nature of proposed China program. Chinese also argued that commitments undertaken if this article were accepted would pose grave and perhaps impossible responsibilities for the Government. While sympathizing with Chinese position to certain extent and while recognizing that Nanking cannot be expected to perform really satisfactorily under the sections of this article, believe it should remain as part of agreement and assume Department will concur this view.

11. Article V (*b*). Propose to delete phrase "throughout China" in first sentence and substitute after "all times" phrase "in and to

areas of China where relief operations and activities related thereto are being conducted". Chinese wish to qualify commitment in second sentence with regard to automobile transportation. Embassy feels for that very reason, it should be retained in present form. Suggest Department concur in modification of first sentence this article and adhere to original wording of second.

12. Article IX. Chinese request deletion in point (3) of phrase "or an excessive amount, (through) outside sources". Embassy agrees. See paragraph 5, above. Chinese objected strongly on political grounds to inclusion of last sentence this article, particularly without specific enumeration of "other circumstances" which would warrant cessation or alteration of program. Embassy representatives expressed view that such freedom of action on part of U. S. would be insisted upon as basic condition but agreed to transmit to Washington Chinese opinions. Please instruct.

13. Request advice on above soonest in order to permit negotiations to proceed. Department may be interested in knowing that Governor Chang of Central Bank told acting relief adviser on September 7 that Foreign Minister had commented to him along lines set forth paragraphs 1, 2, 4, 5, 7, 10, and 12 above. Doctor Wang Shih-chieh quoted as saying he was particularly anxious for revisions of article I (e), article II (a), (d) and (f), and article IX, thereby confirming extent of Chinese political sensitiveness at present to any conditions which undermine National Government's prestige. Governor Chang also indicated that Foreign Minister would like to be able to sign relief agreement while he is in United States. In any event, believe prompt consideration of points at issue should be given by Department as it is anticipated that Chinese will accept revised draft along lines indicated above paragraphs.

Sent Department as 1917, repeated Shanghai by courier as 781.

STUART

800.48FRP/9-1847

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 18, 1947—4 p. m.
[Received September 18—9:40 a. m.]

1956. PAR 20. 1. Embassy representatives summarized Department's views (as given in RAP 118⁷⁷) to Foreign Office in meeting today and advised Chinese acceptance U. S. points of principle previously under discussion. Foreign Office representatives also in-

⁷⁷ Department's telegram No. 1153, September 15, 6 p. m., not printed; it set forth two preliminary comments on questions raised by the Chinese: That the Department could not change provisions responsive to the Relief Act even though some phraseology was unpalatable and that the Department was not committed to any fixed amount of aid (800.48 FRP/9-1147).

formed that while no answer yet received to PAR 18 [17],⁷⁸ "preliminary comments" in RAP 118 seemed to answer points raised paragraphs 1, 2, 6, 10, 12, and subparagraph 4 of former telegram.

2. Reference paragraph 7, PAR 18 [17], Chinese now state they prefer original wording second sentence in article II, section *f*, with last clause beginning "and reserves the right, et cetera" deleted. Chinese argue that other clauses in agreement adequately protect U. S. on withdrawal from or restrictions in participation controlled distribution plan. Embassy has no objection this latest change if Department perceives none.

3. Foreign Office evidently intends to consult Chinese Embassy, Washington, and Dr. Wang Shih-chieh before agreeing withdrawal of objection on all major issues. Latter may, therefore, consult Department directly on these points. Embassy here believes this desirable as means of expediting Chinese acceptance final draft.

4. Importance of early action on completing negotiations has been emphasized to Chinese, especially from supply and procurement standpoints. It is expected Foreign Office will respond to realities of situation. Embassy hopes Central Bank undertaking to reimburse Agriculture Department for purchase of rice (see PAR 19⁷⁹), if relief agreement is not signed, will be adequate protection of U. S. Government interest and permit definite procurement commitments to be made by Agriculture Department. Acting Relief Advisor⁸⁰ assumed from penultimate sentence RAP 107⁸¹ that such assurances from the Central Bank would be sufficient protection to permit Department's authorizing commitment, and so indicated to Governor of Central Bank.⁸² Believe, therefore, that procurement should proceed, especially since rice is involved.

Sent Department, repeated Shanghai by courier as 791.

STUART

800.48 FRP/9-1347 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, September 19, 1947—7 p. m.

1172. Following are Depts comments re terms relief agreement (Reurtel 1917 Sept. 13 PAR 17).

Para 1, Article Ia. As indicated in Depts 1153 to Nanking⁸³ re-

⁷⁸ *Supra*.

⁷⁹ Telegram No. 2195, September 15, 9 a. m., from the Consulate General at Shanghai, not printed.

⁸⁰ Donald S. Gilpatric.

⁸¹ Telegram No. 1134, September 9, 6 p. m., to the Ambassador in China, not printed.

⁸² Chang Kia-ngau.

⁸³ See footnote 77, p. 1346.

peated to Shanghai as Deptel 1551 we do not want to be committed legally or morally to any specific amount of money. Whole program is being administered on flexible basis in order to avoid embarrassment in case circumstances warrant changes. In view of critical financial situation in a number of countries during next few months as well as supply situation which is even less certain than during past year principle of program flexibility considered most important. Under circumstances does not appear advisable give letter to Chinese at time negotiations.

Para 2, Article *Id*. Original wording or similar language giving U. S. complete freedom to include or reject items in program considered essential.

Para 3, Article *Ie*. Second sentence which is objected to by Chinese is the exact wording of portion Section 1 Relief Authorization Act (Public Law 84 80th Congress). It was inserted as an amendment in House and evoked considerable discussion. Dept considers it essential that relief agreement contain identical language on this point.

Para 4, Article *Iia*. Dept agrees with Emb that this wording should not be changed. Should be pointed out that phrase "direct supervision and control" also follows exact wording Public Law 84.

Para 5, Article *IId*. Phrase "without discrimination as to race, creed or political belief" follows wording Section 3*a* Public Law 84. In light this wording we have no authority to modify language agreement. Since the general program of controlled distribution is referred to in other parts of agreement there would seem to be no reason in any case to limit the principle of nondiscrimination. It is clear that Chinese Govt cannot be expected to assure equitable distribution in areas over which it has no control. Dept aware difficulty determining diversion of "an excessive amount" of relief supplies to military forces. However Section 5*a*3 Public Law 84 specifically requires termination relief if excessive amount of US supplies or similar local supplies are being used for maintenance of armed forces. Appears therefore we have no discretion to omit this phrase.

Para 6, Article *IIf*. Section 3*h* Public Law 84 prohibits granting of relief unless provision is made for control system so that all classes of people receive their fair share of essential supplies. Under circumstances believe following language would be acceptable: "The Chinese Govt will take appropriate steps regarding the distribution of US relief supplies and similar supplies produced locally and imported from outside sources designed to assure a fair and equitable share of the supplies to all classes of the people".

Para 7, Article *IIg*. No objection to modifying para as set forth PAR 17 except that phrase "as many of the population as possible" ap-

pears too weak. Original language "all classes of the population" or similar phrase should be used. Since the sentence merely indicates intent and purpose of control system which will be established only "in such major urban centers of China as circumstance permit" it would not appear to constitute a binding obligation beyond the possibility of achievement. No objection deleting last clause second sentence beginning "and reserves the right, etc" (Urtel 1956, Sep 18).

Para 8, Article IIIc. No objection to use of phrase "with approval".

Para 9, Article III d. No objection to wording proposed by Chinese.

Para 10, Article IV. Copy draft agreement forwarded to Dept⁸⁴ omitted Article IV. Assume it is identical with Article IV in Italian Agreement. Dept agrees with Emb that this Article is desirable and must be included though recognizing limitations on Chinese Govt's ability to achieve objectives of Article. This Article also responsive to provisions in Relief Act.

Para 77, Article Vb. Do not like proposed Chinese substitution re inspection relief operations and activities. Suggest following language which would appear to meet Chinese point without specifically restricting our freedom to travel within certain area: "The Chinese Govt will permit and facilitate in every way the freedom of US representatives to supervise the distribution of US relief supplies, to travel, inspect and report in connection with any matters relating to this agreement and will cooperate fully with them in carrying out all of the provisions of this agreement." Dept agrees with Emb re undesirability modifying second sentence except insofar as it is desirable to include provision covering rail and air transportation.

Para 12, Article IX. This Article follows closely terminology Public Law 84 Section 5a. In face of this we could not agree to modification. Sent Nanking as Depts 1172 repeated to Shanghai as Depts 1592.

MARSHALL

800.48 FRP/9-3047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 30, 1947—11 a. m.

[Received September 30—3 a. m.]

2004. Department's comments re terms of relief agreement (Department's telegram 1172, September 19, 7 p. m.) given Foreign Office September 23 orally and later confirmed in writing.

Director, American Affairs Department, Foreign Office,⁸⁵ Septem-

⁸⁴ Transmitted to the Department in despatch No. 1616, August 26, from the Consulate General at Shanghai, not printed.

⁸⁵ Tung Ling.

ber 29 informed Embassy representatives that comments wired to Dr. Wang Shih-chieh, Foreign Minister now in United States, who in turn questioned following points:

1. Article II (a). Phrase "under direct supervision and control" might be interpreted to include general supervision and control over Chinese Government. Embassy representatives stated that such interpretation not possible; that same language used in agreements with other countries; and that Embassy not prepared to take up this point again with Department.

2. In same section article II question of voluntary agencies. Foreign Office official concerned stated Dr. Wang would prefer inclusion following phrase "by the established voluntary agencies which are agreed upon between the two governments" (see paragraph 4, Embassy's telegram 1917, September 13, PAR 17, which seemingly not completely covered reference telegram). Official stated that in practice he would expect United States Government to designate agencies and that Chinese Government would approve. As object is primarily to save face regarding phrase cited last paragraph above, Embassy feels sympathetic consideration might be given to inclusion this phrase but requests Gilpatric comment.

3. Article II (d). Dr Wang assertedly objected to references to "excessive amount" and "similar supplies". Foreign Office official informed language on these points from Public Law 84 must be used as Department has no discretion to omit phrase.

Foreign Office wiring substance foregoing to Dr. Wang with suggestion he contact Department if he desires any further clarification.

Foreign Office also proposes insertion of "available" before "information" in article VII (b). Embassy sees no objection.

Sent Department 2004, repeated Shanghai 809.

STUART

800.48 FRP/10-347: Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, October 3, 1947—3 p. m.

[Received 11:16 p. m.]

2343. PAR. 25. 1. Following comments paragraph 2 Embtel 2004, September 30, to Department, repeated Shanghai 809. Reference also paragraph 4 PAR 17⁸⁶ and paragraph 4 Deptel 1172, September 19, to Nanking, repeated Shanghai as 1592.

2. In revised draft of relief agreement forwarded to Nanking⁸⁷ which incorporates all points made in Department's telegram under reference article II section a reads as follows:

"All United States relief supplies shall be distributed by agencies of the Chinese Government or by voluntary agencies as agreed upon

⁸⁶ Telegram No. 1917, September 13, 11 a. m., p. 1342.

⁸⁷ Draft of September 23, not printed.

between the two Governments. Distribution will be under the direct supervision and control of the United States representatives and in accordance with the terms of this agreement."

Would prefer Department's support and that of Embassy for this wording exactly in favor of revision proposed by Dr. Wang for following reasons:

a. If only intent of Chinese is to save face by having agreement specify that there will be joint approval of voluntary agencies used, wording quoted above protects them adequately although latter has been carefully phrased to emphasize that joint agreement will be sought primarily in determining extent of distribution by agencies of Chinese Government vis-à-vis voluntary agencies rather than individual approval of latter.

b. Persistent difficulties in past 2 years encountered with Chinese in securing approval for distribution of UNRRA relief supplies through voluntary agencies; attitude of CNRRA and Foreign Office officials in course early USFRP negotiations in June; widespread resistance by provincial and local governments to utilizing experienced voluntary agency distribution channels for outlets of residual UNRRA supplies in regions and especially medical supplies, these and other indications point to continuing difficulties with the Chinese in reaching agreement on a relief distribution program through voluntary agencies. Prophecy struggle under any circumstances to achieve desired extent of voluntary agency relief distribution and financing and believe it will be helpful to have U. S. wording and U. S. interpretation thereof starting point for any further negotiation.

c. Intention Acting Relief Adviser is to seek in advance of signing relief agreement Chinese approval of target voluntary agency program including list of agencies to be utilized and rough total supplies and local currency involved. Have concluded that only with arrangement of this kind allowing maximum flexibility and discretion to relief mission can effective private agency program be developed. Neither Department nor Embassy should lose sight of fact that pressures exerted by local groups on National Government where supplies of money are involved can be highly effective and that only way to offset this is to insist upon broad commitments from latter in advance.

Sent Department, repeated Nanking 1639.

DAVIS

800.48 FRP/10-847: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 8, 1947—7 p. m.

1247. RAP 157. After discussion with Chinese FonMin Chinese Emb representative⁸⁸ approached Dept requesting change in para 2

⁸⁸ Chen Chih-mai, Counselor of the Chinese Embassy.

(a) of proposed relief agreement and desired clarification of Section 2 (d).

Prior to receipt PAR 25 Shanghai's 2343 Oct 3 language of which is satisfactory to Dept, Dept had agreed here to change para 2 (a) to read as follows: "All U. S. relief supplies shall be distributed in accordance with the terms of this agreement, by the Chinese Govt and by established voluntary agencies in China which are agreed upon between the two Govts. Representatives of the U. S. shall have direct supervision and control of supplies made available by the U. S. under this agreement." Understand FonMin has agreed and requested FonOff to conclude negotiations with you along above lines. Sent Nanking as Depts 1247 repeated to Shanghai as Depts 1721.

Re Section 2 (d) Dept pointed out that language of Relief Act and intent of Congress precluded any change in substance. It was agreed however that in response to request for interpretation which would be transmitted to you from Chinese Govt, letter along following lines would be given to Chinese. FonMin believes this will permit him to satisfy Executive Yuan that agreement does not purport to abrogate right of Chinese Govt to manage its domestic and military affairs:

"The right of the Chinese Govt to determine the extent of its armed forces and the amount of food and other supplies which it may make available for their use is, of course, fully recognized. The approval of the relief agreement will in no way affect this right. On the other hand in accordance with Public Law 84 passed by the 80th Congress which authorizes the furnishing of relief assistance, the President of the US is directed to terminate the provision of US relief assistance to the people of any country whenever in his judgment an excessive amount of any supplies being made available by the US to the people of any country or of similar supplies produced locally or imported from outside sources, is being used to assist in the maintenance of armed forces in such country. In the light of this provision in the relief law the US must reserve the right to terminate its relief shipments to China if, in its determination, an excessive amount of relief supplies or similar supplies produced locally or imported from outside sources is being used for the maintenance of armed forces in China."

LOVETT

800.48 FRP/10-1447: Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, October 14, 1947—4 p. m.

[Received October 14—5: 57 a. m.]

2420. PAR 32. 1. Revised relief agreement being submitted to Foreign Office for final approval, taking into account points agreed upon with Chinese Foreign Minister and Embassy, Washington, as confirmed Deptel to Nanking 1247, October 8, repeated Shanghai as

1721. Article II section (a) in this draft will follow the verbatim text in Deptel. When request for interpretation of article II section (d) is received from Chinese, response will be made along lines suggested. Assume drafting of this will be at discretion of Embassy and Acting Relief Adviser as long as sentences quoted in Deptel are incorporated in our response. Please instruct if Department desires approve in advance complete text of proposed answer to request for interpretation.

2. In accordance PAR 10,⁸⁹ PAR 17,⁹⁰ and Deptels 1105, September 4⁹¹ and 1172, September 19 to Nanking, repeated Shanghai 1484 and 1592 respectively, second draft will have article I, section (a) reading as in agreements with other countries. Similarly sections (d) and (e) of this article will follow wording we proposed. Article II, sections (d), (e), and (f) will contain wording indicated respectively paragraphs 5, 6, and 7 of Deptel 1172. Article III sections (c) and (d) will incorporate changes requested by Chinese. Article V (b) will read as suggested. Paragraph 11, Deptel 1172 to Nanking and article IX, condition 3 will remain as originally worded.

3. Chinese now anxious to complete negotiations on basis of changes, according to Governor Chang of Central Bank. Intend, however, to press for complete and satisfactory understanding on voluntary agencies activities prior to signing the agreement, especially since implementation this part of agreement will be administered on Chinese side by officials who have not thus far participated in negotiations and who may be reluctant to accept approach envisaged paragraph 2 (c), PAR 25⁹² unless they are bound by a prior commitment.

4. Unless instructed to contrary, assume agreement is to be signed by Ambassador Stuart on behalf of the United States and by Premier Chang Chun on behalf of China.⁹³

Sent Department repeated Nanking.

DAVIS

800.48 FRP/10-1447: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 14, 1947—7 p. m.

[Received October 14—11:49 a. m.]

2073. Chinese most anxious have agreement signed soonest in view of expected favorable psychological repercussions on present convul-

⁸⁹ Telegram No. 2053, August 26, 11 a. m., p. 1341.

⁹⁰ Telegram No. 1917, September 13, 11 a. m., p. 1342.

⁹¹ See footnote 70, p. 1341.

⁹² Telegram No. 2343, October 3, 3 p. m., from the Consul General at Shanghai, p. 1350.

⁹³ The agreement was signed on behalf of China by Dr. Liu Shih-shun, Political Vice Minister for Foreign Affairs.

sive inflationary upsurge in Shanghai. Embassy agrees speediest signing desirable in present situation.

Following receipt RAP 157, Deptel 1247, October 8 (repeated Shanghai as Dept's 1721), Embassy representatives have held several meetings with FonOff officials in order conclude negotiations on relief agreement. RefTel helpful in getting Executive Yuan approval to draft agreement. However, FonOff requests following:

1. Insertion "United States" article III (*d*) thus reading "the Chinese Govt will, upon request, advance funds against proceeds from the sale of United States relief supplies et cetera." Embassy perceives no objection.

2. Insertion new paragraph *a* end article IX reading: "The Chinese Govt reserves the right to terminate this agreement whenever it deems such relief assistance as is provided in this agreement is no longer necessary." FonOff officials state this suggested insertion requested by Executive Yuan; face saving intent patently obvious but Embassy recommends acceptance, unless objection perceived by Dept.⁹⁴

[Here follows request for detailed instructions regarding preparation of agreement, such as size of paper, number of copies, and place of signing.]

STUART

800.48 FRP/10-1747: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 17, 1947—3 p. m.

1275. RAP 176. Dept agrees with assumptions re relief agreement set forth in Shanghai's 2420 Oct 14 (PAR 32). Sent Nanking as Depts 1275 repeated to Shanghai as Depts 1778. Dept does not desire approve text of proposed answer to request for interpretation provided the sentences set forth in Deptel 1247 Oct 8 are included and no other matters of policy are added.

LOVETT

800.48 FRP/10-2347

The Consul General at Shanghai (Davis) to the Secretary of State

No. 1790

SHANGHAI, October 23, 1947.

[Received November 4.]

SIR: I have the honor to refer to a recent exchange of telegrams (Shanghai's PAR 32 of October 14, 1947⁹⁵ and the Department's

⁹⁴ In telegram No. 1286, RAP 179, October 20, 10 a. m., the Department approved the insertion in article III (*d*) and found the insertion in article IX "not objectionable if valuable as face saving device although no other agreement was so amended". (800.48/10-2047)

⁹⁵ Telegram No. 2420, p. 1352.

RAP 176 of October 17, 1947⁹⁶) in connection with the negotiation of a post-UNRRA Agreement with the Chinese Government, and to the extent of participation of voluntary and private agencies in the program proposed for China. There is enclosed herewith,⁹⁷ for the information of the Department and the Embassy, an exchange of correspondence, with relevant attachments, between the Acting Relief Adviser and the Ministry of Foreign Affairs on this subject. It will be noted in these exchanges that the United States representatives have continued to press for early agreement on the establishment of a definite proportion of the program for implementation through voluntary agency channels, and thereby expedite the potential benefits of the program to China.

The representatives of the Ministry of Foreign Affairs have thus far resisted efforts to reach definitive agreement on the points specifically raised in the above connection. This resistance may be attributed to several causes. It is known, for example, that the Minister of Social Affairs, Mr. Ku Cheng-kang, is a strong supporter of the Kuomintang Party organization and has consistently endeavored to channel relief funds and supplies coming under his jurisdiction through governmental outlets for the benefit and strengthening of the Party. The only offset to this pressure is the welfare group working in the Ministry under the leadership of Mr. H. C. Chang. The latter has been in Europe and the United States since August in connection with the future of child-welfare activities and, therefore, unable to take the lead in supporting some of the desired post-UNRRA objectives within the Ministry. Without the Ministry's consent, it would be difficult for approval to be given elsewhere in the Government for allocations on plans involving relief distribution through voluntary agencies. In this connection, it may be noted that repeated efforts to establish liaison with the Ministry in Mr. Chang's absence have been unsuccessful.

Another difficulty in expediting even general agreement on the proposals advanced by U. S. representatives has been the suspension of Dr. C. M. Li, formerly Deputy Director-General of CNRRA. Dr. Li, it will be recalled, was designated as the chief informal negotiator by the Chinese Government. The Ministry of Foreign Affairs has consistently referred to him relief and other proposals (see my despatch no. 288 to the Embassy, dated September 2, 1947, a copy of which was sent to the Department⁹⁸). It is known that Dr. Tung Ling specifically asked for CNRRA's comments on the American recommendations involving voluntary agencies through Dr. Li. The latter's enforced retirement has therefore had the effect of slowing down and

⁹⁶ Telegram No. 1275, *supra*.

⁹⁷ Enclosures not printed.

⁹⁸ Not printed.

discouraging decisions of post-UNRRA significance both within CNRRA and elsewhere in the Government.

When Embassy representatives met with the Ministry of Foreign Affairs representatives in Nanking on October 22 to discuss further steps which were necessary or desirable prior to the signing of a Relief Agreement, the above points were raised with a plea for an early decision by the Chinese Government as to the extent of voluntary agency participation in the United States Foreign Relief Program. Dr. Tung took the view that such considerations would have to be held over until the Agreement was signed and until the Government appointed its liaison officer in accordance with Article II, section *c* of the draft Agreement. Dr. Tung emphasized that such an appointment could not be made until the Agreement itself was signed, and that all decisions of procedure and policy must await the appointment, and subsidiary designations to follow it. He was reminded, as forcefully as circumstances permitted, of the penalty to the Chinese people which was the inevitable result of such recalcitrance, and thereafter agreed informally to attempt to persuade higher officials of the importance of preparing to implement the major objectives of the Agreement as soon as possible after it was signed. Prior to the Acting Relief Adviser's departure for Shanghai that same day, he was advised by Dr. Tung that the Vice Premier, Dr. Wang Yun-wu, would undertake informally the responsibility of coordination within the Government until an Agreement was signed, and would be available for consultation at the convenience of U. S. representatives.

The foregoing report indicates that no conclusive understanding will be reached with the Chinese Government as to the extent of voluntary agency activities under the relief program prior to the signing of the Agreement. It is felt, however, that a sufficiently detailed record of the U. S. position has been established to permit insistence upon a satisfactory resolution of these questions promptly after the Agreement has been signed.

Respectfully yours,

MONNETT B. DAVIS

893.48/10-2747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 27, 1947—6 p. m.

[Received October 27—8:11 a. m.]

2145. Relief Agreement signed 4 a. m. [*p. m.*], October 27⁹⁹ (re-Embtels 2133, October 24,¹ and 2138, October 25²) during brief cere-

⁹⁹ At Nanking; Department of State Treaties and Other International Acts Series No. 1674, or 61 Stat. (pt. 4) 3374.

¹ Not printed; it contained the text of a press release to be issued by the Embassy on the signing of the agreement (893.48/10-2447).

² Not printed; it requested minor changes in the wording of the press release and the preamble of the agreement (893.48/10-2547).

mony at FonOff as scheduled. Dr. Liu expressed appreciation Chinese Government for cordial status Sino-U. S. relations and for past assistance given China by U. S. He thereupon expressed warmest thanks of Chinese Government for assistance to be received under relief agreement. Ambassador replied briefly, referring to mutuality of interests between two countries in past and expressing hope that assistance to be granted would serve further to cement cordial close relations.

Repeated Shanghai as No. 857.

STUART

893.48/11-447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 4, 1947—6 p. m.

[Received November 5—5:06 a. m.]

2192. Signing of Sino-US Relief Agreement evoked surprisingly little comment in China press. Only acknowledgement it received was in Kmt³ organs which viewed it as an indication of real friendship between the two countries and as an expression of U. S. sympathy for difficulties and sufferings facing Chinese people. One Shanghai Kmt organ, however, while agreeing that this relief was of great significance to China both diplomatically and economically, regretted that terms of agreement so strongly stipulated U. S. supervision of this relief. This paper considered that emphasis which was put on American supervision reflected that U. S. "has too little confidence" in China.

General attitude of most editorials was that China was deeply grateful for this American assistance which would ward off economic collapse, but the Chinese people were strongly urged to double their own efforts to achieve national regeneration in order to become self-sufficient and not depend on outside assistance forever.

STUART

³ Kuomintang.

REPRESENTATIONS REGARDING IMPACT OF CHINESE
TAX LAWS AND REGULATIONS ON AMERICAN CON-
SULAR PROPERTY ¹

701.0693/2-2147

*The Consul General at Shanghai (Davis) to the Ambassador in China
(Stuart)* ²

No. 170

SHANGHAI, February 21, 1947.

SIR: I have the honor to refer to Department's telegram No. 2173 of November 29, 1946,³ to this office authorizing the Consulate General to apply for registration of and for a new deed of ownership covering former U. S. Consular Lot No. 2222, belonging to the United States Government, and located on Whangpoo Road, Shanghai.

The Consulate General accordingly, on February 17, 1947, submitted an application to the Bureau of Land Administration of Shanghai for the registration of the lot (including the *shengkoed* area subject to reclamation) in the name of the Government of the United States of America. A photographic copy of the original consular title deed was filed with the application and a receipt acknowledging the application was issued by the Land Bureau. The enclosed memorandum ⁴ shows the details of the application as entered in the records of the Bureau of Land Administration.

As noted in the enclosed memorandum, a tax notice requesting payment of the Land Value Tax in the amount of CNC\$2,583,720 was handed to Mr. Brown ⁵ of this office. The Land Bureau was informed that this office could not undertake to pay the tax and that the question of payment would be referred to the Embassy and the Department of State for decision.

The Embassy is requested to take up with the Chinese Government the subject of payment of this tax and to ask for an exemption on the ground that it is a tax levied against the Government of the United States of America and is therefore improper. In this connection reference is made to the Department's telegram No. 409 of March

¹ For previous correspondence on this subject, see *Foreign Relations*, 1946, vol. x, pp. 1334 ff.

² Copy transmitted to the Department by the Consul General without covering despatch; received March 12.

³ *Foreign Relations*, 1946, vol. x, p. 1333.

⁴ Not printed.

⁵ Stephen C. Brown, Consul at Shanghai.

18, 1946 to Chungking,⁶ repeated to Shanghai, concerning taxes on leased government occupied properties.

Respectfully yours,

MONNETT B. DAVIS

Nanking Embassy Files, Lot F79, 851.2 Taxation

The Ambassador in China (Stuart) to the Consul General at Shanghai (Davis)

NANKING, March 10, 1947.

SIR: Reference is made to your despatch no. 170 of February 21, 1947 regarding the payment of Land Value Tax on U. S. Consular lot no. 2222 owned by the United States Government.

The Embassy concurs with the Consulate General that the tax in question is improper; however, it does not appear from the letter under reference that the Consulate General has formally protested the levying of the tax. If it has not done so, the Consulate General is requested to take this action, reporting the results to the Embassy which will be pleased to bring the matter to the attention of the Ministry of Foreign Affairs should the efforts of the Consulate General to have the tax rescinded be unsuccessful.

Very truly yours,

For the Ambassador:
W. WALTON BUTTERWORTH
Minister-Counselor of Embassy

125.8571/6-2847

*The Consul General at Shanghai (Davis) to the Ambassador in China (Stuart)*⁷

No. 248

SHANGHAI, June 28, 1947.

SIR: I have the honor to refer to my despatch No. 170 of February 21, 1947, and to the Embassy's instruction of March 10, 1947, concerning payment of the Land Value Tax on U. S. Consular Lot No. 2222, owned by the United States Government.

In compliance with the Embassy's instruction this office, on March 17, 1947, wrote the Commissioner of the Bureau of Land Administration⁸ formally objecting to payment of the tax and requesting that an exemption be granted. A copy of this letter is enclosed for the Embassy's information.⁹

⁶ Sent to Chungking as telegram No. 486, repeated to Shanghai as No. 409; *Foreign Relations*, 1946, vol. x, p. 1335.

⁷ Copy transmitted to the Department by the Consul General without covering despatch; received July 16.

⁸ Chu P'ing.

⁹ Enclosures not printed.

A reply has now been received under date of June 24, 1947, a copy of which is enclosed, quoting an instruction from the Executive Yuan indicating that this exemption has been refused on the grounds that (1), Article IV of the Sino-American Treaty of 1943¹⁰ subjects the rights and titles to real property of the United States Government in Chinese territory to the laws and regulations of China concerning taxation; and (2), that there is no arrangement between the two governments for reciprocal exemption of government owned real property from all taxes.

The Consulate General is informing the Commissioner of Land Administration that it cannot accede to his request for payment within seven days and that the matter has again been referred to the Embassy. A copy of this communication is enclosed.

Respectfully yours,

MONNETT B. DAVIS

124.931/8-547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 5, 1947—11 a. m.

[Received August 5—4: 15 a. m.]

1655. Re ConGen despatch 248, June 28 to Embassy (copies also sent Department) regarding payment of land value tax on U. S. Consular lot assessed against U. S. Government. Please instruct Embassy whether Department desires it request tax exemption in reference case and if so basis upon which such request should be made.

Embassy points out that present case may constitute precedent regarding taxation extensive Consular properties being acquired by U. S. Government under surplus sales agreement. Note in this connection Embassy's despatch 708, May 8,¹¹ re transfer taxes on property.

Sent Department as 1655, repeated Shanghai as 684.

STUART

124.931/10-2347: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 7, 1947—6 p. m.

1362. Reurtels 2127, Oct. 23¹² and 1655, Aug. 5 and earlier correspondence related matters. Dept takes general position one Govt

¹⁰ Treaty Relinquishing Extraterritorial Rights, signed at Washington, January 11, 1943; Department of State Treaty Series No. 984, or 57 Stat. (pt. 2) 767.

¹¹ Not printed.

¹² Not printed; it requested a reply to telegram No. 1655, *supra*.

should not tax another Govt as tax constitutes encumbrance on operations and is attempt to impose obligation [to] contribute [to] public expenses and support of another Govt. While Art 4 of Treaty of 1943 provides that rights or titles to real property shall be subject to laws and regulations Rep of China concerning taxation, national defense, etc. it does not negate the usual rules international law and comity based on reciprocity and certainly does not require collection or payment taxes on real property owned by US and not used for nongovernmental purposes but rather leaves matter open for further arrangements between two Govts. US law and practice exempts within Dist of Columbia all properties owned by foreign Govts and used for legation purposes from all taxes and assessment except charges for services such as water rates. Further Dept will on reciprocal basis upon request from the Chinese Govt in each instance use its good offices to secure exemptions from state and municipal taxes on any property purchased for consular purposes by Chinese Govt.¹³

MARSHALL

¹³ On November 17 the American Embassy sent a note to the Chinese Ministry for Foreign Affairs along lines of this telegram; copy of the note was transmitted to the Department in despatch No. 1105, November 17, not printed. No reply to this note found in Department files.

REPRESENTATIONS BY THE EMBASSY IN CHINA REGARDING DISCRIMINATORY PROVISIONS OF CHINESE INCOME TAX LAW AND REGULATIONS

893.5123/9-847

The Ambassador in China (Stuart) to the Secretary of State

No. 980

NANKING, September 8, 1947.

[Received September 18.]

The Ambassador has the honor to forward a copy of a self-explanatory third person note dated August 21, 1947 from the Embassy to the Ministry of Foreign Affairs concerning certain provisions of the Income Tax Law—and the Regulations for the Enforcement of the Income Tax Law—which the Embassy considers discriminatory against foreign business having head offices abroad with branches in China and subject to the income tax. There is also enclosed a copy of a similar note on the same subject dated August 18, 1947, despatched to the Ministry of Foreign Affairs by the British Embassy, Nanking.¹ Notes on this subject have recently also been sent to the Ministry by the Netherlands Embassy and the Swiss Legation.

For a number of months the Embassy has received strong objections on the part of American business groups in Shanghai and elsewhere to the discriminatory nature of the tax law. The American Chamber of Commerce made representations on this subject to the Consulate General in Shanghai, as reported in the Consulate General's despatch no. 210 dated May 9, 1947 to the Embassy, a copy of which was sent the Department.¹

In discussing the discriminatory and conflicting provisions of the Income Tax Law and Regulations with officials of the Direct Tax Bureau of the Ministry of Finance, the officials have pointed out the difficulties of fairly and equitably determining for tax purposes the capital of branches of foreign companies doing business in China. They have stated their inability to see any discrimination in the law. While, however, there may be a few Chinese firms with head offices abroad and branches in China, making them subject to the same treatment as foreign firms, their number is considered proportionately so small as to make the administration of the law, in effect, discriminatory.

¹ Not printed.

In the most recent conversation on this subject with tax officials, an officer of the Embassy was informed that in January 1948 a revised Income Tax Law would be promulgated and that this law would combine the two categories—1A and 1B—to which objection is presently raised. It was stated that this new law, by effecting such a merger, would eliminate the problem at issue. It is to be hoped that this adjustment will be forthcoming, and the Embassy will attempt to remind tax officials from time to time of its expectations in the matter.

Despite these reported forthcoming adjustments, the Embassy considered it advisable to despatch the enclosed note to the Ministry of Foreign Affairs. As soon as a response from the Ministry is received the Department will be informed. It would be appreciated if copies of this despatch and of its enclosures might be made available to the Commerce and Treasury Departments.

[Enclosure]

The American Embassy to the Chinese Ministry for Foreign Affairs

No. 1095

The Embassy of the United States of America presents its compliments to the Ministry of Foreign Affairs of the Republic of China and has the honor to refer to the Revised Income Tax Law of China, promulgated and enforced as of April 16, 1946, and to the Regulations for the enforcement of that law promulgated and enforced July 3, 1946. It has been brought to the attention of the Embassy that the provisions of this Law and its Regulations may lead, in their application, to inequality or discrimination as between companies having their head offices abroad and doing business in China through branches, and companies having their head offices in and doing business in China.

Under Article 4 of the above mentioned Regulations, a limited liability company with its head office outside the territory of the Republic of China and carrying on business in China through branches is liable to income tax on its profits earned in China according to the rates laid down in Article 6 of the Income Tax Law. On the other hand, a limited liability company with its head office inside the territory of the Republic of China is taxed according to the rates laid down in Article 5 of the Income Tax Law. The result of such provisions is that companies having head offices in China are taxed at a rate determined by the ratio of their income in a particular year to their capital, while branches in China of companies having head offices abroad are taxed simply on their net income, without reference to the capital investment involved.

Such a split in the application of the income tax to companies

which in some cases may differ only in the location of their head offices appears to the Embassy to be in itself discriminatory. Also, while a Chinese company and a branch in China of a foreign company might have identical organizational structures as defined in Article 2, Category I (a) and be otherwise the same, and have identical income, they would not pay the same tax; under the Income Tax Law itself two such companies would fall into the same tax category, but because of the Regulations the foreign company would be taxed as if it were a Category I (b) company. Furthermore, it would appear that in a highly inflationary situation such as exists in China today companies taxed according to the ratio of profits to capital could reduce the burden of their income tax by an upward adjustment of declared capital, while those taxed according to their net income can make no adjustment to reduce the burden, which makes the law appear also discriminatory in effect.

The Sino-American Treaty of 1943 for the Relinquishment of Extraterritorial Rights in China and the Regulation of Related Matters² provides that foreign nationals will be accorded national treatment in matters relating to the levying of taxes or requirements in connection therewith—i. e. foreign nationals taxable by the Government of China will be taxed on the same basis as Chinese. This provision is contained in the second sentence of Article V of the Treaty which reads as follows:

“ . . .³ Each of the two Governments will endeavor to have accorded in territory under its jurisdiction to nationals of the other country, in regard to all legal proceedings, and to matters relating to the administration of justice, and to the levying of taxes or requirements in connection therewith, treatment not less favorable than that accorded to its own nationals.”

It would appear that the collection of income tax in accordance with present regulations is in contravention of assurances given in the Treaty regarding taxation.

The Embassy understands that according to Chinese law, administrative by-laws, rules, detailed rules, or measures cannot alter, modify, amend or conflict with statutes. Article 4 of the Regulations for the Enforcement of the Income Tax Law appears to conflict with the provisions of the Law itself in that the Regulations provide for a different basis of taxation for foreign as compared with Chinese corporations, a distinction apparently not contemplated in the Income Tax Law.

This matter has for some time caused concern among American

² Signed at Washington, January 11, 1943; Department of State Treaty Series No. 984, or 57 Stat. (pt. 2) 767.

³ Omission indicated in the original note.

and other foreign companies doing business in China which are affected by the provisions of the Income Tax Law and has been brought to the attention of the Embassy a number of times by them and by the American Consulate General in Shanghai. The Embassy is thus now obliged to seek from the Chinese Government, on behalf of American businesses operating in China and on behalf of the Government of the United States, either a clarifying and explanatory statement which will serve to meet the seemingly valid objections of numerous concerned groups to the current provisions of Income Tax Regulations, or assurances that steps will be taken to revise the provisions of the Law and its Regulations to which objections have been raised.

NANKING, August 21, 1947.

893.5123/11-647

The Ambassador in China (Stuart) to the Secretary of State

No. 1090

NANKING, November 6, 1947.

[Received November 14.]

The Ambassador has the honor to refer to the Embassy's despatch no. 980 of September 8, 1947 transmitting notes to the Ministry of Foreign Affairs from the American and British Embassies expressing concern over existing provisions of China's revised Income Tax Law of April 16, 1946, and the Regulations for its enforcement. This matter has also been the subject of a number of despatches prepared in the American Consulate General, Shanghai, the most recent of which is despatch no. 1690 of September 19, 1947,⁴ entitled "Discriminatory Provisions and Detailed Rules Governing the Enforcement of the Income Tax Law".

It will be recalled that in its note to the Ministry the Embassy brought the attention of the appropriate authorities in the Chinese Government to the claims that the provisions of the current law and its regulations seem unequal and discriminatory as between (1) companies having head offices abroad and doing business in China through branches, and (2) companies having head offices in and doing business in China.

A note from the Ministry of Foreign Affairs in response has now been received. In its response, a copy of which is enclosed, the Ministry of Foreign Affairs actually transmitted the text of a reply drafted in the Direct Tax Bureau of the Ministry of Finance, Nanking, the agency to which the Embassy's note was transmitted for at-

⁴ Not printed.

tion. Identical notes have been sent to the other Embassies and Legations in Nanking which made representations in this matter along similar lines at the same time.

The Direct Tax Bureau points out that the basic reason for the above-mentioned differentiation in the Income Tax Law and its regulations between taxation of domestic firms and branches in China of foreign firms is that it was considered difficult to establish definitely the capital of a branch in China of a foreign-based company whereas the capital of a firm operating wholly within China may be much more readily verified, permitting the taxation of the latter on the basis of capital and income ratios. While the Ministry's note in its critical sentences (in translation) is inexact in its references, its meaning is unquestionably as above, and to the effect that the law was not intended to be discriminatory as between foreign and domestic firms. The Embassy is inclined to accept this as a sincere statement of intention, but does not feel that this in any way justifies the provisions of existing law or current alleged discriminatory or unfair practices. One of the primary objections to the Income Tax Law would seem, in fact, to be administrative difficulties arising from the innocent or deliberate incompetence and inconsistency of concerned officials in Shanghai and elsewhere who apply the provisions of the law, combined with a currently most difficult fiscal and currency situation. The job of such officials is not of course easy; beyond this, however, their sincerity seems open to question. The Embassy has had charges of corruption in the Shanghai Direct Tax Bureau—justified or not—brought to its attention in anonymous communications.

The Department's attention is called to the last sentence of the quoted portion (translation) of the note from the Ministry to the effect that "the competent authorities are now drafting a revised Income Tax Law and are considering a technical adjustment of the aforementioned provisions." This statement on the part of tax officials would seem to constitute after all an admission, in the Chinese manner, that the terms of the current law are defective and that the complaints of numerous firms and of the Embassy as well as other foreign missions in China have borne fruit. It remains to be seen, however, whether the "adjustment" referred to will constitute a complicating or simplifying factor.

Direct Tax officials have promised that a copy of the draft law will be supplied the Embassy in the near future. It is understood that the new Income Tax Law will be much longer than the previous law as it will combine in one document both law and regulations. An effort will be made to translate the relevant portions of the draft law

as quickly as possible and to transmit them to the concerned American interests for comment.

[Enclosure—Translation]

The Chinese Ministry for Foreign Affairs to the American Embassy

No. T'iao-36/21032

[NANKING,] October 4, 1947.

The Ministry of Foreign Affairs presents its compliments to the American Embassy and has the honor to refer to the Ministry's third person note no. T'iao-36/18033 of August 30, 1947. With regards to the Embassy's request that the competent authorities be approached to consider a revision of the Regulations for the Enforcement of the Income Tax Law which is considered by the Embassy as appearing unfair and unjust and to which objection is raised, it was referred to the competent authorities for consideration and a reply has now been received as follows:

In connection with the levy of income tax on profit-seeking enterprises under the Income Tax Law, as the amount of capital of companies of a character of limited liability is comparatively certain and as the definite establishment of the amount of capital of unlimited liability companies or of other organizations of sole proprietorship or of partnership is comparatively difficult, and with a view to facilitating the levy and the payment of tax, Articles 5 and 6 of the Law separately provide two different tax rates for purposes of computation and levy. However, these rates do not differ from each other (in the degree to which they burden the taxpayer.) With respect to profit-seeking enterprises whose head offices or general headquarters are established abroad but whose sub-offices or branches are in China, the Law only provides the levy of tax in so far as the sub-offices or branches in China are concerned. As the head office, sub-offices or branches of such profit-seeking enterprises are set up separately in China and abroad, it would be difficult to verify the amount of capital of the sub-offices or branches concerned in China, and it would be easy for disputes to arise. For this reason, it has been laid down that, no matter what type of organization a firm has, the tax rate (i. e., the rate provided in Article 6 of the Income Tax Law) as applicable to companies of unlimited liability or other organizations of sole proprietorship or of partnership is followed without exception for purposes of computation and levy. The original aim of the establishment of the law is not to differentiate treatment. Besides, both Chinese and foreign interests have such profit-seeking enterprises and the law is enacted not exclusively to apply to foreign interests.

The provisions of the law with regard to this have basically nothing to do with the Company Law, and do not contravene the spirit of the commercial treaties concluded between China and the various nations.

The competent authorities are now drafting a revised Income Tax Law and are considering a technical adjustment of the aforementioned provisions.

The Embassy's attention to the above is requested.

MINISTRY OF FOREIGN AFFAIRS
OF THE REPUBLIC OF CHINA

INTEREST OF THE UNITED STATES IN CONDITIONS FOR AMERICAN PARTICIPATION IN ECONOMIC DEVELOP- MENT OF CHINA

811.508193/2-1347: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 13, 1947—6 p. m.

178. Joint memo by China-America Council and National Foreign Trade Council ¹ re state control of industry asks clarification Chinese attitude following points:

A(1) which fields industry will be open to direct investment American capital (2) which reserved as Govt monopolies (3) which will Govt operate alongside private; what assurance Govt enterprises not to get preference re taxes, allocations, etc., (4) which fields will there be joint Govt-private operations; (5) which (aside from Govt monopolies) closed to foreign corps.

B. What assurance to prospective US business interests in China that (1) new laws, orders or taxes will not be enacted preventing operation at reasonable profit (2) profits will be remittable to US and exchange provided for purchase abroad of essential operating goods and services (3) local regulations will not be imposed preventing operation on sound basis.

In reply ² Dept has cited Embassy's continuing efforts in stressing to Chinese importance of delineating fields of foreign enterprise and of clarifying conditions under which such enterprise can operate.

Suggest at your discretion you discuss with Chinese problems raised by these questions, emphasizing anxiety of American business re effect on them of Chinese Govt policy and report fully Chinese reaction.

Memo also cites present preferred status for Govt (vs private) in some industries (textile mills, petroleum, etc.) re loans and re allocation of foreign exchange and of raw materials. See also A-1 from Tientsin to Embassy Jan 4 ³ last sentence sixth para. Emb's comments will be appreciated. Full text of joint memorandum

¹ Dated December 20, 1946, not printed.

² Dated January 21, 1947, not printed.

³ Airgram not printed; it indicated that no allocations of coal were being made for foreign enterprises in Tientsin, although large allocations were made for local Chinese Government monopolies (893.00/1-447).

which also contains proposed loan formula being forwarded air pouch.⁴

MARSHALL

811.503193/2-2047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 20, 1947—2 p. m.

[Received February 20—6 a. m.]

325. Embassy officer February 19 handed Dr. Kan Nai-kuang, Political Vice Minister for Foreign Affairs, *aide-mémoire*⁵ containing questions on which Councils seek clarification (reDeptel 178, February 13, 6 p. m.). Dr. Kan, who as former Deputy Secretary General of Supreme National Defense Council was instrumental in drawing up SNDC resolution issued December 1944⁶ regarding economic policies of Chinese Government, stated he would refer question to appropriate authorities with view to giving Embassy appropriate responses.

During course of conversation Dr. Kan said he was fully aware of criticisms of American business interests; that unfortunately American businessmen had adopted a somewhat unrealistic attitude over potentialities of China market; that question was not merely one of economics but also, and primarily, one of politics. He elaborated by stating that American business interests should realize that political situation might develop along one of three lines:

- (1). China may be forced to fight a long civil war during which prospects for American business would steadily decline;
- (2). National Government at Nanking might be overthrown by Chinese Communists following which there would be no private business for American and other foreign concerns;
- (3). National Government, with outside support, might be able to drive back and confine Communists, who now have very definite outside support, to isolated areas, thereby restoring peace and conditions under which foreign trade might develop.

Dr. Kan ignores possibility of fourth possible line of development, namely, inclusion of Communists in National Government with proviso that Communist Army be disbanded, or fifth possibility, namely that of completely liquidating Communists as put forth by some other high Chinese officials.

Question of discrimination in allocation of materials raised in Embassy *aide-mémoire*. (Reference Tientsin airgram A-1, January 4 to

⁴ Copy transmitted to the Embassy in China in instruction No. 292, March 25; not printed.

⁵ Copy transmitted to the Department in despatch No. 516, February 24; not printed.

⁶ See "Chinese Statement on Postwar Economic Policy," *Foreign Relations*, 1945, vol. VII, p. 1332.

Embassy.⁷) Similar questions also being taken up with Executive Yuan in response to memo enclosed Tientsin's despatch to Department 43 [42], January 4.⁸

Upon receipt joint memo Embassy will presumably be able to discuss questions in greater detail with Dr. Kan and other Chinese officials.

STUART

811.503119/6-3047: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, June 30, 1947—5 p. m.

801. New joint memo submitted by Far East-America Council and National Foreign Trade Council⁹ (Deptel 178 Feb 13 and Urdes 516 Feb 24¹⁰) reopens question of Chinese Govt participation trade and industry. If Chinese have not replied your *aide-mémoire* Feb 19,⁷ suggest Embassy at its discretion press for reply on basis para 1 Shanghai Contel 1517 to Dept June 21⁷ citing press reports of new economic plan restricting gov't operations in industry. Pls report for early reply to Councils, including info on progress in transferring gov't operated enterprises to private interests (Urtel 789 Apr 11¹¹).

MARSHALL

811.503193/7-1347: Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, July 13, 1947—10 a. m.

[Received July 13—12:04 a. m.]

1692. Consulate General approached informally by Li Sheng-po, director and assistant general manager of Gov't-owned China Textile Industries, Inc., and member of newly formed [Textile] Stabilization Board, to inquire possible conditions under which American capital

⁷ Not printed.

⁸ Not printed. The memorandum was prepared by the Tientsin American Chamber of Commerce for the Ambassador in China on December 22, 1946, to describe some of the major problems hampering the reestablishment of American interests in Tientsin in 1946 (123 Stuart).

⁹ Dated June 17; not printed.

¹⁰ Latter not printed.

¹¹ In this telegram (893.60/4-1147), the Embassy cited a Central News Agency report that 70% of the assets of China Textile Industries, Inc., 50% of the shares of the China Silk Co. and the China Salt Co., and all the assets of the China Marine Products Co., the China Tobacco Co. and of various paper and flour mills, power plants, and factories manufacturing automobile accessories, edible oils, dyes, paints, drugs, and textile machinery would be sold to private interests. This development was in line with "Measures Concerning the Balancing of the National Budget" as reported in section 1 (d) of Embassy's telegram No. 299, February 17, 1947, p. 1071.

could be induced to invest in cotton and woolen textile mills of China Textile Industries, Inc., when put up for sale as private enterprises. Li stated his approach to Consulate General instigated by Liu Shi-ying, Vice Minister of Economic Affairs, acting on behalf Premier Chang Chun with idea of having his Govt approve measures designed to encourage investment of foreign capital.

I pointed out that Premier recognized continued Govt ownership of textile mills would tend to stagnate much needed expansion of industry but if foreign investments are successfully negotiated they would bring necessary foreign credits to China to finance expansion of industry. It was further revealed by Li that Chinese Govt hoped that capacity of industry could be expanded to 6½ million spindles by 1950, approximately 1,300,000 more than 1937 capacity. Within 3 weeks Li stated he would submit to Consulate General at least preliminary details of Govt plan for disposition of mills together with pertinent statistics concerning assets and conditions of some mills.

He freely admitted that mills of Tsingtao as group were best in China, closely followed by those in Tientsin but stated that foreign investment in either of those textile centers because of political unrest could scarcely be anticipated. (ReConGen report 41, July 8, 1946.¹³)

Consulate General informed Li that following points would no doubt be taken into consideration by American interests contemplating investment in Chinese textile industry :

1. Could outright control or at least majority interest in plant or group of plants be acquired ?

2. What provision will be made for remission of dividends and debt service ?

3. What guarantees can be offered to maintain operation of mills at full capacity in view of stringent exchange restrictions and import controls ?

4. What assurance can be offered fair assessment and collection of taxes ?

Dept suggestions for reply to Li Sheng-po for info of appropriate Chinese authorities will be appreciated.

Sent Dept 1692, repeated Nanking 1237.

DAVIS

811.503193/7-1347 : Telegram

The Secretary of State to the Consul General at Shanghai (Davis)

WASHINGTON, July 25, 1947—3 p. m.

1230. Reurtel 1692 July 13. ConGen comments to Li appear cover significant general considerations. Dept not clear, however, whether

¹³ Not printed.

Chinese Gov intends dispose all properties China Textile Industries, Inc. to private Chinese and foreign investors, or whether some plants or portion ownership thereof to be retained by govt. Regardless which alternative followed, but particularly in case latter procedure adopted, additional point of concern to prospective Amer. investors would be assurance Chinese-owned mills would not receive preferential treatment with respect such matters as taxation and import-exchange controls.

MARSHALL

893.50/7-3047 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 30, 1947—1 p. m.

[Received July 30—4:40 a. m.]

1615. Executive Yuan July 29 approved statement aimed to clarify Chinese Government's industrial and financial policies along lines requested in Embassy's February 19 *aide-mémoire* (Department's telegrams 178, February 13, 6 p. m., and 801, June 30, 5 p. m., Embassy's despatch 516, February 24 and Embassy's telegram 1481, July 8, 2 p. m.¹⁴).

Statement to be taken up August 1 by State Council which expected to approve without much, if any, change. Embassy promised copy immediately after approval by State Council and will telegraph complete translation.

While Chinese officials refused to divulge contents of statement, they indicated that statement would very likely be considered favorable to private, including foreign, enterprise and that provisions contained which would restrict Government participation in industry to arsenals, large hydro plants, naval shipyards, large iron and steel mills and other enterprises for which appreciable amounts of capital required and which not ordinarily attractive to private investors. Statement also reliably said to include provision for remittance of profits abroad by foreign enterprises, such remittances to be permitted on restricted basis during present emergency but to be permitted on more liberal basis as soon as conditions permit.

Sent Department 1616 [1615]; repeated Shanghai 657, Tientsin 107.

STUART

¹⁴ Despatch No. 516 and telegram No. 1481 not printed.

893.50/8-247: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, August 2, 1947—5 p. m.

[Received August 3—5:45 a. m.]

1646. Chinese text of statement approved August 1 by State Council received from Foreign Office (reference Embassy's telegram 1615, July 30, 1 p. m., repeated Shanghai 657, Tientsin 107) after being approved July 29 by National Economic Council not by Executive Yuan as previously reported.¹⁵ Following is translation prepared by Embassy of answers to questions raised Embassy's February 19 *aide-mémoire*:

"A. Industrial policies:

1. With exception those industries specified under point 2 of present statement which are to be operated by state and those which, as provided for in Chinese law, are to be operated by Chinese nationals or Chinese juristic persons, direct investment may be made by American capital in the manufacture of such products as large-scale prime movers, machine tools, motor vehicles, rolling stock aircraft and comparatively large steam vessels, etc., investment in which fields is especially welcomed.

2. Fields of industry which will be wholly reserved as monopolies of Chinese Government shall include, in accordance with item (b) of article 2 of the principles of economic reconstruction for the initial period,¹⁶ arsenals, mints, principal railways, large-scale hydraulic power plants, etc., and according to articles 9 and 10 [of] the mining enterprises statute, various mineral products. Nevertheless such nationally operated mining enterprises may be operated jointly with private or foreign capital participation in accordance with law or leased for private operation.

3. Concrete provisions have been laid down in article 2 of the principles of economic reconstruction for the initial period. Following are extracts of relevant items therefrom:

(a) 'Unless otherwise restricted by law' those enterprises which have not been designated to be operated solely by Government may in all cases be operated by private civilian interests;

(b) In case of those enterprises, the operation of which is beyond civilian capability or those which Government considers especially important, such as large-scale petroleum mines, iron and steel works and shipping enterprises, the Government may still undertake sole operation thereof or operate them jointly with private or with foreign capital participation.

(c) Enterprises operated jointly by Government with civilian capital or foreign capital participation shall adopt the system

¹⁵ On August 13, the President of the Chinese Executive Yuan (Chang) made an almost identical statement, the text of which was transmitted to the Department with despatch No. 958, August 29, not printed.

¹⁶ See "Chinese Statement on Postwar Economic Policy," section II (1), *Foreign Relations, 1945*, vol. VII, p. 1333.

of corporations. Apart from exercising power of supervision in accordance with law, Government shall exercise its power of control of business operation and personnel in its status of shareholder;

(d) With exception of those enterprises operated by Government as monopolies, other enterprises operated by Government, no matter whether solely operated by Government or operated jointly with civilian capital or with foreign capital participation and which are of a commercial enterprise character, shall enjoy same treatment as civilian operated enterprises of same kind with respect to rights and obligations.

In addition to above, nationally-operated and civilian-operated enterprises shall invariably be dealt with in the same manner as regards shares, allocations of foreign exchange and of raw materials, loans and import quotas in accordance with provisions of existing measures for control of foreign exchange¹⁷ and the revised provisional measures governing import and export trades promulgated in 1946.¹⁸

4. Answer to this question¹⁹ included under point 3.

5. In accordance with provisions of section II of paragraph 1 of article 293 of Chinese company law²⁰ restrictions may be imposed upon the localities where foreign companies may carry on business operations and the categories of such operations.

B. Financial policies:

1. Taxation laws' enactment by China provide that amounts of taxes collectable from foreign interests engaged in business operations within this country shall be same as those levied on Chinese nationals; they will of course not hinder industries from acquiring reasonable profits.

2. In principle, profits obtained by American interests from investments in industries may be remitted to United States. During present period when China controls its foreign exchange (such remittances) are, [as] a matter of course, subject to restrictions. However, Government is now drawing up measures permitting foreign interests to remit an appropriate portion of their profits obtained from investments in industries to their own countries. As to operating goods and services which must be imported from United States (application therefor) will be examined and approved in accordance with the revised provisional measures governing import-export trade during the period when foreign exchange under control.

3. As promulgation various existing important local laws and regulations have invariably been approved by Central Government, they will of course not contravene Chinese Government policy of welcoming foreign capital and preventing merchants to operate their business activities on a sound basis." *End of translation.*

¹⁷ See telegram No. 299, February 17, from the Ambassador in China, p. 1071.

¹⁸ See telegram No. 1910, November 19, 1946, 4 p. m., from the Ambassador in China, *Foreign Relations*, 1946, vol. x, p. 1024.

¹⁹ "In which fields will there be joint Government and private operations?"

²⁰ For correspondence on representations by the United States regarding registration of American business firms in China, see *Foreign Relations*, 1946, vol. x, pp. 1296 ff.

Re "principles of economic reconstruction for initial period", reference obviously made to Supreme National Defense Council statement of general principles governing economic enterprises issued at Chungking, December 1944 (Embassy despatch 53, January 3, 1945^{20a}).

Although local Associated Press July 30 filed article giving summary foregoing statement before approved by State Council, text complete statement being withheld from press until Embassy had time to translate and transmit to Department. Embassy suggesting to Foreign Office that full text may be released here at noon, August 3. Embassy assuming Department will make substance this telegram available immediately to two councils concerned and otherwise to permit publication thereof.

Embassy requesting Foreign Office to check its translation of statement and will advise if any corrections required. Corrected translation being airmailed.²¹

Sent Department 1646; repeated Shanghai 675; Tientsin 111.

STUART

893.51/8-947

The Consul at Shanghai (Meyer) to the Secretary of State

No. 1572

SHANGHAI, August 9, 1947.

[Received August 18.]

The Consul in charge has the honor to bring to the Department's notice a situation which has developed in connection with the Chinese Government's efforts to stimulate exports by engaging itself in the export business. It buys goods either in Shanghai or up country and exports them to Universal Trading Corporation,²² New York, for sale in the U. S. market. It writes off a Chinese National Currency loss representing the difference between the low official rate of exchange and the rate at which exchange would have to be settled to make business possible at prevailing prices abroad. The Chinese Government is thus in a highly advantageous position, since in most cases it is the only agency which can afford to carry on export business at a loss. In some cases and with a few firms it has apparently written off the loss for the firms in order to effect some export business, thus to create foreign exchange. The private firms, it is understood,

^{20a} *Foreign Relations*, 1945, vol. VII, p. 1332.

²¹ Copy transmitted in despatch No. 958, August 29; not printed.

²² An official Chinese agency incorporated under the laws of the State of New York, October 18, 1938. UTC's chief functions were to market tung oil and other Chinese products in the United States and to act as purchasing agent in the United States against Export-Import Bank credits to China.

are obliged to turn over their foreign exchange to the Government for addition to its reserves. For a time after February 17 when the official rate of exchange was suddenly raised from CN\$3350 to CN\$12000 (to US\$1)²³ and before prices had generally reacted upward to the same degree, it was possible for private firms to move a few shipments. Soon, however, the domestic prices of goods in general again became too high to meet offers from foreign markets and the export business slumped, leaving the Government as the leading exporter, particularly in such lines as tung oil and bristles. The Government then expanded its purchases and export shipments in an effort to create a greater amount of foreign exchange through exports. The degree to which the Central Trust of China, as the exporter, and the Universal Trading Corporation, New York, as the consignee, figured in Shanghai exports to the United States, in the first six months of 1947, was set forth in this Consulate General's telegram No. 1657 of July 10, 1947.²⁴

The activities of the Chinese Government's purchasing commission (which functions under the Central Trust) thus continue, but are meeting some criticism in Chinese business circles. An article in the *Shanghai Ta Kung Pao*, July 25, 1947, by Yang Yu-chuan, holds: (1) that the Government's purchases of such commodities as tung oil and bristles are tantamount to a subsidy system for exports (for the reason that the Central Trust or Central Bank is obliged to write off a paper money loss representing the difference between the nominal official rate of around CN\$11,800 to US\$1 and the rate represented by the actual cost in CN Dollars in relation to the foreign market price;—in the case of tung oil, the price at which the product must be exported in US Dollars—to meet New York prices—converted to the CN Dollar costs must be at a rate around CN\$32,000 to US\$1, as against the official rate ordinarily allowed private exporters of only CN\$11,800; (2) the provision of such a rate of exchange to a private exporter, by the Central Bank or Central Trust, is tantamount to supplying export exchange cover at a black market rate; (3) the Government's purchases hinder the development of regular export trade in that the direct relationship between supplier and exporter is broken (the Government acting as a middle man in cases where the ultimate export is turned over to a private firm to ship).

With the publication of the Chinese Maritime Customs May, 1947 Import and Export Trade Returns for China, there has been consider-

²³ See telegram No. 299, February 17, from the Ambassador in China, p. 1071.

²⁴ Not printed; it reported that 49 consular invoices had been issued during this period showing Universal as consignee. Their total value amounted to \$6,292,337, or 33.78% of China's exports to the United States. The Central Trust was shown as shipper on 16 of the invoices and accounted for 55% of the value of shipments to Universal. (893.51/7-1047)

able publicity over the fact that the CN Dollar valuation of total exports to all countries jumped up 96.21 percent (from CN\$211 billion in April to CN\$415 billion in May). Exports of tung oil and textiles were mainly accountable for the increase according to the press reports. An examination of the returns shows that May tung oil exports amounted to 12,164.9 metric tons, valued at CN\$95,085,926,000 (this works out at the official rate of US\$.08197 to CN\$1,000 at 29.06 cents U. S. Currency per pound, which was probably considerably above the New York market price in May) as compared with 7,573.5 metric tons valued at CN\$49,342,880,000 in April, 1947. Thus at least CN\$46.2 million of the May export increase appears to be accounted for by tung oil shipments alone. The quantity of tung oil exports in May was up 60 percent, value up nearly 93 percent over April. Bristle exports jumped up to CN\$60.9 billion in May over CN\$12.5 billion in April. Tung oil and bristles are the principal products in which the Government is dealing. Thus the increased exports seem to be largely due to government trading activity.

It is of interest to observe that shortly after General Wedemeyer's²⁵ arrival in China (July 21) the Central Trust announced that it would appoint a number of exporters to handle the outward movement of export goods which its purchasing commission is engaged in buying up country. It is difficult to state whether this was intended as a gesture for General Wedemeyer's benefit to indicate non intent to build up government monopoly trading, or whether it was the result of a rising criticism in business circles over the monopolistic trend of the purchasing policy. It seems that the Government purchasing commission has wider latitude than ordinary traders in that it can pay more than private interests would feel warranted in paying, for merchandise, hence has a preferential position in operations in supplying markets up country, not to mention its advantage in making sales through its New York outlet, Universal Trading Corporation, to which Central Trust ships apparently on consignment, i. e. the goods yet unsold at time of shipment. A private shipper would not want to run the risk of consigning shipments, but would ship only on the basis of closed contracts with specific buyers in the United States. At any rate this surmise as to the possibility that Central Trust consigns its shipments to Universal Trading Corporation is made for the reason that Central Trust appears regularly to be invoicing goods shipped to Universal in New York at prices well above the known New York market level.

This latter fact tends to create a confusing picture in the trade

²⁵ Lt. Gen. Albert C. Wedemeyer; for correspondence on his Mission to China, see pp. 635 ff.

statistics, since part of the country's exports are thus valued in the Chinese trade returns at fictitiously high levels when converted to U. S. Dollars at the official rate of exchange, hence cannot be accepted as indicative of actual exchange created. The reason for so invoicing goods may be to divide the paper currency loss on the transaction between Central Trust and Universal Trading Corporation, rather than to show the entire loss on the books of the Central Trust.

In the study of this subject reference may also be made to this Consulate General's despatch (Restricted) No. 1507 of July 18, 1947,²⁶ entitled "Shipments from China to the Universal Trading Corporation, New York City".

The official purchasing activities and official or channelized exports (through private firms) are designed to break the jam of exports and start goods moving abroad to augment China's purchasing power. Effort to do so in harmony with American policy and to avoid sharp criticism in China makes it difficult to create an out and out monopoly, as appears to be the official desire. Indications from trade sources are to the effect that the Central Trust is now actually expanding the list of private firms to which the facilities (of absorbing the loss involved in exports) are extended. It appears that certain British exporters may be so favored, among others.

Exports, despite the official stimulus, will continue to run short of normal in many lines, so long as producers up country are short of consumer goods. Producers do not want to hold money. If they cannot exchange the export goods for consumer goods, they will hoard or fail to produce the former. This fact will tend to hold prices at high levels or encourage their further rise.

P[AUL] W. M[EYER]

811.503193/8-2047 : Telegram

The Consul at Shanghai (Meyer) to the Secretary of State

SHANGHAI, August 20, 1947—5 p. m.

[Received August 20—6 a. m.]

2029. Present tentative plan of Chinese Government for disposition of textile mills of China Textile Industries Incorporated calls for outright sale of 70% of the number of mills to private investors and Government to retain ownership of remaining mills for production of military cotton textile supplies.

Details of plan for disposition of plants not yet decided upon.

²⁶ Not printed.

ReDeptel 1230, July 25. Consulate General forwarding by despatch ²⁷ preliminary estimate of evaluation of 17 Shanghai mills.

Sent Department, repeated Nanking 1458.

MEYER

611.9331/8-247 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, September 3, 1947—4 p. m.

1101. Emb should inform Chinese (Urtel 1636, Aug 2 ²⁸) US still prefers see foreign trade transactions in US handled through normal commercial channels, but willing discuss with Chinese both here and in Nanking reasons they believe UTC should be maintained in US; not in position discuss probable functions until basis of need for corporation established. Dept believes there is need for thorough examination of what trading activities Chinese Govt hopes carry on through this and other agencies, and how they intend operate. US Govt aware of course such agency may be desirable for present if it purchases from private suppliers for Govt acct and generally uses private commercial channels. Suggest Emb inform FonOff ²⁹ as well as Central Bank, since discussions if desired by Chinese would be held with Chinese Emb here as well as in Nanking. Pls report Chinese reaction.

LOVETT

611.9331/10-247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 2, 1947—6 p. m.

[Received October 2—6:27 a. m.]

2016. When Embassy representatives October 2 informed Governor Central Bank substance your telegram 1101, September 3, 4 p. m., he replied that he and K. P. Chen ³⁰ had proposed that UTC activities should consist of following in future: (1) liquidation paper commitments; (2) purchases on Chinese Government account from private commercial channels in United States; (3) promotion of Chinese exports without, however, any participation in their commercial disposal.

²⁷ Despatch No. 1624, August 30, not printed.

²⁸ Not printed; it reported request of Chang Kia-ngau, Governor of the Central Bank of China, for American views on limiting or revising UTC's functions so as to avoid conflict with American commercial policies.

²⁹ Foreign Office.

³⁰ President of the Universal Trading Corporation.

In Embassy's opinion this proposal constitutes basis for discussions here and in United States. For Department's information, K. P. Chen stated to Embassy official in Shanghai last week-end that CSC³¹ staff being drastically curtailed.

Sent Department 2016; repeated Shanghai 817.

STUART

611.9331/10-247 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 10, 1947—6 p. m.

1371. Chinese proposals satisfactory to Dept basis for beginning discussions. You may tell Central Bank Governor informally Dept studying Chinese proposals (Urtel 2016 Oct 2) in anticipation early discussions here. Meanwhile appreciate any amplification of proposals Emb may be able obtain, particularly re scope of purchases envisaged on ChiGovt account. Would these exclude purchases for Govt owned industrial subsidiaries such as NRC³² subsidiaries?

In this connection, re Urdes 983 Sep 8,³³ how far does Emb believe Economic Reform Plan may modify May 7 Regulations of Central Trust, which included buying materials for Govt and buying-selling for price stabilization under trust activities.

Are Chang and Chen proposing reorganize UTC to confine its activities as indicated? If not, how assure that UTC will not conduct trade for private account? In Emb view, what is prospect their informal proposals being accepted by ChiGovt?

Sent Nanking 1371; repeated Shanghai 1926.

MARSHALL

611.9331/11-1047

The Ambassador in China (Stuart) to the Secretary of State

No. 1094

NANKING, November 10, 1947.

[Received November 19.]

The Ambassador has the honor to refer to the Department's telegram No. 1101, September 3, 4 p. m., and to the Embassy's telegram

³¹ Chinese Supply Commission, official Chinese agency in Washington handling procurement of lend-lease shipments. It was dissolved on August 1, 1947, except for completion of "old business", and its functions were transferred to the Universal Trading Corporation.

³² National Resources Commission.

³³ Not printed (893.50/9-847); it enclosed a translation of the "Regulations of the Central Trust" promulgated on May 7, and repeated the anticipated impact of the Economic Reform Plan on the operations of the Central Trust as previously reported in despatch No. 966, August 30, p. 1184.

No. 2016, October 2, 6 p. m., both with regard to the future operation in the United States of the Universal Trading Corporation, a Chinese Government concern with head office in New York.

There is now enclosed ³⁴ a copy of the Embassy's note to the Ministry of Foreign Affairs No. 1180 of October 6, 1947, transmitting a copy of a memorandum embodying the information contained in the Department's telegram under reference. As indicated in this note, and also in the Embassy's telegram cited above, the information in this memorandum had previously been made available to Dr. Chang Kia-ngau, Governor of the Central Bank of China.

The Ministry, in note No. Mei-36/23317 dated November 1, 1947, a translation of which is enclosed, stated that the "competent authorities" of the Chinese Government assertedly have no intention of making any change in the functions and operations of the Corporation. As this stand was altogether contrary to statements made October 2 by Dr. Chang to two officers of the Embassy, the substance of which was reported in the Embassy's reference telegram, the response from the Ministry was referred to him. Dr. Chang stated November 7 to an officer of the Embassy that the Ministry's note presumably had been written by Dr. Tung Ling, Director of the American Affairs Department, and that he (Dr. Chang) would discuss the matter with Dr. Wang Shih-chieh, the Foreign Affairs Minister, who was not acquainted with the background. As the Department is probably aware, Drs. Chang and Wang are close personal and political friends.

Dr. Chang stated further that neither he nor K. P. Chen, President of the Universal Trading Corporation and also Chairman of the Foreign Exchange Equalization Fund Commission, had been consulted by the Ministry in this regard. He said that he and Mr. Chen were completing a draft plan for the future functions and operations of the Corporation along the lines outlined in the Embassy's telegram under reference.

The Embassy will expect to report further on this subject.

611.9331/12-247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 2, 1947—3 p. m.

[Received 5:27 p. m.]

2325. With reference Deptel 1371, November 10, 6 p. m., and Embdes 1094, November 10, regarding future status of Universal Trading Corporation, Embassy has received second note from Foreign Office

³⁴ Enclosures to this despatch not printed.

dated November 27 which indicates clearly that Chang Kia-ngau, Governor of Central Bank of China, has discussed matter with Foreign Minister.

Foreign Office states UTC essential for Chinese Government purchases but that procurement of supplies on behalf certain semi-official and private industrial and commercial concerns made at their request about to be completed "in the main". Last sentence note states that, "From now on it (UTC) will resume its business operations of days prior to Pacific War and will engage itself exclusively in handling purchases and sales for Chinese Government." Translation note being airtailed.³⁵

Embassy will telegraph any amplification Chinese proposals which it may obtain from Chang and Chen. According note, UTC would continue making purchases for Government-owned enterprises such as NRC subsidiaries.

Embassy attempting obtain information regarding implementation economic reform plan as it may modify operations of Central Trust.

Re last paragraph Deptel, see paragraph 4 Embdes. Embassy believes prospects good that Chinese Government will accept informal proposals for UTC reorganization now being drawn up by Chang and Chen.

Sent Department 2325, December 2, 3 p. m.; repeated Shanghai 916.

STUART

³⁵ Copy transmitted in despatch No. 1135, December 2; not printed.

REPRESENTATIONS REGARDING THE REREGISTRATION OF AMERICAN REAL PROPERTY RIGHTS IN CHINA ¹

793.003/1-1547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 15, 1947—5 p. m.

[Received January 15—6:56 a. m.]

76. Chinese Govt has taken steps as contemplated in section IV of Sino-American treaty 1943 ² to effect replacement of titles and documents granting rights to real property held by Americans. Embassy has taken view that issuance uniform instructions by land bureau to local authorities regarding replacement of documents and registration American property essential to protect American rights and to orderly and consistent implementation of treaty and has brought its views to attention Chinese authorities. Construing treaty provision that existing titles and property rights are "indefeasible" as precluding establishment of time limit during replacement of documents and registration of property must take place, Embassy on December 12 instructed Consulates ³ to inform interested inquirers that they should disregard such time limits pending outcome its efforts to have uniform regulations established.

However Chinese Govt now insists that American owners of property rights comply with Chinese land laws requiring registration within specified time following public notice. Registration in case of American properties involves replacement of title deeds or other documentary evidence of property rights. In some areas period for registration expires January 31 and FonOff ⁴ has indicated informally that land in those areas not registered prior to that date will be considered theoretically ownerless and subject to nationalization.

In view of serious nature of situation which has arisen, Embassy urgently requests that it be informed by telegram whether Dept con-

¹ For previous correspondence on this subject, see *Foreign Relations*, 1946, vol. x, pp. 1309 ff.

² Treaty Relinquishing Extraterritorial Rights, signed at Washington, January 11, 1943; Department of State Treaty Series No. 984, or 57 Stat. (pt. 2) 767.

³ Circular telegram not printed.

⁴ Foreign Office.

curs in its interpretation treaty provision referred to above and approves stand taken by it.

STUART

793.003/1-1547 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, January 17, 1947—6 p. m.

75. Issuance uniform instructions to local authorities by land bureau (Embtel 76, Jan 15) re replacement documents and registration property felt by Dept highly desirable for protection American rights under treaty and suitable step for Chinese Govt to take in implementation of treaty obligation. This Govt not in good position, however, [to] insist uniformity regulations essential under treaty in view situation [in] US concerning landholding. If local regulations unreasonable they would be inconsistent with treaty and Emb should bring matter attention FonOff. Emb should make strong representation to FonOff against Jan 31 registration deadline as contrary to treaty, stressing unreasonableness of date rather than argument that any time limit inconsistent with treaty provision.

Dept desires be kept informed this subject.

BYRNES

393.115/1-2447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, January 24, 1947—9 p. m.

[Received January 26—3:40 a. m.]

139. Since despatching Embassy's circular telegram December 12,⁵ Embassy has been in communication with Foreign Office reference establishment uniform regulations applicable throughout China for registration American property rights and replacement documents pertaining thereto. Foreign Office has informed Embassy with reference registration American property rights that owners unable to present documents at time of registration may make declaration [that] documents will be supplied within specified time thereafter and in case owner is absent or whereabouts unknown, Consul may so notify local land authorities and obtain extension time limit. Embassy further understands from Foreign Office that articles 57 and 58 of Land Law provide land not registered within the period set by public notice will be disregarded [*regarded*] as without owner and upon

⁵ Not printed.

expiration time limit will be so proclaimed. A further period, specified in this proclamation but not less than 2 months, will be allowed in which owners may protest inclusion their land and submit evidence ownership. If upon expiration proclamation period, no protest has been filed, land will be registered as nationally owned. No fees will be charged for registration perpetual leases or documents granting similar rights to Americans. Foreign Office further states that local land authorities have been notified of foregoing.

Foregoing falls substantially short of uniform regulations, particularly with reference to replacement of existing documents, which Embassy hoped would be adopted. Hence Embassy will continue its efforts but fears negotiations may be protracted and indecisive. Furthermore, Department has stated in response to Embassy's inquiry that U. S. Government not in strong position to insist that uniformity of regulations essential under treaty in view situation in U. S. concerning land holdings and has suggested that should it be necessary to protest establishment of time limit for registration, such protest stress unreasonableness of time allowed rather than argument that any time [limit] is inconsistent with treaty provisions.

In view of foregoing, Embassy is of opinion that holders of real property rights within areas where notices requiring registration have been published should register within time limit insofar as possible and desires Consulate lend appropriate assistance to this end. Instances in which registration procedure applied unreasonably or American owners deprived of rights under treaty should be brought to Embassy's attention whenever local remedies have been inadequate.

Mission's circular telegram to Consulate, repeated to Dept. as 139.

STUART

793.003/2-347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, February 3, 1947—5 p. m.

[Received February 3—8:01 a. m.]

191. Embassy has engaged in further discussion with Chinese authorities (Embtels 76 of January 15 and 139 of January 24) regarding promulgation of uniform regulations for registration of real property rights of Americans and replacement documents pertaining thereto.

1. Officials of FonOff and Land Bureau have informally taken view that provision in 1943 treaty re rights and titles acquired by fraud or fraudulent or other dishonest practices excludes from protection of treaty, rights and titles acquired by Americans in contravention or

evasion of Chinese law and that with exception of those acquired by missionaries all rights and titles acquired by Americans outside treaty ports were acquired in contravention or evasion of Chinese law.

2. Embassy is gravely concerned that this interpretation of treaty will place in jeopardy substantially all American real property rights, except missionary-owned, outside of treaty ports and is of opinion that intent of treaty was to legalize rights and titles of this nature, that provision of treaty referred to above means fraudulent or dishonest practices between the parties to the transaction under which the property was acquired and that the phrase should not be interpreted as equivalent to "illegally or extra-legally acquired". Embassy believes that its interpretation is supported by the text of the treaty, by the documents inclosed with Dept's secret instruction number 7 of August 2, 1946⁶ and by practical necessity in applying the treaty.

3. Embassy believes that Chinese authorities have not as yet arrived at a firm decision regarding interpretation of treaty and that informal views above may have been in nature of "feelers" to determine U. S. Govt attitude. It appears desirable, therefore, that Embassy formally take a firm and unequivocal stand that treaty affords full protection to real property rights in question. Before taking this step, Embassy desires to have Dept's approval of its interpretation of treaty together with any suggestions Dept may care to make and requests a reply by urgent telegram.

Repeated Shanghai 104.

STUART

793.003/2-347: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, February 7, 1947—6 p. m.

154. Interpretation of Emb re intent of treaty approved by Dept, which gravely concerned that Chinese Govt view, described Embtel 191, Feb 3, would jeopardize American real property rights outside treaty ports except re missionary owned property, Dept agrees Emb that treaty provision refers to fraudulent or dishonest practices between parties to transaction. This view borne out by enclosure to secret instruction no. 7, Aug 2, 1946,⁷ which shows page 2 and following pages that U. S. rejected broad term "illegal practices" and obtained Chinese consent to narrower term "fraud or fraudulent or other

⁶ Not printed; it transmitted excerpts from memoranda of conversations and from documents exchanged with the Chinese during treaty negotiations. For correspondence regarding these negotiations, see *Foreign Relations, 1942, China*, pp. 268 ff.

⁷ See footnote 6, above.

dishonest practices". Furthermore Mr. Liu's⁸ reference (page 3 enclosure) to "misrepresentation" certainly refers only to relations between parties to transaction. Also reference in treaty provision to establishment proof "through due process of law" clear indication that provision was intended [to] refer to relations between parties to transaction. Emb should take firm and unequivocal stand that treaty affords full protection real property rights in question and should inform Dept all developments.

MARSHALL

811.5293/4-2347: Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, April 23, 1947.

[Received April 23—5: 55 a. m.]

1012. Shanghai municipal land authorities fixed time limit April 30, 1947, for registration foreign-owned land rights in city but will grant extension upon request Consuls for land owners not in Shanghai. ConGen notified land authorities many Americans not yet returned and may not know of requirements and ConGen will notify authorities in such cases as they come to its attention.

Penalty provided by land law for failure to register within time limit is confiscation of land. However land law provides period of 2 months after time limit during which owners may claim land. Suggest Department might give publicity to matter in U. S. for benefit American land owners who may not know requirements for registration. Details follow by despatch.⁹

Sent Dept, repeated Nanking as 717.

DAVIS

811.5293/4-2347: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 25, 1947—8 p. m.

488. Emb should make strong representation (sent Nanking as Depts 488 rptd Shanghai as Depts 677) to FonOff against Apr 30 deadline for registration land with Shanghai municipal authorities (Shanghai's tel 1012 Apr 23 rptd Nanking as 717) as contrary to treaty, stressing unreasonableness of date (Deptel 75 Jan 17 to Emb) rather than argument that any time limit inconsistent with treaty

⁸ Liu Chieh, Minister-Counselor of the Chinese Embassy during the treaty negotiations in 1942.

⁹ Despatch No. 1126, April 24, not printed.

provision. Emb should point out that long period is necessary for all landholders receive info re regulations, assemble documents and comply with formalities re registration property and that ConGen obviously unable request extension deadline on behalf individuals who are absent and who hold land without ConGen's knowledge. Please keep Dept informed developments.

Dept hesitates give publicity to subject Apr 30 deadline because of possible implication that Dept does not object imposition deadline. Moreover Dept does not have sufficient technical info to answer anticipated questions. If Emb feels publicity should be given, Emb should instruct ConGen Shanghai telegraph Dept text suggested press release including answers such questions as precisely which documents must be presented, whether power of attorney necessary enable another person represent absent owner in applying registration, whether special form for power attorney required etc.

Suggest Emb consult Dr. Bacon ¹⁰ if she is available.

ACHESON

811.5293/5-347 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 3, 1947—11 a. m.

[Received May 3—6:03 a. m.]

952. In response to an urgent inquiry, Foreign Office has informed Embassy in note dated April 30 that Consulate General, Shanghai, may request of land authorities there extension of April 30 deadline for property registration on behalf unknown American owners, that authorities may on basis such request extend deadline, and that foregoing has been telegraphed to Shanghai municipal government. (Department's telegram 488, April 25, repeated Shanghai as Department's 677.)

Considering note somewhat ambiguous, Embassy inquired orally of Foreign Office whether meaning was that a blanket extension might be requested for unknown American owners without submitting names and other details, and was assured that such was intended. However, Foreign Office representative added that foregoing procedure not cleared with Land Administration, Nanking, because lack of time and requested that Foreign Office be informed of any difficulty encountered in obtaining blanket extension. Embassy accordingly suggests Shanghai apply for blanket extension and report results.

Question raised in second paragraph reference telegram is receiving

¹⁰ Ruth E. Bacon, Special Assistant to the Director of the Office of Far Eastern Affairs (Vincent).

Embassy's attention, and Embassy's views thereon will be formulated following consultation with Dr. Bacon, who is expected to return Nanking on May 3.

Sent Shanghai 406, repeated Department 952.

STUART

811.5293/5-747 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, May 7, 1947—9 a. m.

[Received May 6—11:30 p. m.]

980. Embassy suggests following course re second paragraph Department's telegram 488 of April 25 (sent Shanghai 677):

That (1) Shanghai request Land Bureau grant blanket extension referred to in Embassy's telegram 406 of May 3 to Shanghai, repeated to Department 952, in favor unknown American owners to allow reasonable time for publicizing and filing of claims to ownership;

(2) If extension granted, Shanghai transmit to Department necessary information to enable publicizing requirements and Department give as wide publicity as possible to this information;

(3) Embassy address note to Foreign Office stating that steps have been taken to give wide publicity to requirements but that notwithstanding these steps, a few cases may arise where owners, through no fault of their own, do not learn of requirements in time to claim ownership within the time established and that it is assumed that in such cases, owners will not be precluded from establishing claims to ownership following expiration of extended time limit;

(4) Embassy instruct Consulates by circular telegram to inform Department at once of establishment of deadline for property registration within their respective districts and to include at same time pertinent information re requirements to enable press release by Department.

In suggesting these measures, Embassy has in mind difficulty in continuing to request extension of deadline on the basis that reasonable time not allowed to bring requirements to attention American owners, if active publicity not undertaken when reasonable extensions are obtained.

Embassy would appreciate Department's comments re foregoing and will not take steps contemplated in (3) and (4) above until Department's reply received.¹¹

Foregoing has been discussed with Dr. Bacon who concurs.

Sent Department 980; repeated Shanghai 414.

STUART

¹¹ The course of action suggested was approved by the Department in telegram No. 544, May 8, 5 p. m. (811.5293/5-747).

811.5293/5-847: Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, May 8, 1947—7 p. m.

[Received May 9—2 p. m.]

1123. Consul General received reply from Land Bureau dated April 26 stating unable grant further general extension time limit for registration of foreign-owned land but agreeing to grant extension in specific cases where owner is not in Shanghai or his proof of ownership is elsewhere, provided Consulate General notifies Bureau in each individual case and gives reasons for inability to comply with time limit. Land Commissioner¹² explained orally that owners who were themselves in Shanghai or who had agents in Shanghai should file applications for registration even though they might not possess documentary proof of ownership, and that documents might be submitted later (urtel 414 to Dept¹³).

In compliance instructions Urtel 406, May 3, 11 a. m.,¹⁴ officer Consulate General delivered letter to Land Commissioner on May 7 pointing out that Consulate General had no means of ascertaining identity of all American beneficial owners and could not therefore submit names of those unable to comply with time limit until owners themselves came forward to request Consulate General's assistance, and in view these circumstances requesting general extension time limit for unknown American landowners without submitting names and other details. Consulate General's officer discussed question at some length with Commissioner who assured us there was no intention of confiscating American-owned land but said administrative difficulties arose unless some time limit were fixed. He explained that unless all landowners applied for registration, and unclaimed land dealt with according to law, it was difficult to determine accurately boundaries and areas of properties whose owners had already registered, and issuance new deeds to those who had applied would thus be delayed. Consulate General's officer pointed out, however, that order from central authorities requiring time limit did not specify date, thus apparently leaving it to discretion of local authorities and suggested Commissioner might reconsider and fix later deadline.

Commissioner agreed to reconsider granting blanket extension for unknown landowners as requested by Consulate General and further agreed for time being to accept Consul General's usual certificates of ownership plus special covering letter explaining reasons for delay in registering.

¹² Chu P'ing.

¹³ See last paragraph of telegram printed *supra*.

¹⁴ See last paragraph of telegram No. 952, p. 1389.

Commissioner will reply in writing to our request after reconsideration and Embassy and Dept will be informed. Commissioner's attitude was sympathetic and cooperative. Consulate General regards time limits fixed in other localities [in] its district as more dangerous to rights American Nationals (see second paragraph mytel 757, April 29, 7 p. m.¹⁵) because there is no assurance either Consul General or American landowners will receive due notice of deadlines and American rights might go by default. It is possible deadlines will not be strictly enforced anywhere but considerable difficulty might arise in cases where American-owned land is listed as ownerless, technically reverting to Government. Embassy may wish to point this out to Foreign Office.

Sent Nanking 800; repeated Department 1123.

DAVIS

893.52/5-2747

The Ambassador in China (Stuart) to the Secretary of State

No. 756

NANKING, May 27, 1947.

[Received June 9.]

SIR: I have the honor to refer to the despatch 647 of April 18, 1947¹⁶ regarding the registration of American rights to real property and the replacement of documents pertaining thereto and to review for the Department's information developments which have taken place subsequent to that date.

The Embassy on February 17 addressed a note (copy transmitted to the Department as enclosure No. 11 to despatch 545, March 7, 1947¹⁷) to the Ministry of Foreign Affairs conveying formally the views of the United States Government regarding the interpretation of Article IV of the 1943 Sino-American Treaty as it relates to property rights acquired outside of the treaty ports by American citizens under the system of beneficial ownership. This note remains unanswered. However, the Embassy has taken occasion repeatedly to bring this issue, the settlement of which it regards as fundamental to the implementation of the article of the treaty under reference, to the attention of the Ministry of Foreign Affairs.

¹⁵ Telegram No. 757 was sent to the Ambassador in China and was not repeated to the Department. It reported that time limits had been set elsewhere in the Consulate General's district, such as Hangchow and Ningpo, and expressed concern that time limit notices might not reach the Consulate General from all places in its district and "that many American land owners especially Missions own property in outlying areas where they have at present no representatives, and are not in position either to learn of time limits or take action to comply therewith." (852—Land Registration, Lot F84)

¹⁶ Not printed.

¹⁷ Despatch and enclosures not printed.

An excellent opportunity for emphasizing the importance which is attached to the settlement of this problem was afforded by the recent visit of Dr. Ruth Bacon who participated in two conferences with the Foreign Minister¹⁸ regarding it. In addition Dr. Bacon was present at a dinner party at the Ambassador's home to which were likewise invited Foreign Office officials dealing with this problem and the Vice-Minister of the newly formed Ministry of Land Administration. At this time she was able to discuss informally the problems which have arisen in connection with land registration.

The Embassy wishes to commend Dr. Bacon upon the skillful and tactful manner in which she participated in these discussions and is confident that the significance and the timing of her arrival in China were not lost upon the Foreign Minister and other Chinese officials.

The Minister-Counselor¹⁹ availed himself of the opportunity of Dr. Bacon's visit to address a personal letter to the Foreign Minister enclosing for his attention a copy of the Embassy's note referred to above as well as a copy of a personal letter (transmitted to the Department as enclosure 8 to despatch 545, March 7) which he addressed on February 6 to Dr. Liu Chieh, the then Vice-Minister for Foreign Affairs. A copy of the letter addressed to the Foreign Minister on April 28 is enclosed.²⁰

The Embassy is encouraged to believe that its persistent efforts to obtain recognition of the rights of American beneficial owners of property located outside of the treaty ports have begun to bear fruit. For the first time since this question has been under discussion, officials of the Ministry of Foreign Affairs, during a conference on May 5, expressed oral agreement with the Embassy's view that beneficial owners outside the treaty ports receive the same treatment as those within treaty areas and that regulations established for the registration of land in Shanghai be extended throughout the country. Likewise significant was the statement of Hu Ching-yui, Director of the Treaty Department, that it was not the intention of the Chinese Government to question the legality of American beneficial ownership outside the treaty ports. This is a complete reversal of the stand taken previously by officials of the Ministry in discussions. A copy of an *aide-mémoire* handed the Foreign Minister upon the conclusion of this conference is also enclosed.

While the Embassy finds this change of attitude encouraging it would point out that it has often proven a long and arduous process after obtaining oral concurrence to have regulations issued which reflect the agreement. Furthermore, the Foreign Minister may have

¹⁸ Wang Shih-chieh.

¹⁹ W. Walton Butterworth.

²⁰ Enclosures not printed.

been influenced to assume, for the moment at least, a more moderate attitude by his awareness that Dr. Bacon was returning directly to the Department bearing her impressions of the Chinese attitude toward this question and by overriding political considerations relating to Sino-American relations. That further obstacles may arise is suggested by a subsequent statement by Mr. Hu to an officer of the Embassy that he "hoped" it might be possible to win the Land Administration to acceptance of the present Foreign Office view.

As may be noted from the enclosed memorandum, the Director of the Treaty Department, during the conference of May 5, emphasized that the replacement of land documents under the 1943 treaty is optional with the Chinese Government and that the Chinese Government is obligated to replace such documents without fees only in the event that it makes the replacement of documents compulsory. That is, if an American who owns property in an area in which compulsory replacement of documents has not been instituted by Chinese authorities wishes to register his property and obtain a new deed of ownership in his own name, he would be required to pay fees therefor, in accordance with Chinese law. He added that the replacement of existing documents had not been required outside of treaty ports and that it was not the intention of the Chinese Government to require it at this time. The immediately preceding remark may be significant as indicating the formula, referred to in previous despatches, by which the Foreign Office hopes to avoid a showdown at this time regarding foreign-owned real property rights outside the treaty ports. The Embassy is of the opinion that a postponement of this question, such as is implied in the foregoing, would not be in American interests since political factors now obtaining make the present a propitious time to press for general acceptance of the American view. However, it would welcome the Department's comments and instructions in order that it might be prepared to take appropriate steps should the course tentatively suggested above be given more definite form by the Chinese Government.

Incidentally, some significance may be attached to the emphasis placed by the Foreign Office on the collection of fees. Officers of the British Embassy concerned with the same problem have obtained the impression that opposition of the Land Administration to acceptance of the view that the 1943 Treaty²¹ affords protection to foreign beneficial owners of property outside treaty ports arises more from its reluctance to forego the substantial fees involved than from a desire to confiscate the property.

²¹ Treaty between the United Kingdom and China whereby the former relinquished extraterritorial rights, signed at Chungking, January 11, 1943; League of Nations Treaty Series, vol. ccv, p. 69.

Another difficulty, of immediate importance, which has arisen is the establishment of deadlines for registration of property which do not allow adequate time for publicizing the requirements and filing claims. This problem has been the subject of previous communications between the Embassy and the Foreign Office. In the Minister-Counselor's letter to the Foreign Minister dated April 28, the matter was again brought to his attention with particular reference to establishment of April 30 as the deadline for property registration in Shanghai. The reply of the Ministry of Foreign Affairs, a copy of which is enclosed, was summarized in the Embassy's telegram 952 (to Shanghai as 406) of May 3.

The Embassy is aware that under existing conditions notices regarding the establishment of time limits for the registration of property might, in the case of isolated areas, be long delayed in reaching the Consular office concerned. It therefore proposes to ask the Ministry of Foreign Affairs to make arrangements with the Nanking Land Administration whereby the Embassy will be promptly informed of deadlines for the registration of property whenever such may be established. Information received through this channel will in turn be relayed to the Department and the Consular office concerned.

Respectfully yours,

For the Ambassador:

W. W. BUTTERWORTH

Minister-Counselor of Embassy

811.5293/6-1047 : Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, June 10, 1947—3 p. m.

[Received June 10—3:15 a. m.]

1400. Shanghai Bureau of Land Administration has not yet replied to Consulate General's request for general extension of time limit for registration on behalf unknown American landowners (mytel 800, May 8, repeated Department as 1123, May 8, 7 p. m. and my despatch to Department No. 1205, May 13²²). Land Bureau apparently has adopted practice of granting extension of 1 month in cases where Consulate General has notified it of names of individuals who were unable comply with original time limit. In reply to such notifications Land Bureau sends mimeographed letter pertinent part of which reads "since the said owner has factual difficulty permission is hereby granted to reserve the time limit for application for 1 month from the

²² Latter not printed.

date of receipt of this letter." In most cases this gives owners until mid-July to register. Consulate General will, if necessary, request further extensions for those who are unable to comply within this extended period of 1 month.

DAVIS

893.52/6-2547: Telegram

The Secretary of State to the Consul General at Shanghai (Davis)

WASHINGTON, July 18, 1947—3 p. m.

1187. Has Land Bureau replied to ConGen's request for further extension time limit for reregistration real property (Shanghai's 1546, June 25 repeated to Nanking 1135²³) ?

Continued prolongation indecisive discussions with Chinese authorities seems to Dept to underscore necessity of giving publicity to Chinese requirements regarding reregistration of property. Failure to do so might subject Dept to criticism for failure to notify and protect interested American owners (Deptel 488 to Nanking repeated Shanghai as 677²⁴). Emb requested to give further consideration (Sent Shanghai as 1187 repeated Nanking as 885) to problem and if Emb concurs it should instruct Shanghai to prepare appropriate press release for issuance in Washington with recommendation as to timing.

MARSHALL

893.52/7-2147: Telegram

The Consul General at Shanghai (Davis) to the Secretary of State

SHANGHAI, July 21, 1947—5 p. m.

[Received July 21—6:40 a. m.]

1770. Land Bureau has not replied to our request further extension of time limit (urtel 1187, July 18, 3 p. m.) but continues to accept applications covered by letter of explanation. Consulate General believes it unwise to press for reply in these circumstances since it may prove to be negative if insisted on.

Consulate General is preparing text press release for forwarding to Department and believes it should be issued without waiting for Land Bureau's reply.

Sent Department as Shanghai serial 1770, repeated Nanking 1288.

DAVIS

²³ Not printed.

²⁴ Dated April 25, p. 1388.

893.52/7-2247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, July 22, 1947—11 a. m.

[Received July 22—3:48 a. m.]

1563. Embassy assumes Consulate General, Shanghai, has delayed preparation appropriate press release for issuance Washington regarding land registration requirements pending action of Land Bureau on request for general extension of deadline (reference Department's telegram 1187 to Shanghai July 18, repeated Nanking as 885) and is of the opinion general extension of deadline would offer better basis for such press release than present informal arrangement discussed in Shanghai's 1546, June 25 to Department.²⁵

As suggested in Shanghai reference telegram, Embassy has not raised again with Foreign Office question of general extension time limit on behalf unknown American owners but is prepared to do so. Embassy of opinion request of this nature would be strengthened, in view previous requests, were it possible to agree with Chinese to give publicity in United States to registration requirements if granted specific extension of time limit adequate for this purpose, it being understood that time limit would apply only to filing of claims of ownership with Land Bureau, owners being permitted to submit substantiating documents subsequent to expiration of time limit. However, implying acceptance of a final deadline for filing claims of ownership, such procedure might jeopardize the position of American owners who failed to assert their claims prior to final deadline. Should Department desire Embassy take action foregoing lines, Embassy would find it helpful to know what in Department's opinion would constitute minimum extensions of deadline to enable adequate publicity in United States. In any case Embassy will await Department's comments before taking further action.

Sent Department, repeated Shanghai as 636.

STUART

893.52/7-2247 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, July 29, 1947—6 p. m.

934. You are authorized to proceed along lines suggested Urtel 1563, July 22 (repeated to Shanghai as 636). Believe 6 months from date of issuance of notification (sent Nanking as 934 repeated Shanghai as 1255) would be minimum period acceptable for a deadline.

MARSHALL

²⁵ Not printed.

893.52/7-2347 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, September 2, 1947—6 p. m.

1098. Draft press release contained [in] Shanghai's despatch 1524, July 23²⁶ needs editing, especially those clauses relating to documentary evidence of ownership which should reflect more closely wording of Article IV of Treaty.

Has progress been made (Deptel 934, July 29, repeated Shanghai 1255) in negotiations with view to obtaining specific extension of time limit for registration? Dept suggests advisability of clearing informally with Chinese authorities revised text of draft release which would include, if possible, specific reference to time limit. (Sent Nanking as 1098 repeated Shanghai as 1469.) Such a release would be given publicity at a given date both by Consulate General and by Dept.

LOVETT

893.52/9-847 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 8, 1947—4 p. m.

[Received September 8—8:42 a. m.]

1871. Embassy in note August 5 requested 6 months' extension time limit registration property Shanghai (ReDeptel 1098, September 2, repeated Shanghai 1255). Embassy orally informed yesterday by Foreign Office representative that matter referred to land administration which had not yet replied but that there is little doubt extension will be granted. Suggest issuance press release be delayed pending receipt formal reply from Foreign Office which Embassy will attempt to expedite.

Embassy assumes that in accordance with Department's suggestions, Consul General [at] Shanghai will in meantime edit release, and will clear informally with concerned Chinese authorities after extension officially approved.

Repeated Shanghai 768.

[STUART]

893.52/9-1247 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, September 12, 1947.

[Received September 12—11:17 p. m.]

1913. In September 9 note Foreign Office has informed Embassy that competent land authorities have agreed Embassy proposal for

²⁶ Not printed.

6 months' extension time limit registration property rights, Shanghai, with period to commence on date notification issued. (ReEmbtel 1871, September 8, repeated Shanghai 768.)

Appears ConGen in consultation with Department is in best position determine date issuance notification. Chinese have quite appropriately requested they be notified as soon as date for issuance notification has been finally decided.

Sent Department 1913, repeated Shanghai as 777.

STUART

811.5293/10-247

The Consul General at Shanghai (Davis) to the Secretary of State

No. 1732

SHANGHAI, October 2, 1947.

[Received October 7.]

SIR: I have the honor to refer to my despatch No. 1126 of April 24, 1947,²⁷ concerning the fixing of a time limit for the registration of foreign owned land in Shanghai. In that despatch there were quoted the relevant Articles of the Land Law (especially Article 57) providing for a penalty of confiscation of land the registration of which has not been applied for by the owners.

There is enclosed for the Department's information a copy in translation of an instruction (Characters "Sze Nan", No. 27039) issued to the Chekiang Provincial Council by the Executive Yuan on July 10, 1947,²⁷ concerning the disposition of land not registered within the time limit. It will be noted that under this instruction, unregistered land in Chekiang Province is to be kept in custody of the land offices for a period of two years from the date of expiration of the time limit for registration. If, after this period of two years, the land has still not been registered by the owners, it is to revert to the State, and to be registered as State-owned.

There is no indication that this instruction is of general application but it is believed likely that a similar policy will be followed elsewhere in China.

If such is the case then rights of American nationals would appear to be less jeopardized by a failure to register within the time limit than was formerly thought, and the question of time limits seems to lose much of its importance.

Respectfully yours,

MONNETT B. DAVIS

²⁷ Not printed.

893.52/9-1247 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 7, 1947—6 p. m.

1236. Approval by ChiGovt Nanking of press release concerning re-registration real property rights (Urtel 1913, Sept 12) is preferable, Dept feels, to approval by Land Bureau, Shanghai. Pls endeavor obtain informal approval soonest (Sent Nanking as Dept's 1236, repeated Shanghai as 1708) and telegraph soon as obtained. Dept will then issue release and notify ConGen Shanghai (Shanghai's tel 2243, Sept 19,²⁸ repeated Nanking) which should then issue release there, and Emb, which should then notify ChiGovt of date release issued by Dept.

Following is text draft release :

"American nationals (including corporations and associations) who possess rights or titles to real property in the municipality of Shanghai, China, which were acquired before May 20, 1943, are advised that it is necessary for them to apply to the appropriate authorities of that municipality for re-registration of their property rights and for new deeds of ownership if they have not already done so. Such rights as rights of mortgage, in addition to rights of ownership, must be re-registered. Although the period originally set for re-registration has expired the Chinese Government has agreed to the extension of the deadline for re-registration to April blank, 1948, in the case of American nationals, some of whom may have been unaware of the requirement of re-registration.

Applications for re-registration and new deeds may be made by an agent, who should be authorized by power of attorney from the holder of the property rights or titles and provided with documentary evidence of the holder's American nationality and with original or certified copies of the leases in perpetuity or other documentary evidence relating to the property rights. American holders of real property rights should either apply, or instruct their agents to apply, in person to the American Consulate General at Shanghai for certificates regarding those rights. Submission of the certificates is required by the Chinese authorities.

Article IV of the treaty for the relinquishment of extraterritorial rights in China which was signed by the United States and China January 11, 1943 and entered into force May 20, 1943, provides :

[Here Emb pls insert in inner quotation marks text Article IV.]²⁹

LOVETT

²⁸ Not printed ; it contained a revised version of draft press release (893.52/9-1947).

²⁹ Brackets appear in the original.

893.52/10-2447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, October 24, 1947—6 p. m.

[Received 10:39 p. m.]

2135. Foreign Office and Ministry Land Administration have both indicated informal approval draft press release of October 7, 1947 (Department's telegram 1236, repeated Shanghai as 1708) concerning re-registration real property rights Shanghai. Please inform Embassy date of release.³⁰

Sent Department 2135, repeated Shanghai as 854.

STUART

893.52/11-1847

The Ambassador in China (Stuart) to the Secretary of State

No. 1108

NANKING, November 18, 1947.

[Received December 1.]

The Ambassador has the honor to refer to despatch No. 756 of May 27, 1947 reporting developments in connection with the registration of American rights to real property and, in continuance thereof, to submit the following information regarding the status of negotiations with the Chinese authorities concerning the recognition of rights to real property outside of the so-called treaty ports owned by American citizens.

Following the presentation of an *aide-mémoire* on May 5, 1947 (enclosure No. 3³¹ to the Embassy's despatch under reference) no further written approach was made to the Ministry of Foreign Affairs regarding the basic question of recognition of American beneficial ownership of property outside the treaty ports until October 4, 1947, although special problems in connection with the registration of property rights were brought to the attention of the Ministry from time to time. During this period officers of the Ministry of Foreign Affairs dealing with this question assured representatives of the Embassy that the position of the Ministry continued to be as expressed during a conference with the Foreign Minister on May 5,

³⁰ In telegram No. 1320, October 30, 5 p. m. (893.52/10-3047), the Department informed the Embassy that the press release had been issued on October 28, thereby extending the re-registration deadline to April 28, 1948; for press release, see Department of State *Bulletin*, November 9, 1947, p. 916.

³¹ Not printed.

1947³² (enclosure No. 2^{32a} to despatch under reference) and that active efforts were being made to obtain the agreement of the Ministry of Land Administration and the Ministry of Justice.

In a letter dated September 3, 1947 the Standard Vacuum Oil Company outlined to the Embassy difficulties which it had encountered, particularly in Hupeh Province, in attempting to register property owned by it in the name of Chinese agents or nominees. It will be noted from this letter, a copy of which is enclosed,³³ that the Bureau of Land Administration of the Hupeh Provincial Government appeared to insist upon a transfer of the property from the Chinese agent or nominee in whose name it was registered to the company in accordance with the provisions of the Chinese land law as a prerequisite to registration of the property in the name of the company. A copy of the Embassy's reply to the Company, dated September 25, 1947, is likewise enclosed. In a note dated October 4, 1947 the Embassy brought to the attention of the Ministry of Foreign Affairs the difficulties being encountered by the Standard Vacuum Oil Company in attempting to register its property and took the occasion offered thereby to emphasize the mounting apprehension on the part of American businessmen and property owners as to the intent of the Chinese Government with regard to registration of property owned by Americans in the name of Chinese agents and the desirability of reaching a satisfactory and equitable solution of the problem as soon as possible. A reply from the Ministry of Foreign Affairs, dated October 18, 1947, stated that measures for the solution of the problem had been drawn up by the Ministry in conjunction with the competent authorities and were being submitted to the Chinese Government for consideration and approval and continued that before these measures were approved action in connection with the registration of the Standard Vacuum Oil Company's right to property might be deferred. Copies of the above-mentioned communications are enclosed.

There are likewise enclosed memoranda of conversations between an officer of the Embassy and officials of the Ministry of Foreign Affairs dated October 8, 1947, October 25, and November 7, 1947. From these memoranda, it will be noted that the proposals of the Ministry of Foreign Affairs, which the Embassy understands to have substantially embodied the views expressed during the May 5 conference with the Foreign Minister, were submitted to the Executive Yuan and were opposed by the Ministry of Land Administration,

³² Substance of the Foreign Office position was reported in despatch No. 756, May 27, from the Ambassador in China, p. 1392.

^{32a} Not printed.

³³ Enclosures to this despatch not printed.

allegedly for reasons set forth in the memorandum of October 25, 1947, with the result the Executive Yuan failed to approve the proposals.

The Ministry of Foreign Affairs has, in the face of this development, suggested a new formula, the substance of which is outlined in the memorandum of November 7, 1947. The Director of the Treaty Department, in outlining the proposed formula and inviting the informal comments of the Embassy, observed that the formula itself had not as yet been presented to either the Ministry of Land Administration or the Ministry of Justice.

It will be noted that the proposal contains a provision that a transfer of the property from the Chinese agent or nominee in whose name it is registered to the American beneficial owner be recorded with the appropriate land bureau. While this provision may in part meet the objections of the Ministry of Land Administration that failure to record such transfer would leave a hiatus in its records, from the American point of view it is extremely important, for obvious reasons, that the transfer be fixed definitely as having occurred at the time the American beneficial owner commenced to enjoy and exercise the rights and privileges of ownership rather than at the time of recording. If this point of view is accepted and if the nature of evidence of ownership to be presented by the American beneficial owner is broadened in the manner suggested in the memorandum, the Embassy believes that the formula might offer a satisfactory solution from the American viewpoint.

Although the proposed formula does not require the consent of the Chinese registered owner in recording the transfer of property and applying for a title deed, it does afford the registered owner, or other claimant, an opportunity to contest the application. It should be recognized that in the event other claimants appear with evidence of ownership, the Land Bureau concerned would probably consider itself incompetent to weigh conflicting evidence and settlement of the resulting controversy would probably require judicial action or direct negotiation between the parties. This procedure offers the possibility of a form of extortion under threat of involving the American beneficial owner in a nuisance court action, but the Embassy believes that the procedure in principle is not unjust and probably is unavoidable.

The Embassy anticipates that the formula under discussion, more or less modified to meet the objections of the other concerned departments of the Chinese Government, will be presented by the Ministry of Foreign Affairs to the Executive Yuan for approval and that after approval by the Executive Yuan it will be transmitted to the Embassy as a formal reply to the Embassy's note of February 17, 1947 (en-

closure No. 11 to despatch No. 545 dated March 7, 1947³⁴). The Embassy believes that it should not insist upon a formal acceptance of the views expressed in its note of February 17, 1947, should the Chinese evolve a formula which gives reasonable promise of achieving the same result, but that it should unmistakably reserve its position as set forth in that note while observing whether the formula in application adequately protects American beneficial owners.

893.52/12-2247

*The Consul at Shanghai (Pilcher) to the Ambassador in China
(Stuart)*³⁵

No. 341

SHANGHAI, December 22, 1947.

SIR: I have the honor to enclose³⁶ for the Embassy's information a copy of a letter dated November 29, 1947 from the Standard-Vacuum Oil Company, concerning difficulties it is encountering in effecting transfer of title to real property which it has purchased from an American citizen, a retired employe of the company. It will be noted that the Shanghai Bureau of Land Administration refused to accept the application for registration of the transfer on the ground that the buyer and seller must first obtain the prior express approval of the Land Bureau for the sale, in accordance with Articles 18, 19 and 20 of the Revised Land Law.

An officer of the Consulate General called on Commissioner Chu P'ing of the Bureau of Land Administration on December 3, 1947 to discuss this matter. It was pointed out to him that under the terms of Article IV of the Sino-American Treaty of 1943 there could be no doubt that the only case in which an American owner of land whose rights are protected by the Treaty must obtain prior permission for sale is in case of transfer to a person of a third (i. e., non-American and non-Chinese) nationality. The Commissioner said that he was not familiar with the case and had no knowledge of the Bureau's refusal to accept the company's application, but that he would look into the case.

Strangely, the Commissioner himself raised a question which apparently was not at issue between the company and the Bureau, and which, in the Consulate General's opinion, indicates either a complete misunderstanding of the meaning of the Treaty or a desire on the part of the Chinese authorities to nullify entirely the provisions of Article IV thereof guaranteeing existing rights and titles to real property.

³⁴ Neither printed.

³⁵ Copy transmitted to the Department by the Embassy in China without covering despatch; received about February 27, 1948.

³⁶ Enclosures not printed.

Commissioner Chu inquired the state of domicile of M. C. Guss, the former owner and seller of the property, intimating that in his opinion Mr. Guss's right to obtain a new deed of ownership and consequently his right to transfer a fee simple title would depend on the terms of the law of his domicile in so far as it affects the right of a Chinese to acquire and own land, under Article 18, of the Revised Land Law.

The Consulate General's officer expressed surprise at this suggestion, pointing out that it raised anew a question which had been considered by the United States Government as settled long ago, at the time the Treaty was signed; that in effect such a view if adopted and enforced would nullify the provisions of Article IV of the Treaty; and that if the Bureau of Land Administration intended to adopt such an interpretation it would be necessary for the Consulate General immediately to take up the matter with the Embassy and Department of State. Commissioner Chu was referred to the regulations issued by the Executive Yuan (Character Chung No. 768) early this year for confirmation of the Consulate General's understanding of this point.

On December 4, 1947, the Consulate General addressed a letter to Commissioner Chu concerning the case of the Standard Vacuum Oil Company, stating its position in writing. A copy of this letter is enclosed for the Embassy's information. No reply has yet been received but according to oral information from the Land Administration the question raised by the company's application is being referred to the Ministry of Land Administration for decision.

Since the matter is being referred to Nanking, the Consulate General suggests that it might be wise for the Embassy to inform the appropriate Chinese authorities of its views in order that they may be taken into consideration before a decision is made. The question raised in this specific case is, in the Consulate General's opinion, of far-reaching importance, affecting the rights of all American land owners who are protected by the Treaty; and the second question raised by the Commissioner himself appears to be of even more fundamental importance, involving as it does the good faith of the Chinese Government's pledge to guarantee the validity of real property rights and titles existing at the time of the conclusion of the Treaty.

Respectfully yours,

JAMES B. PILCHER

893.52/11-1847: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 31, 1947—6 p. m.

1591. Views of Emb as expressed final sentence Urdes 1108 Nov 18, concurred in by Dept.

Dept feels it undesirable this Govt ask Chinese for extension dead-

line re-registration property rights remainder of China (problem in Shanghai having been settled at least for present) until question beneficial ownership settled. Therefore Dept desires that Emb, at least until latter question settled, continue (Urtel unnumbered Dec 1³⁷) transmit Dept notices re establishment compulsory re-registration in order Dept have full info that subject in case it desires instruct Emb. Info not otherwise available Dept.

LOVETT

³⁷ Not printed; it inquired as to whether information concerning notices of compulsory registration of real property rights was available to the Department from sources other than the Embassy (893.52/12-147).

PROBLEMS WITH RESPECT TO LIQUIDATION OF ASSETS
IN THE FORMER INTERNATIONAL SETTLEMENT AT
SHANGHAI AND THE DIPLOMATIC QUARTER AT PEI-
PING ¹

893.102/9-847

*The Consul General at Shanghai (Davis) to the Ambassador in China
(Stuart)* ²

No. 296

SHANGHAI, September 8, 1947.

Subject: Liquidation Commission of the Former International Settlement at Shanghai: Country Hospital, Shanghai General Hospital and Victoria Nurses Home.

SIR: I have the honor to enclose a copy of a letter dated July 23, 1947, from Dr. George Sellett, American Adviser to the Liquidation Commission for the International Settlement at Shanghai, outlining an agreement informally proposed by the Chinese for the disposal of the three above-mentioned institutions.

It will be noted that under the proposed plan Chinese authorities will relinquish all claims to the Country Hospital; that the Shanghai General Hospital is to be operated in the future under a revised trust deed whereby the foreign community will be represented on the Board of Governors; and, that one or two floors of the Victoria Nurses Home will be set aside for the residence of nurses of the Country Hospital. Since the letter was written the matter has been further explored and the Foreign Advisers and this Consulate General are convinced that the settlement as outlined is the best that could be made under present conditions at Shanghai. However, before agreeing to this settlement the Consulate General would welcome any comments that the Embassy and Department might care to make on the subject.

Respectfully yours,

MONNETT B. DAVIS

¹ For previous correspondence, see *Foreign Relations*, 1946, vol. x, pp. 1350 ff.

² Copy transmitted to the Department by the Consul General without covering despatch; received September 16.

[Enclosure]

The American Adviser to the Liquidation Commission for the International Settlement at Shanghai (Sellett) to the Consul General at Shanghai (Davis)

SHANGHAI, July 23, 1947.

DEAR MR. DAVIS:

Liquidation Commission: Country Hospital, Shanghai General Hospital and Victoria Nurses Home.

The Second Sub-committee of the Commission for the Liquidation of Official Assets, Obligations and Liabilities of the former International Settlement at Shanghai deals with all problems of the Commission excepting the claims of ex-employees of the former Shanghai Municipal Council. The Second Sub-committee has considered at great length the status of the Country Hospital, the Shanghai General Hospital and the Victoria Nurses Home, but agreement on these properties has not been reached. A majority of the members of this Sub-committee are Chinese. Mr. Jeffery of the British Consulate and I are the foreign members.

Dr. Y. J. Cieh of the Bureau of Public Health has been serving on the Second Sub-committee as proxy for Dr. Chang Wei, Commissioner of Public Health. Yesterday Dr. Cieh came to my office and told me that he was authorized to make the following proposals:

Country Hospital—The Chinese Government will relinquish all claims to the Country Hospital and the foreign community of Shanghai can have complete control thereof.

Shanghai General Hospital—The trust deed shall be revised to provide that the nine members of the Board of Governors shall be designated as follows: six (possibly five) by the Shanghai Municipal Government and City Council and three (possibly four) by the foreign community of Shanghai. The trustees of the property shall be designated by the Board of Governors.

Victoria Nurses Home—One floor (possibly two floors) shall be used for the accommodation of nurses of the Country Hospital. The remainder of the building shall be at the disposal of the Chinese Government.

Dr. Cieh did not mention the source of his authority, but stated that the foregoing proposals would be carried out by the Chinese Government if acceptable to the foreign advisers of the Liquidation Commission. In that event he desired me to draft the necessary resolutions, in such form as I would consider appropriate, and deliver them to him. The resolutions would then be dealt with as originating with the Chinese members of the Sub-committee and he would present and move the adoption of the resolutions. I did not express my views regarding Dr. Cieh's proposals but told him that they would receive

consideration and I would discuss the matter with him within a few days.

Throughout the discussions in the Second Sub-committee Mr. Jeffrey and I took the position that the Country Hospital and the General Hospital are charitable trusts and are not official assets of the former International Settlement. With respect to the Victoria Nurses Home, we expressed the opinion that while being an official asset of the former International Settlement, it was dedicated as a home for foreign and Chinese nurses and there was an obligation on the part of the Chinese Government to use it for that purpose. From time to time we indicated a willingness to compromise, but no reasonable basis for compromise appeared attainable.

The Country Hospital was established by a deed of gift dated March 31, 1926. The donor, Mr. Charles Ernest Rayner, is an American citizen now residing at Santa Barbara, California. The General Hospital was established by a trust deed dated July 30, 1878. Prior to that date the General Hospital had been operated as a business enterprise owned by shareholders. In the altered circumstances brought about by the Treaties abolishing extraterritoriality³ the deeds do not now provide a workable basis for control and operation of these hospitals. This results principally from the methods provided for in the deeds for the selection of the boards of governors for these hospitals. In the case of the Country Hospital it is quite clear from the deed of gift that the donor intended that the hospital should be used for the benefit of the foreign residents in and around Shanghai and that the hospital should be controlled and managed by foreigners. Similar intentions are disclosed by the trust deed of the General Hospital. Both are charitable trusts and it would not be difficult to revise the deeds so as to make it possible to carry out the wishes and intentions of the original donors. Neither of these hospitals was ever included in the balance sheet of the former Shanghai Municipal Council as an asset of the Council.

Sir Allan Mossop, former Judge of H. B. M. Supreme Court for China, has given consideration to the legal problem arising out of the deed of gift of the Country Hospital and the trust deed of the General Hospital in the changed political situation resulting from the relinquishment Treaties. I believe it is his view that the Shanghai Municipal Government, as the successor to the Shanghai Municipal Council, stands in the position of the former S. M. C. with respect to these hospitals, e. g. where the S. M. C. had the right to designate a certain

³ The Sino-American Treaty Relinquishing Extraterritorial Rights was signed at Washington, January 11, 1943; Department of State Treaty Series No. 984, or 57 Stat. (pt. 2) 767. The Sino-British Treaty was signed at Chungking, January 11, 1943; League of Nations Treaty Series, vol. ccv, p. 69.

number of governors, that right has now passed to the Shanghai Municipal Government. It is my opinion that neither the Shanghai Municipal Government nor any other Chinese government or Chinese non-governmental organization succeeded to this right. These deeds disclose a very clear intention on the part of the donors that these hospitals shall be for the use of this foreign community and shall be controlled and managed by foreigners. If the view is taken that in the changed political situation the right to designate governors passed to the Chinese Government or to other Chinese organizations the clearly expressed intentions and purposes of the donors would be defeated because these hospitals for the use of foreigners would then be controlled and managed by Chinese. These are charitable trusts and under American and British law as well as under Chinese law the original legitimate intentions of the donors should be carried out and the necessary revisions in the deeds should be made to accomplish that end.

The Victoria Nurses Home at 23 Chung Cheng Road, Western (formerly Great Western Road) presents a more difficult problem. The claims of the foreign community to this institution are not very strong. In 1897 a committee of British residents of Shanghai raised the sum of Taels 420,000.00 by public subscription for the purpose of providing a memorial of Queen Victoria's Diamond Jubilee. Subscriptions were mainly British, but included other foreign nationals. These funds were used to erect a building on land owned by the S. M. C. near Range Road. Upon completion the building was formally delivered to the S. M. C. and named the Victoria Nursing Institute (later Victoria Nursing Home). Thereafter additions were made to the Victoria Nursing Home by the S. M. C. In 1928, as a measure of economy, the Victoria Nursing Home was closed. A few years later the present Victoria Nurses Home was built on land adjacent to the Country Hospital. At the formal opening of the Victoria Nurses Home in 1933 the Chairman of the S. M. C. declared: "The Council in 1927, upon the recommendation of the Municipal Economy Committee, decided to close the Victoria Nursing Home, Range Road, on January 1st, 1928. As the Victoria Nursing Home was built in 1901 by public subscription on municipal land in commemoration of Queen Victoria's Diamond Jubilee, the Council decided to perpetuate the memorial in the form of a home for nurses." The cost of the new Victoria Nurses Home was undoubtedly many times the sum provided by the Diamond Jubilee Committee.

Following V-J Day the British Red Cross occupied the Country Hospital and some months later turned it over to the control of members of the Hospital's last Board of Governors. Consequently, the

Country Hospital is now under the control of foreigners acting for the foreign community of Shanghai. Immediately after V-J Day the General Hospital was taken over by the Shanghai Municipal Government from the Japanese. Early in 1946 a Provisional Board of Governors was set up for the General Hospital. The Chinese invited several foreigners to join the Provisional Board, but a majority of the members are Chinese. The Shanghai Municipal Government took possession of the Victoria Nurses Home shortly after V-J Day. At the present time it is being used as a dental clinic, a hospital for special maternity cases and a tuberculosis hospital.

In the Second Sub-committee discussions the Chinese members took the position that the two hospitals and the Victoria Nurses Home are official assets of the former International Settlement to be transferred to the Chinese Government. They indicated a willingness to have a board of governors for each of the two hospitals, a minority of the governors to be designated by the foreign community of Shanghai. As to the Victoria Nurses Home, the Chinese members appeared willing to allocate two floors, or possibly three, for the use of Chinese and foreign nurses without a binding undertaking that any specific portion of the allocated space would be available for the accommodation of nurses of the Country Hospital.

In my opinion the proposals made by Dr. Cieh yesterday present a basis for compromise which should be considered acceptable by the foreign community of Shanghai. It would give to the foreign community complete control and management of the Country Hospital as intended by Mr. Rayner, the donor. It is probable that the foreign community of Shanghai will be able financially to support the Country Hospital. The General Hospital is already under the control of the Shanghai Municipal Government. Sir Robert Calder Marshall, Mr. John Keswick and I are the foreign members of its Provisional Board of Governors. After more than a year's experience with the problems of the General Hospital I believe that a minority of foreigners on its Board of Governors will have no marked influence on the policies of operation and management. Some provision could probably be made to reasonably insure that a substantial portion of the facilities of the hospital will be available for the accommodation of foreigners. For some decades past the General Hospital was dealt with in considerable measure as if it were a municipal hospital. The S. M. C. provided the funds, or guaranteed the repayment of borrowed moneys, necessary for the large expansion of the hospital and to meet current operating deficits. While the hospital never legally became a property of the S. M. C. its financial history furnishes a basis for a fairly strong claim by the Chinese Government. As to the Victoria

Nurses Home, the facts do not appear to support a very strong claim by the foreign community of Shanghai. I doubt whether Dr. Cieh's proposal regarding the Victoria Nurses Home would prove to be permanently satisfactory. Eventually it would probably become necessary to build a home for nurses of the Country Hospital on the present hospital grounds or elsewhere.

Last February I attended an informal meeting in the office of Mr. John Keswick. Judge Helmick⁴ and representative members of the British community were present. In that meeting I presented the view that legally and equitably the foreign community of Shanghai is entitled to complete control of the Country Hospital and at least minority representation on the Board of Governors of the General Hospital. As to the Victoria Nurses Home, I expressed the thought that an acceptable basis for compromise would be the use of two floors for the accommodation of nurses of the Country Hospital for a period of five or ten years. During such period the Country Hospital might find the funds with which to erect a building for the accommodation of its nurses. Nurses of the Country Hospital are now utilizing a substantial portion of the space in the hospital otherwise available for patients. Judge Helmick fully supported my views regarding the three institutions. The British representatives present, including Mr. Jeffery, believed that a settlement on the basis of these views would be highly desirable but they feared that efforts to reach such settlement would not have strong support from the British Embassy which would probably be influenced by the opinions expressed by Judge Mossop. However, in subsequent meetings of the Second Sub-committee Mr. Jeffery very strongly supported my position on these three institutions.

It is suggested that the views of the American Embassy be obtained regarding the Chinese proposals made informally by Dr. Cieh. The State Department's views might be obtained by cable. I have informed Mr. Jeffery of these proposals and understand he will transmit the information to the British Embassy.

Sincerely yours,

GEORGE SELLETT

893.102/9-1647

*The Consul at Peiping (Freeman) to the Ambassador in China
(Stuart)*⁵

No. 31

PEIPING, September 16, 1947.

SIR: I have the honor to refer to the Embassy's letter dated September 5, 1946, with regard to my appointment as American Adviser to

⁴ Milton J. Helmick, judge on the United States Court for China, 1934-43.

⁵ Copy transmitted to the Department by the Consul without covering despatch; received October 2.

the Peiping Diplomatic Quarter Liquidation Commission, and to enclose copies of the following relevant documents⁶ concerning the work of the Commission up to the present time:

1. Agenda for the first meeting of the Commission to which the Foreign Advisers were invited on December 11, 1946;

2. Minutes of the meeting of December 11, 1946, as recorded by the Chinese Secretary General;⁷

3. Letter from the British Consul⁸ to the Secretary General of the Commission dated December 21, 1946, enclosing a copy of the minutes of the December 11 meeting as recorded by the British Consul and agreed to by the other Foreign Advisers;⁹

4. Agenda for the second meeting of the full Commission on February 1, 1947;

5. Minutes of the February 1 meeting as recorded by the Secretary General;

6. Letter from the Secretary General dated March 8, 1947;

7. Reply to above dated March 14, 1947;

8. Letter from the Secretary General dated March 22, 1947;

9. Draft of final joint statement prepared by the Commissioners¹⁰ presented at the third meeting of the full Commission on August 30, 1947;

10. Consulate's letter dated September 5, 1947, to the Secretary General enclosing proposed counter-draft of joint agreement approved by the Foreign Advisers.

For three months after the receipt of the Embassy's letter under reference, no communication was received from the Liquidation Commission requesting the attendance of the Foreign Advisers at meetings of the Commission. Since July 11, 1946, the headquarters of the Commission had been established in the chancery building of the former Spanish Legation which was forcibly occupied on that date under the direction of the former Mayor, General Hsiung Pin (reference Peiping's despatch no. 10, August 8, 1946¹¹). To all appearances, however, nothing was accomplished by the Commission during this period with the exception of the dispatch of two curt mimeographed circulars which were sent to all residents of the Diplomatic Quarter instructing that representatives of the Commission would shortly visit all properties within the Quarter accompanied by police

⁶ Enclosures not printed.

⁷ Maj. Gen. Chang Shu-hsien.

⁸ J. R. Boyce.

⁹ The American Consul, Fulton Freeman, and the French Consul, Georges Perruche.

¹⁰ Messrs. Freeman, Boyce, Perruche, the First Secretary of the Belgian Embassy (Brogniez), and the First Secretary of the Netherlands Embassy (Baron Van Boetzelaer).

¹¹ Not printed.

with the announced purpose of "conducting an investigation of the lands, buildings and official assets within the Legation Quarter".*

With the appointment of Mayor Ho Ssu-yuan to succeed Hsiung Pin on November 1, 1946, the work of the Liquidation Commission was given renewed importance and Major General Chang Shu-hsien, son-in-law of General Feng Yu-hsiang, and Director of the Peiping office of the Ministry of Foreign Affairs, was appointed Secretary General of the Commission. A meeting of the full Commission to which the Foreign Advisers were invited was scheduled for December 11, 1946, although the Secretary General chose the Peiping office of the Ministry of Foreign Affairs as the meeting place rather than the headquarters of the Commission within the Spanish Legation compound in order to avoid offending the sensibilities of any of the Foreign Advisers.†

It was obvious at the outset of the first meeting of the full Commission that the Chinese had very ambitious desires with regard to the work of the Commission. The Mayor (who is concurrently Chairman of the Commission) stated, for example, that the term "official assets" should be interpreted to include not only the open glacis areas, the roads, equipment, etc., which were in the ownership or charge of the former Administrative Commission of the Diplomatic Quarter, but also all land within the Quarter which had been allotted to the various foreign governments. The Commission thus planned to carry out investigations into the origin and title of all private and foreign government properties in the Quarter with an eye to the possibility of fraudulent acquisition. The Commission was also of the opinion that the determination of whether the various foreign governments were using the property allocated to them for official purposes in accordance with the provisions of the treaties abolishing extraterritorial rights (Article II, paragraph 3 of the Sino-American Treaty) was a responsibility of the Commission.

The British Adviser and I objected strongly to this interpretation of the term "official assets" and to the scope of the Commission as envisaged by the Chinese. We expressed our opinion that the term "official assets" should be held to include only those assets which were

*These circulars were distributed on October 31, 1946, the final day in office of Mayor Hsiung, and were probably drawn up hurriedly in an effort to conceal the fact that the Commission had accomplished nothing during his term of office. No action was taken, however, and on December 18 a letter from the new Mayor was received apologizing for the negligence on the part of the former members of the Commission in forwarding the circulars to the diplomatic and consular establishments. [Footnote in the original.]

†The Spanish Legation property was evacuated by the Commission shortly after January 1, 1947, presumably under instructions from the Ministry of Foreign Affairs, and the Commission's headquarters was moved to the Peiping office of the Ministry of Foreign Affairs. [Footnote in the original.]

in the actual ownership or charge of the Administrative Commission of the Diplomatic Quarter; that the question of determining title to individual properties, whether held by private individuals or by foreign governments, was not within the purview of the Commission as contemplated under the treaties; that the question of whether a foreign government was using the property allocated to it solely for official purposes was one for bilateral discussion between the Chinese Government and the foreign government concerned; and that the status of properties allocated to foreign governments which had been enemies of China during World War II was likewise one which did not come within the scope of the Commission. We suggested that the function of the Commission was a relatively simple one: to determine what were the official assets, obligations and liabilities of the Administrative Commission of the Diplomatic Quarter, and to transfer control of the Quarter (together with all the Administrative Commission's property, services and debts) to the Chinese Government.‡

After considerable discussion and explanation, the views of the Foreign Advisers apparently prevailed, mainly because the Chinese members of the Commission had very little idea of how to proceed with the matter at hand and welcomed what appeared to be a relatively simple solution. The Foreign Advisers, on the other hand, were lulled into a false sense of optimism by the smooth way in which the first meeting had gone and by the acceptance of the Chinese of our suggestions as to procedure. In fact, it appeared as though the Commission would complete its work within a few months at most.

The second meeting of the full Commission, held on February 1, 1947, was devoted almost entirely to a review of the assets of the Administrative Commission of the Diplomatic Quarter as listed in the archives which had been located in various municipal offices in Peiping. Consideration was also given to the methods to be used by the Land Bureau of the municipal government in eliciting information concerning the title and ownership of private property within the Quarter. A small incident in this regard was illustrative of many similar complications which arose later. A printed form to be sent to all private residents of the Diplomatic Quarter for completion was circulated among the Commission for suggestions and approval. As the form was headed "Peiping Municipal Government and Commission for Liquidation of Official Assets, Obligations and Liabilities of the Legation Quarter", the Foreign Advisers objected that it had already been agreed that the investigation of land titles was not a

‡Enclosure No. 3 to this despatch. [Footnote in the original; enclosures not printed.]

function of the Commission and requested that the name of the Commission be removed from the form. In all other respects the form was approved. Two days later, however, residents of the Diplomatic Quarter began bringing copies of this form to their Consulates for advice in filling in the desired information and it was noticed that the form was exactly the same as that presented to the Commission with the name of the Commission still in bold letters at the top. The French Consul was the first of the Foreign Advisers to protest to the Secretary General of the Commission over this action taken in direct contravention to the expressed wishes of the Foreign Advisers but the former was informed that the function of the Foreign Advisers was solely one of giving advice—that advice to be accepted or rejected by the Commission as deemed advisable in the circumstances.

As the entire position of the Foreign Advisers in future relations with the Commission appeared to be involved in this admittedly trivial matter, it was decided in an informal meeting of the Foreign Advisers to forward to the Secretary General a copy of Foreign Minister Wang Shih-chieh's note dated June 6, 1946, to the British Ambassador¹² on the subject of Liquidation Commissions. Paragraph 5 of this note reads (in translation) as follows: "The decisions of the Liquidation Commissions shall only be binding when agreed to by both the Chinese members and the Foreign Advisers; where a decision cannot be reached, the Ministry of Foreign Affairs and the diplomatic mission concerned shall be requested to discuss and decide the matter." No reply was received by the British Consul to his letter forwarding a copy of the note under reference, but the fact that the Foreign Advisers were not invited to attend another meeting for six months was indicative that the Commission intended to go about its business without any additional interference on the part of the Foreign Advisers.

How far the Chinese had reversed their stand (or rather, reverted to their original position) since the first meeting of the full Commission on December 11, 1946, was clearly evidenced in a letter from the Secretary General dated March 8, 1947.³ General Chang stated in this letter that the official assets of the Legation Quarter had been decided by the Executive Yuan to include the land "originally allotted for the use of the allied and neutral governments" as well as "all assets in the possession of the enemy governments". In my reply of March 14, 1947,¹¹ I stated that the Executive Yuan's definition of the term "official assets" was in direct contradiction to that agreed

¹² Not printed; Sir Horace James Seymour was the British Ambassador in China.

§ Enclosure No. 6 to this despatch. [Footnote in the original.]

|| Enclosure No. 7 to this despatch. [Footnote in the original.]

on and recorded in the minutes of the December 11 meeting and that the subject of American Government property in the Legation Quarter did not, in my opinion, fall within the purview of the Liquidation Commission. General Chang's reply of May 22, 1947¶ indicated that he was conscious of the stipulation that decisions of the Commission required the unanimous agreement of the Commissioners and the Foreign Advisers in order to be binding. He countered, however, with the ingenious and surprising statement that the meeting of December 11 was an informal one rather than "a regular official meeting", and that therefore points reached in that meeting were tentative and could not be considered as unanimous decisions. It was becoming obvious that the area of disagreement was one which stemmed from Nanking, and there appeared to be little hope of breaking the deadlock through local negotiations.

The arrival in Peiping on April 28, 1947, of Dr. Ruth Bacon,¹³ who had been holding discussions with the Minister for Foreign Affairs in Nanking on the subject of the Liquidation Commissions, provided a needed opportunity for a thorough airing of the situation in Peiping and confirmation that the attitude which had been adopted by the Foreign Advisers did in fact represent the views of the Department. Shortly after Dr. Bacon's return to Nanking, the Embassy's telegram no. 81 of May 7 was received informing the Consulate that the Foreign Minister had stated categorically that the competence of the Liquidation Commission did not extend to such matters as the investigation of titles of foreign government property in the Diplomatic Quarter, and that instructions to this effect were being sent to the Commission. No indication was received from the Commission of a change in instructions, however, and it was not until July that Mr. Lin Ch'i-han, Adviser to the Ministry of Foreign Affairs, was sent to Peiping to discuss matters directly with the members of the Commission and the Foreign Advisers.

In a conversation with Mr. Lin and Dr. C. C. Chi, Special Representative of the Ministry of Foreign Affairs for the Peiping-Tientsin Area, it was agreed that for a slight concession on the part of the Consulate the whole question of investigating the titles and official use of the property allocated to foreign governments would be dropped by the Commission and work would proceed on the basis of the decisions reached in the meeting of December 11. This concession was to permit representatives of the municipal Land Bureau to survey the interior of the four American compounds for purposes of compiling an accurate and up-to-date plan of the Diplomatic Quarter, but it was

¶Enclosure No. 8 to this despatch. [Footnote in the original.]

¹³Special Assistant to the Director of the Office of Far Eastern Affairs (Vincent).

agreed that the written request therefor should be made by Dr. Chi as the Special Representative of the Foreign Office rather than by General Chang as Secretary General of the Liquidation Commission.

Finally, on August 30, 1947, the Foreign Advisers were again invited to a meeting of the full Commission to discuss a proposed joint statement which had been prepared by the Chinese and was to represent the final action of the Commission.** Following several suggested changes in form and wording made by the Foreign Advisers, it was proposed by the Netherlands Adviser that I prepare an alternate draft of the joint statement which would incorporate the various changes suggested, obtain the approval of the other Foreign Advisers, and submit a copy duly initialed by the Foreign Advisers to the Commission for consideration. This was done as suggested†† and there the matter now rests. In view of the understanding that any action taken by the Commission will be subject to confirmation by an exchange of notes between the Ministry of Foreign Affairs and the Embassy, it was not considered necessary to obtain the prior approval of the Embassy to the counter-draft agreement before submitting it to the Liquidation Commission for consideration.

Future developments in this matter will be reported as they occur.

Respectfully yours,

FULTON FREEMAN

893.102/9-1747

The Ambassador in China (Stuart) to the Secretary of State

No. 999

NANKING, September 17, 1947.

[Received September 25.]

Subject: Liquidation Commission of the Former International Settlement at Shanghai: Country Hospital, Shanghai General Hospital and Victoria Nurses Home.

SIR: I have the honor to refer to Shanghai's despatch to the Embassy, No. 296 of September 8, 1947, on the above subject (copy and hectograph sent to Department), with which was enclosed a copy of a letter from Dr. George Sellett, American Adviser to the Liquidation Commission for the International Settlement at Shanghai, which outlined an agreement informally proposed by the Chinese for the disposal of the three above-mentioned hospitals.

The Embassy is of the opinion that, in view of the situation which obtains at Shanghai in regard to the entire liquidation question, the proposed Chinese plan probably represents the best solution that can be obtained by agreement between the Chinese on the one hand and

**Enclosure No. 9 to this despatch. [Footnote in the original.]

††Enclosure No. 10 to this despatch. [Footnote in the original.]

the concerned foreign authorities on the other. In these circumstances, therefore, the Embassy recommends that the Consulate General at Shanghai be authorized to agree to the proposed plan, namely, that the Chinese authorities will relinquish all claims to the Country Hospital; that the Shanghai General Hospital will be operated in the future under a revised trust deed whereby the foreign community will be represented on the Board of Governors; and, that one or two floors of the Victoria Nurses Home will be set aside for the residence of nurses of the Country Hospital. It is assumed, of course, that the American authorities at Shanghai will take advantage of any opportunity that is offered to better the above terms.

The British Embassy states that the above plan has not formally come to its attention as yet, but that it has already given informal consideration to the plan and will probably recommend its acceptance as the most satisfactory one that can be obtained under the circumstances. The British Embassy officer concerned with this matter stated that he had verbally suggested to the Shanghai British authorities that every safeguard possible be taken to ensure fulfillment by the Chinese of their undertaking under this plan if it should be agreed upon.

Respectfully yours,

For the Ambassador:
WILLIAM T. TURNER
First Secretary of Embassy

893.102/9-1747: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, October 16, 1947—6 p. m.

1273. Concur with Emb that plan proposed by Chinese (Urdes 999, Sept 17) probably best solution obtainable by agreement between Chinese and concerned foreign authorities. Congen authorized agree to plan but should take every possible safeguard to ensure Chinese fulfillment of their undertakings (Sent Nanking as Depts 1273, repeated Shanghai as 1771.) should plan be agreed upon.

Dept feels plan for Country Hospital nurses use one or two floors Victoria Nurses home, with remainder building at disposal Chinese Govt may give rise administrative difficulties and friction. Dept suggests definite period be specified if possible re that arrangement (preferably 5 or more years which would allow adequate time Country Hospital build nurses home) and that it desirable obtain from Chinese, if possible, binding undertaking (Shanghai's dsp 296 Sept 8 to Emb) that specified amount space Victoria Nurses home would be made

available to Country Hospital nurses in order lessen possibility future disagreements.

LOVETT

893.102/5-2148

*Joint Agreement of the Commissioners and the Foreign Advisers of the Commission for the Liquidation of the Official Assets, Obligations, and Liabilities of the Peiping Legation Quarter*¹⁴

THIS AGREEMENT made in the City of Peiping in the Republic of China on this 26th day of December, 1947, among the various Commissioners and Foreign Advisers of the Commission for the Liquidation of the Official Assets, Obligations and Liabilities of the Peiping Legation Quarter;

WITNESSETH:

WHEREAS, the Commissioners and Foreign Advisers of the Commission have unanimously agreed that, for the purposes of this Commission, the following definitions shall be used for the terms "official assets", "official obligations", and "official liabilities":

(1) *Official Assets* consist of all assets, including real and movable property, liquid assets, equipment, et cetera, that had been in the ownership or charge of the former Administrative Commission of the Legation Quarter, and the so-called glacis of the Legation Quarter which was the condominium of the signatories of the Final Protocol of September 7, 1901.¹⁵

(2) *Official Obligations* are those public services performed by the former Administrative Commission of the Legation Quarter;

(3) *Official Liabilities* are those debts which had been incurred by the former Administrative Commission of the Legation Quarter;

NOW, THEREFORE, it is hereby AGREED as follows:

Article I. The Official Assets consist specifically of the following:

1. Buildings and grounds as per attached list and plan.¹⁶
2. Streets and sidewalks as per attached list.
3. Police uniforms, et cetera, as per attached list.
4. Furniture as per attached list.
5. Fire fighting equipment as per attached list.
6. Road repairing equipment as per attached list.

¹⁴ Copy transmitted to the Department by the Ambassador in China in his despatch No. 241, May 21, 1948; received June 4, 1948. The despatch stated: "According to the 'principles and measures' decided upon by the Executive Yuan in connection with the liquidation of the extraterritorial areas . . . after the official assets, obligations and liabilities of these areas have been liquidated in full, the result thereof shall be confirmed by an exchange of notes between the Ministry of Foreign Affairs and the foreign Missions concerned." No such exchange of notes found in Department files.

¹⁵ *Foreign Relations*, 1901, Appendix (Affairs in China), pp. 312.

¹⁶ Annexes to this agreement not printed.

7. Constructions, et cetera, on roads as per attached list.
8. Mechanical equipment, materials, et cetera, as per attached list.
9. Glacis property as per attached plan.
10. Open land over the filled in canal as per attached plan.

(The final certified statement of account from the Banque de l'Indo-Chine, copy attached, shows an absence of any liquid assets.)

The Official Assets listed above, which were illegally transferred by the Japanese Government to the puppet Chinese Government on March 30, 1943, and are now being held in custody by the Government of the Republic of China, should all in their entirety be formally transferred to the Chinese Government.

Article II. The Official Obligations to be transferred are limited to the following public services:

1. Public Safety.
2. Fire Fighting.
3. Public Health.
4. Public Works.

The Official Obligations listed above, which are presently being carried out by the Chinese Government, should continue to be the responsibility of and continue to be carried out by the Chinese Government.

Article III. The Official Liabilities are limited to the claim of Mr. P. J. Lawless, former Secretary and Chief of Police to the Administrative Commission of the Legation Quarter. The Foreign Advisers consider that Mr. Lawless is entitled to remuneration and benefits amounting to £717.14.2 and CNC \$26,450.00, the details of which are shown in the annexed statement. The Commissioners, however, wish to record the fact that they are not prepared to accept any liability in respect of Mr. Lawless' services after December 8th, 1941, and accordingly consider that no amount is due Mr. Lawless. In view of this divergence between the opinions of the Commissioners and the Foreign Advisers, the matter is referred for decision by discussion between the Chinese Government and the Diplomatic Representatives of the interested Powers. Despite published notices which appeared continually in the Chinese and foreign press from July 20th, 1947, to July 26th, 1947, (as per attached copy) no other claimants against the former Administrative Commission of the Legation Quarter have come forward and no other liabilities are known to exist or will be recognized hereafter.

This agreement is drawn up in Chinese and English and both texts shall be considered authentic.

IN WITNESS WHEREOF, the Commissioners and the Foreign Advisers of the Commission for the Liquidation of the Official Assets, Obliga-

tions and Liabilities of the Peiping Legation Quarter have hereunto signed their names at the place and on the date first above written.

FOREIGN ADVISERS

CHARLES BROGNIEZ, *Belgian Adviser*
FULTON FREEMAN, *American Adviser*
GEORGES PERRUCHE, *French Adviser*
W. G. HARMON, *British Adviser*
C. D. BARKMAN, *Netherlands Adviser*

COMMISSIONERS

HO SZE-YUAN, *Chairman*
CHI CHE-CHIN
TONG YOEI-LIANG
TENG CHI-YU
CHANG TAO-SHUN
CHANG SHU-HSIEN

REQUEST OF CHINESE GOVERNMENT FOR REVISION OF
THE SINO-AMERICAN AIR TRANSPORT AGREEMENT
OF DECEMBER 20, 1946

711.9327/11-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 5, 1947—5 p. m.

[Received November 6—3:37 a. m.]

2197. As suggested Shanghai's 1699, October 23, 4 p. m.¹ (relayed through Nanking), Embassy has now received note from Minister of Foreign Affairs dated October 29, 1947 as follows:

"An official letter has just been received from the Minister of Commerce [*Communications*] stating that as the revision of the Sino-American Air Transport Agreement² with respect to a number of questions in connection with details of traffic operations is most desirable, it is requested, pursuant to the provisions of article XI of the agreement, the competent U. S. aeronautical authorities be approached to depute an officer to consult with that Ministry for the revision.

"The above is communicated to the Embassy for its attention and action, and the favor of a reply will be appreciated."

Department will recall that article XI of Sino-American Bilateral Air Transport Agreement calls for commencement consultation provided for therein within period 60 days from date of request which in this case is October 29, 1947. Embassy has informed Minister of Foreign Affairs that text Minister's note has been forwarded Department and that Embassy will communicate further with Minister when instructions received.

Sent Department 2197, repeated Shanghai 868.

STUART

711.9327/11-547 : Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, November 10, 1947—6 p. m.

1372. Chinese should be informed Urtel (2197 Nov 5) that US glad consult in accord Art XI but before US can consider question

¹ Not printed.

² Signed at Nanking, December 20, 1946; Department of State Treaties and Other International Acts Series No. 1609, or 61 Stat. (pt. 3) 2799. For correspondence on the negotiations, see *Foreign Relations*, 1946, vol. x, pp. 1228 ff.

appointing representatives etc necessary we be informed officially reasons Chinese request and points on which consultation desired.

For Emb info Dept perceives no urgency this matter particularly since Geneva conference³ may result in agreement which might solve problem Hongkong-Shanghai traffic. Emb should therefore adopt reasonable delaying tactics without giving impression US not receptive idea consultation. If possible US should be given advantage 60 day period figured from date Chinese inform us as to specific points first paragraph.

Sent Nanking as 1372; rptd Shanghai 1927.

MARSHALL

711.9327/11-2047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, November 20, 1947—11 a. m.

[Received November 20—8:47 a. m.]

2261. Re Shanghai's 1699, October 23,⁴ Embtel 2197, November 5, Deptel 1372, November 10.

Civil Air Attaché⁵ informally advised Lin, director international relations department Ministry Communications, U. S. glad consult with Chinese Government in accordance with article XI air agreement but Department desired be informed officially points on which consultation desired and reasons therefor.

In course conversation Lin stated if it appeared likely Chinese will be permitted operate to Tokyo he felt only subject Chinese Government will raise with view toward revision Sino-American Agreement matter of U. S. carriage Shanghai-Hong Kong traffic. Lin indicated China will advance following arguments in endeavor make case which will preclude U. S. carriers from movement Shanghai-Hong Kong traffic.

1. Agreement stipulates English and Chinese languages both equally authentic. Chinese text of paragraph (b) of note exchanged December 20, 1946 beginning "provided" and ending "agreement" means, according to Lin, "provided, however, that the designated U. S. carriers will not handle any regional traffic between Hong Kong and any one of the points in Chinese territory mentioned in the annex attached to the agreement". Lin maintains Chinese characters do not spell out words "no shuttle service".

2. Kowloon area on which Kaitak airport is located is sovereign Chinese territory under lease to the British and therefore U. S. carriers do not possess right to land Kaitak.

³ Special Conference on Multilateral Aviation Agreement of the International Civil Aviation Organization at Geneva, November 3-25, 1947.

⁴ Not printed.

⁵ Francis G. Jarvis.

Lin also said Chinese Government delegates to Geneva conference had been instructed to "go as far as possible" in support U. S. position if chairman U. S. delegation would agree to revision or interpretation of air agreement so as to preclude U. S. carriers from participating in carriage Shanghai-Hong Kong traffic.

With regard to 1 above Embassy considers Chinese have case if they insist on literal interpretation of Chinese text. But case is greatly weakened of course by reference to English text and oral understanding between parties at time agreement concluded and notes exchanged.

In accordance instructions contained in Deptel 1372, November 10, Embassy has prepared formal note to Minister Foreign Affairs and Department will be informed when official reply is received.

STUART

711.9327/11-2047 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 2, 1947—6 p. m.

1454. Dept will comment at length points Urtel 2261, Nov 20 in few days. Desire confirmation last date consultation may begin under terms Art 11, and comments re advisability holding consultation Nanking with Jarvis assisting Emb.

LOVETT

711.9327/12-1947 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, December 19, 1947—1 p. m.

1535. Re Chinese request consultation to amend bilateral air transport agreement.

Question US carriage Hong Kong-Shanghai fifth freedom⁶ traffic should not be decided on basis technicalities such as legal status Kaitak. British granted US right to service Hong Kong for which Kaitak is airport. If Chinese feel such grant was improperly made they should pursue matter with Brit Govt. Although Chinese text

⁶ Five "freedoms of the air in respect of scheduled international air services" were reciprocally granted; the fifth was as follows: "The privilege to take on passengers, mail, and cargo destined for the territory of any other contracting State and the privilege to put down passengers, mail and cargo coming from any such territory." It was provided that "the undertaking of each contracting State relates only to through services on a route constituting a reasonably direct line out from and back to the homeland of the State whose nationality the aircraft possesses." (See Department of State Conference Series No. 64, *International Civil Aviation Conference, Chicago, Illinois, November 1 to December 7, 1944, Final Act and Related Documents*, Appendix IV, p. 91.)

may be interpreted variously Dept believes intention US negotiators and meaning English text note accepted by Chinese clearly allow fifth freedom traffic.

Dept believes basis US argument should be that agreement clearly grants US fifth freedom rights and that Chinese accepted US note designation (see Deptel 348, Mar 24, Urtel 982, May 7⁷). US right to service Hong Kong also granted by Brit in Bermuda agreement.⁸ If Chinese have reason object its exercise, objections must be based on Bermuda principles agreement. Thus Chinese have right question only amount such traffic in event undue capacity provided.

US will not give up right carry such traffic. If Chinese desire preclude US this right were successful, it might result immediate similar demands by other countries. As Emb knows, right to fifth freedom traffic is essential US world routes.

For Emb consideration, Dept suggests Lin be advised as follows: US has learned of Chinese desire operate Okinawa on regional service as well as on route US, that US sympathetic this desire but facilities Naha already taxed. US hopeful situation can be worked out so as permit CNAC⁹ operation Naha but it may involve some delay. For your info, CAB¹⁰ being requested delay proceedings CNAC application for amendment permit to permit Naha stop pending resolution Hong Kong question.

For Emb info cable has gone to SCAP¹¹ which Dept hopes will result favorable decision re CNAC request use Tokyo although discretion is SCAP's this matter within confines proposed policy civil aviation Japan.

Should suitable informal opportunity be presented Jarvis might inquire of Lin reasoning behind his linking results Geneva conference with Chinese desire re Hong Kong-Shanghai traffic.

Sent Nanking 1535; rpt Shanghai 2161.

LOVETT

711.9327/12-2347: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, December 23, 1947—6 p. m.

[Received 11:44 p. m.]

2448. Question of last date consultations (ReDeptels 1454, December 2, 6 p. m., and 1541, December 19, 6 p. m.¹²) may commence accord-

⁷ Neither printed.

⁸ Signed February 11, 1946; Department of State Treaties and Other International Acts Series No. 1507, or 60 Stat. (pt. 2) 1499.

⁹ China National Aviation Corporation.

¹⁰ Civil Aeronautics Board.

¹¹ Supreme Commander, Allied Powers, Japan (Gen. Douglas MacArthur).

¹² Latter not printed.

ing to article 11 air agreement not yet resolved. Note, conveying Department's request that Chinese outline specific points on which they wish consult and expressing Department's view that 60-day period should commence when such points formally conveyed to Embassy, prepared in accordance Deptel 1372, November 10 and mentioned Embtel 2261, November 20, was dispatched November 27 to Foreign Office. No response to Embassy's note November 27 has yet been received.

Prior to dispatching Embtel 2261, Civil Air Attaché had conducted series of informal talks with Lin of Ministry Communications but in view of apparent desire Department (Deptel 1372, November 10) that delaying tactics be employed in effort to postpone consultation no further discussions with Chinese Government officials have been held. Embassy is of opinion that to raise with Chinese question of last date consultation may begin will serve to impress them with sense of urgency on U. S. side which does not exist.

It is desired to emphasize that summary in Embtel 2261 of Dr. Lin's statements to Civil Air Attaché does not necessarily represent final and official position of Chinese Government regarding revision agreement. This preliminary summary was transmitted by Embassy for Department's information.

Unless instructed otherwise, [Embassy will?] continue its policy of awaiting for official reply from FonOff and will now [*not?*] again raise question of last date consultation may commence.

FonOff reply, with Embassy's comments, will be transmitted promptly to Dept when received. If consultation requested Embassy perceives no objection conducting negotiations Nanking with assistance Civil Air Attaché.

STUART

ESTABLISHMENT OF AN EXECUTIVE OFFICE IN THE
EMBASSY IN CHINA TO ENABLE THE AMBASSADOR TO
EXERCISE OVER-ALL SUPERVISION AND COORDINA-
TION OF BASIC POLICIES GOVERNING OFFICIAL AMER-
ICAN ACTIVITIES IN CHINA

711.93/3-1047

The Secretary of State to President Truman

WASHINGTON, March 3, 1947.

Subject: Supervision and Coordination of Basic Policies Governing
American Activities in China.

The State-War-Navy Coordinating Committee has reviewed the situation in China and has agreed that the over-all supervision and coordination of basic policies governing official American activities in China heretofore exercised by me while Special Envoy to China should be continued. The Committee considers this action necessary to insure that all American agencies, political, military, and economic, act in complete harmony with our policy toward China, the protection and implementation of which the Committee regards as of foremost importance. Since the political effort predominates, the Committee considers that the responsibility for over-all policy supervision and coordination should be vested in the Ambassador.

I concur in the views of the State-War-Navy Coordinating Committee and submit the enclosure for your approval.¹

G. C. MARSHALL

[Annex]

DRAFT PRESIDENTIAL DIRECTIVE

In order to insure complete and consistent implementation of our policy toward China, I authorize the Ambassador to China to exercise over-all supervision and coordination of basic policies governing all official American activities in China, including political, military, and economic. To assist in discharging this responsibility with respect to military activities, the Embassy is authorized to establish a small Executive Office, consisting of Embassy, Army, and Navy personnel. The establishment of this Executive Office will in no way interfere with the

¹ Marginal notation: "Approved. Harry S. Truman."

normal functioning of the Embassy. The War and Navy Departments are authorized to detail appropriate personnel to serve in this office.

In the event that major differences arise over policy matters within China, the Ambassador will submit the necessary reports and recommendations to the State Department for resolution among Departments concerned.

124.93/3-1447

The Acting Secretary of State to the Ambassador in China (Stuart)

No. 283

WASHINGTON, March 14, 1947.

The Acting Secretary of State encloses for appropriate action a copy of a memorandum, dated March 3, 1947, for the President entitled "Supervision and Coordination of Basic Policies Governing American Activities in China".² Attached to this memorandum is a copy of a Presidential Directive, approved by the President, authorizing the establishment of an Executive Office in the Embassy, consisting of Embassy, Army and Navy personnel, as a means of insuring complete and consistent implementation of American policy toward China. The War and Navy Departments, authorized under the Directive to assign personnel to serve in this office, are being requested to take appropriate action to that end.

In approving the paper (SWNCC 349) providing for the Executive Office, which was first submitted to the State-War-Navy Coordinating Committee, the Navy member made the following statement:

"The Navy Department believes that the duties outlined in the subject paper to be performed for the Ambassador by naval personnel can best be performed by an officer ordered as Naval Attaché and is prepared to assign an officer with suitable qualifications to such duty. Such an arrangement will avoid the establishment of a new naval headquarters with undesirable expense and possibly involving undesirable comment."

In accepting this statement, the Secretary of State made the following comment:

"I approve SWNCC 349 as amended, and note the statement of the Navy member, but wish to insert, as a matter of record, that it may be desirable at a later date to review the manner in which the Navy representative of the Executive Office is appointed. I make this comment since it is my view that it would be preferable to divorce the activities of the Executive Office in its effort to assist the Ambassador in supervising and coordinating basic policies governing Amer-

² *Supra.*

ican activities in China from the normal intelligence functions of the Naval or Army Attaché's office."

In view of the lack of precedents for the Executive Office, it is believed that the functioning and procedures of the Office must be worked out on the ground and that the Embassy will find it desirable to adapt the Office, within the framework of the Presidential Directive, to meet the situation and the existing needs. The Department has not, therefore, attempted to lay down specific rules for the functioning of the Office, believing that its functions and procedures can best be worked out through actual experience and experimentation in the Embassy.

It is believed desirable, however, that all communications relating to the activities of the Executive Office should, as a regular procedure, be forwarded through Embassy channels. This should not, of course, preclude the use by Army and Navy representatives in the Office of communications facilities available to them in seeking instructions from their respective Departments or agencies of such Departments.

With regard to personnel assigned to the Office, it is understood that the War and Navy Departments will name a general officer and a flag officer, respectively, as their chief representatives in the Executive Office, together with such personnel of lower rank as are believed to be necessary. In this connection, it would seem desirable that the Minister-Counselor of Embassy serve as the chief Embassy representative in the Office in order that parallel rank may be maintained vis-à-vis the War and Navy Departments.

It is requested that the Embassy inform the Department of the effective date of the establishment of the Executive Office and that it submit to the Department, from time to time, reports of the functioning of the Office, together with suggestions it may have for increasing its effectiveness.

124.93/3-2047 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 20, 1947—noon.

326. President has approved Directive authorizing Ambassador exercise over-all supervision and coordination basic policies governing all official American activities in China and authorizing Embassy establish Executive Office of Embassy, Army and Navy personnel to assist in discharging this responsibility with respect to military activities. War and Navy Departments being asked to detail personnel to serve in Executive Office.

Instruction no. 283, March 14, regarding details being forwarded

air pouch. In view lack precedents Dept not laying down specific rules for activities of Office, believing procedures can best be worked out through experience and experimentation within framework Presidential Directive. Believed desirable, however, all communications regarding activities of Office should be through Embassy channels, which should not preclude use by Army and Navy representatives of their own channels in seeking instructions from their Depts or agencies. As Army and Navy expected name general and flag officer, respectively, as chief representatives in Office, it would seem desirable to have Minister-Counselor as chief Embassy representative.

ACHESON

124.93/3-2447 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 24, 1947—6 p. m.

[Received March 25—3 a. m.]

642. I appreciate the Department's thoughtfulness in not laying down too specific rules applicable to the functioning of the new Executive Office, many of which experience itself will of necessity dictate. However, there is one very important aspect of this project referred to in Department's telegram 326, March 20, noon, and two others of pertinency which must be clarified forthwith.

First and foremost, the Minister-Counselor³ who is now in direct charge of the Embassy must also act in the matter of the Executive Office as my deputy and therefore cannot both from a functional point of view as well as from the point of view of available time become the chief Embassy representative in that office. The Executive Office will be under his immediate jurisdiction and it will be to him that it will report its suggestions and recommendations. The fact that the War and Navy Departments will be represented by a general and flag officer, respectively, is not in my opinion a determining factor. Furthermore, the present Military Attaché,⁴ for example, is also a general, but his routine liaison with the Embassy is with the Chief of the Political Section. Accordingly, I would propose to assume that Embassy's chief representative in the Executive Office should by reason of that fact alone be regarded as appropriate opposite number to a general or flag officer even though he be a first secretary.

Secondly, it would be helpful to have background guidance information regarding what in particular Department had in mind by inserting in the original draft of the Presidential Directive the

³ W. Walton Butterworth.

⁴ Brig. Gen. Robert H. Soule.

sentence: "The establishment of this Executive Office will in no way interfere with the normal functioning of the Embassy".

Thirdly, there is no doubt that the establishment of an Executive Office with advisory duties in the matter of supervision and coordination of basic policies governing all phases of American activities in China will add decidedly to the responsibilities and work of the Embassy. Therefore, I should like to have assurance that Department is prepared to supply such additional officer and clerical personnel as may be necessary to undertake these new duties and to make it possible for the experiment to be a success. In this general connection I would like to have telegraphic confirmation that the War and Navy Departments will be responsible in the matter of their personnel for providing such requirements as clerical assistance, transportation and living quarters, etc., for Embassy does not have such facilities. I assume that Embassy will provide office space and, accordingly, an affirmative answer to request contained in Embassy's telegram 618, March 21, 11 a. m.,⁶ is urgently needed. Embassy now has real need of an additional experienced code clerk (Embassy's telegram 641, March 24, 5 p. m.⁶), and even now before establishment of Executive Office, it is quite obvious that a second experienced code clerk and one stenographer will be needed forthwith, and request is hereby made that they be sent by air.

STUART

124.93/3-2447: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, March 28, 1947—2 p. m.

372. 1. It was Dept's thinking that Minister-Counselor would be chief Emb representative in Executive Office (Embtel 642, Mar 24) and that Chief of Political Section or other competent officer be appointed as his alternate. However, especially in view of Navy's intention to assign Captain rather than Flag Officer as its representative (Deptel 352, Mar 25⁶) no objection perceived to assignment of Chief of Political Section as Emb representative.

2. Dept by inserting sentence quoted penultimate paragraph reference telegram meant merely to indicate that Executive Office should have no priority with respect to Embassy's facilities which would prejudice efficient administration normal Emb functions.

3. Dept will of course bear in mind need for strengthening Emb staff sufficiently to undertake additional responsibilities involved in

⁶ Not printed.

establishment of Executive Office. War and Navy understand necessity for supplying their own personnel and services. War is arranging for detail of 2 officers of General or Colonel rank, 3 captains and 2 sergeants; and Navy is detailing 1 Captain of rank junior to that of present Naval Attaché and 1 Yeoman. Action already taken (Deptel 361, Mar 26⁷) authorizing expenditure \$15,000 through FLC⁸ procedures.

ACHESON

124.93/4-147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 1, 1947—5 p. m.

[Received April 1—9:43 a. m.]

706. Embassy is awaiting Dept's detailed instruction 283 of March 14 referred to in Deptel 326, March 20, midnight [*noon*], which it assumes will contain specific instructions as to the notification to be made to Chinese Foreign Ministry regarding status of the personnel assigned to the Executive Office.

Embassy has been informed that War Dept has confirmed to General Timberman⁹ his appointment and that he is proceeding to Nanking April 2; also that he is under pressure to make known to the press what assignment he will receive on terminating his connection with Executive Headquarters now in process of dismemberment.

In view of fact that the institution of an Executive Office is subject of a Presidential Directive, Embassy has indicated that it regards the announcement of its establishment as a matter which should be dealt with in Washington. Accordingly, it requests telegraphic instructions as to what should be notified to the Chinese Foreign Office which should receive notification prior to public announcement, and also date, time and content of Washington announcement re Presidential Directive.

STUART

124.93/4-147 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 3, 1947—7 p. m.

397. It is Dept's view establishment Executive Office is internal organization matter and there is therefore no need for publicity (Emb-

⁷ Not printed.

⁸ Foreign Liquidation Commissioner.

⁹ Gen. Thomas S. Timberman, formerly Director of Operations, Executive Headquarters at Peiping.

tel 706 Apr 1). Office as such would have no legal standing vis-à-vis Chinese Govt and no useful purpose would be served by notifying Chinese authorities of its establishment. However, Dept suggests if Embassy perceives no objection, it informally describe FonOff nature Executive Office and general scope its functions and state that War and Navy personnel being assigned in liaison capacity connection such functions.

Dept understands Navy representatives in Office will from purely routine administrative standpoint be attached NA's¹⁰ office and Army representatives will similarly be attached Army Advisory Group. Dept thinks it would not be necessary formally notify FonOff such personnel for inclusion on diplomatic list and that questions of titles by which they would be designated on such list and relative ranks vis-à-vis Embassy personnel make it desirable they not be carried on diplomatic list.

If Chinese Govt should insist formal notification, which is believed unlikely, or if Embassy thinks such action advisable, Dept would welcome expression Embassy's views.

Dept suggests General Timberman if questioned inform press he will act in liaison capacity with Embassy assisting in coordination Embassy's functions relating War Dept and its agencies, such statement to be made, of course, after informal notification Executive Office to Chinese Govt.

ACHESON

124.93/4-1047: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 10, 1947—2 p. m.

[Received April 10—2:46 a. m.]

775. In course of conversation with Foreign Minister,¹¹ Minister-Counselor acquainted him with appropriate parts of Department's telegram 397, April 3, 7 p. m. Dr. Wang Shih-chieh interposed no objection but requested that Foreign Office be informed of personnel attached to Executive Office before assignments became publicly known. While he was not insistent that personnel of Executive Office be included in diplomatic list, he feels—unless there are over-riding considerations against doing so—it would be preferable to include them. There appears to be no urgency about the latter but inasmuch as Army Section of personnel of Executive Office will begin functioning April 11 Embassy proposes, unless urgently instructed to contrary,

¹⁰ Naval Attaché.

¹¹ Wang Shih-chieh.

to comply with Foreign Minister's request and notify him of personnel, giving General Timberman descriptive title of "Special Military Adviser" and Colonel Barclay "Deputy to Special Military Adviser" and designating other officer and clerical personnel as administrative assistants.

In view of non-arrival of Department's instruction 283 of March 14, Embassy would appreciate institution of inquiry and telegraphic advice as to any pertinent part which may not have been summarized in previous Department telegrams.

STUART

124.93/4-1047: Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 11, 1947—6 p. m.

426. Dept perceives no objection notifying FonOff Army and Navy personnel Executive Office described Embtel 775 Apr 10. If Embassy feels it desirable have such personnel included diplomatic list and can appropriately solve problem place such personnel on list, Dept perceives no objection their being included.

Depts instruction 283 Mar 14 forwarded Mar 21 registered cover no. 16622 via air pouch no. 1915 to Embassy, contained air pouch no. 62 Shanghai.

Assumed you have seen text presidential directive which War Dept forwarded Underwood¹² Mar 21. Depts instruction contained little that was not in directive itself or in Deptel 326 Mar 20 and other telegrams. Only additional information might be helpful is idea of Executive Office was based on General Marshall's own experience in China and that it was felt necessary have over-all policy supervision and co-ordination ensuring all US agencies act in concert and in complete harmony in view practices in China where various elements quick to seize every opportunity exploit US mistakes and inconsistencies.

ACHESON

124.93/4-2747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 27, 1947—10 a. m.

[Received April 27—12:40 a. m.]

909. The present status of the Executive Office (Deptel 466, April 22, 6 p. m.¹³) is that the Army representative and his staff reported

¹² Col. G. V. Underwood, formerly on staff of General of the Army George C. Marshall, Special Representative of President Truman in China.

¹³ Not printed.

for duty on April 11. They consist of the following: Brigadier General Thomas S. Timberman, Col. John A. Barclay, Captain Linton B. Smith, Captain Ernest K. H. Eng, Sgt. David A. Dow, and Sgt. Helen Mun Tayne Ng. Since General Timberman came from Executive Headquarters, Col. Barclay from Army Advisory Group, and the rest of the staff from General Marshall's former office, no action is feasible or required by the Department in preventing unnecessary enlargement of personnel.

Embassy personnel in Executive Office are First Secretary Raymond P. Ludden as Embassy's representative and Third Secretary Wallace W. Stuart as Secretary of the Executive Office.

Executive Office is housed in separate small building connected with main chancery which contains private offices for both Army and Navy representatives and space for several stenographers as well as spacious main room which can be used like a partner's room in a merchant bank. Ludden and Stuart have desks there as well as offices the chancery proper.

Until arrival of Navy representative and staff, the Executive Office cannot function appropriately. When its representation is complete, it will obviously not reach its full utility until the Army and Navy Advisory Group programs are activated. However, it can and will in the interim perform most useful and necessary work. In this connection see Embtel 847, April 19, Embassy's top secret despatch 612, of April 4¹⁴ *et seq.* It is now considering 8 $\frac{1}{3}$ group air program, aerial mapping program (Deptel 281, Mar 6¹⁵) and in due course it will be called upon to deal with the various other uncompleted aid to China programs (see enclosures to letter Secretary of War hand to Secretary of State on Feb. 26¹⁶). It will review situation regarding external survey group and manner in which its successor is taking hold. It will also review current activities of Army and Navy Advisory Groups, 159 ship program and repatriation of Japanese, particularly hold out units in Manchuria and no doubt many *ad hoc* problems will come into its province including manner in which withdrawal of Marines is proceeding.

STUART

124.93/4-2747: Telegram

The Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, May 2, 1947—5 p. m.

523. Informative report on Executive Office Embtel 909 Apr 27 appreciated. In light Presidential Directive authorizing establish-

¹⁴ Neither printed.

¹⁵ *Ante*, p. 999.

¹⁶ *Ante*, p. 802.

ment Office which stated ExOff to assist Ambassador exercise overall supervision coordination basic US policies with respect to military activities, it is assumed ExOff review 159 ship program mentioned final paragraph your reftel is for purpose of advising Ambassador concerning possible military aspects such program.

MARSHALL

124.93/5-1647

The Ambassador in China (Stuart) to the Department of State

No. 731

NANKING, May 16, 1947.

[Received May 28.]

The Ambassador has the honor to enclose for the information of the Department a copy of a self-explanatory letter addressed to the Minister-Counselor in regard to the establishment of the Embassy Executive Office. Copies of this instruction have been forwarded to the Chief, Army Advisory Group, Nanking; Chief, Naval Advisory Group, Nanking; Commander United States Naval Forces, Western Pacific; Commander, Army Transport Command, Shanghai; Commanding Officer, American Graves Registration Service, Shanghai; and Chief, Foreign Liquidation Commission, Shanghai.

[Enclosure]

The Ambassador in China (Stuart) to the Minister-Counselor of Embassy (Butterworth)

NANKING, May 3, 1947.

SIR: In order to implement Presidential Directive dated March 3, 1947, a copy of which is attached for ease of reference, you are instructed to establish in the Chancery an Executive Office of the Embassy for the purpose of assisting me in supervising and coordinating the application of basic American policies with regard to China in connection with the activities of U. S. military organizations functioning in China.

It is my desire that the Executive Office will function as an integral part of the Embassy directly under the Minister-Counselor, to whom it will report. You are authorized to appoint such Embassy personnel as you may deem necessary to serve in the Executive Office in addition to their other duties.

The Embassy Executive Office will be charged with making such recommendations as may seem necessary to it in order to insure complete and consistent implementation of United States policy toward China on the part of all United States military agencies operat-

ing in China and with the preparation of such memoranda and reports for me as may be necessary. The establishment of the Executive Office will not in any way interpose a barrier to the direct and free access to the Embassy of any military command or agency in China.

Although the Executive Office will be composed of Embassy, Army and Navy members, it is my desire that the office function as a unit and that such recommendations as may emanate from it will be prepared jointly by all members, reflecting, of course, when pertinent, the opinion of any military agency which may be the subject of such recommendations.

When it is necessary on matters of policy to address any communication to a United States military command or agency in China, such communication will continue, as in the past, to be from the Embassy. Likewise, the Embassy Executive Office will utilize Embassy channels of communication with Washington. However, this should not be construed as to preclude the Army and Navy members of the Executive Office from using service channels to their respective departments or to military commands or agencies in China when seeking information or guidance or in matters connected with local administrative support.

Army and Navy personnel assigned to the Embassy Executive Office will be considered as members of the Embassy staff responsible to me and reported to the Chinese Government as such, but for purely administrative purposes will be considered as attached to appropriate military commands.

This instruction is of a tentative nature and will be modified as experimentation and experience dictate.

Very truly yours,

J. LEIGHTON STUART

REPRESENTATIONS REGARDING RELEASE OF MAJOR
ROBERT B. RIGG AND CAPTAIN JOHN W. COLLINS, AS-
SISTANT MILITARY ATTACHÉS IN CHINA, CAPTURED
BY CHINESE COMMUNIST ARMED FORCES IN MAN-
CHURIA

121.5493/3-147: Telegram

*The Minister-Counselor of Embassy in China (Butterworth) to the
Secretary of State*

NANKING, March 1, 1947—9 p. m.
[Received March 1—12: 52 p. m.]

408. This for Military Attaché.¹ Following from Changchun:²
“78, March 1, 3 p. m. Major Rigg and Capt. Collins (Assistant
Military Attachés) were captured this morning by Communists about
4 a. m., east of Chialun. Am contacting our military and will report
details later.”

BUTTERWORTH

893.00/3-247: Telegram

*The Minister-Counselor of Embassy in China (Butterworth) to the
Secretary of State*

NANKING, March 2, 1947—7 p. m.
[Received March 2—3: 05 p. m.]

418. Pending the receipt of a detailed report from Changchun on
the capture by the Communists of Assistant Military Attachés Rigg
and Collins (ReEmbtel 408), the Embassy decided not to make repre-
sentations to Nanking Communist representatives since it was hoped
that there might be circumstances which would facilitate their early
release thru local action. It was considered undesirable, on the basis
of present scanty information to involve Yen an³ in the case of which
it was most probably completely unaware. Any reference to Yen an
would almost certainly have provoked consequences likely to delay
settlement.

This morning the Embassy heard on the radio the War Depart-
ment's announcement, the reasons for which are obscure. In these

¹ Brig. Gen. Robert H. Soule.

² O. Edmund Clubb was Consul General at Changchun.

³ Shensi location of Chinese Communist Party headquarters.

circumstances, I took up the matter with Wang Ping-nan,⁴ and asked him to request Yen an to issue instructions for the immediate release of Rigg and Collins. He agreed to communicate with Yen an forthwith.

Colonel Dau, Ex. Officer MA,⁵ is flying to Changchun March 3.

BUTTERWORTH

893.00/3-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 5, 1947—8 a. m.

[Received March 5—5 : 20 a. m.]

445. Embassy has had following instruction sent to senior U. S. officer Yen an Liaison Group :⁶

“On Sunday, 2 March 1947, Mr. Wang Ping-nan of the local Communist delegation agreed to notify Yen an that Communist troops had captured Major Rigg and Captain Collins (two American Assistant Military Attachés in Changchun) in the vicinity of Changchun. He also agreed to request on behalf of American Embassy that they be released. On 3 March Mr. Tung Pi-wu⁷ was informed by the Embassy that Rigg and Collins were reported to be at Chiutai, 20 kilometers NE of Changchun, and that they were believed to have been captured by Chi Hei Tsung Tei column, also known as Kirin-Heilung-chiang column. The Embassy requested Tung Pi-wu to pass the info to Yen an for its assistance in effecting the release of the two Americans.

The Embassy wishes you to follow the matter energetically with a view to effecting immediate release. Embassy most anxious that few remaining days of direct contact with Yen an be exploited to complete arrangements for the release. Colonel Dau of Military Attaché office in Nanking and Mr. Clubb, American Consul [General] in Changchun, are now in Changchun endeavoring to arrange locally for the release. Embassy also wishes to be informed of any action taken or contemplated by Yen an in the matter.”

STUART

893.00/3-547 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 5, 1947—3 p. m.

[Received March 5—4 : 55 a. m.]

450. Following reply is from senior officer, Yen an Liaison group in answer to instruction reproduced in Embtel 445, March 5, 8 a. m. :

⁴ Spokesman of the Chinese Communist Party delegation at Nanking.

⁵ Col. Frederick J. Dau, Assistant Military Attaché and Executive Officer in the Office of the Military Attaché.

⁶ Col. John K. Sells, U. S. Army.

⁷ Head of the Chinese Communist Party delegation at Nanking.

“The release of Major Rigg and Captain Collins has been taken up with Yang Shang-yun, Secretary General, 18th Group Army, acting for General Chu Teh.⁸ I am informed by Yang Shang-yun of the following: (1) That there are 3, not 2, officers in custody; (2) General Chu Teh has already issued orders to Lin Piao⁹ to safeguard the 3 persons; (3) General Chu Teh has already sent a radio to Lin Piao to find out circumstances of their capture; (4) Because Yen-an headquarters has not yet been fully informed, General Chu Teh will take action on this matter, in addition to that indicated in the preceding two sentences, after he has received detailed report from Manchurian headquarters. I will follow the matter energetically and will keep you informed.”

STUART

121.5493/3-747: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 7, 1947—4 p. m.

[Received March 8—2: 10 a. m.]

482. General Chou En-lai,¹⁰ in a message to the Embassy regarding Communist repatriation,¹¹ included following paragraph (reference Embassy's telegram 450, March 5):

“Regarding the two American officers, Major Rigg and Captain Collins, who were captured at Kiutai near Changchun, together with Kuomintang officers, urgent radio has been sent to the Northeastern Democratic Joint Army Headquarters demanding information and appropriate measures will be taken. According to my information, another American officer was captured near Tungliao in Manchuria. I wish to know whether you are informed about this or not. There is no question about the personal safety of all three officers. This is being passed on to you for your information.

The following is Embassy's reply:

“With regard to the capture of Major Rigg and Captain Collins, the report of the capture of a third American officer near Tungliao is believed to be in error. Your assurance of the personal safety of Major Rigg and Captain Collins is appreciated. It is hoped that urgent action has been taken to effect the immediate release of these two officers who have been in Communist hands now for 1 week. Will you please advise when their release may be expected?”

STUART

⁸ Commander in Chief of the Chinese Communist armies.

⁹ Commander of Chinese Communist armies in Manchuria.

¹⁰ Head of the Chinese Communist Party delegation during the 1946 negotiations with General Marshall and the Chinese Government.

¹¹ For correspondence on this subject, see *Foreign Relations*, 1946, vol. x, pp. 705 ff.

121.5493/3-1147 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, March 11, 1947—7 p. m.

[Received March 12—2:28 a. m.]

529. [To Consul General Clubb at Changchun.] Yen-an Liaison Group withdrawn to Nanking today. Prior to [its] withdrawal, General Yeh Chien-ying¹² stated that Rigg and Collins were now en route Harbin and that General Chu Teh had ordered General Lin Piao to release them upon arrival Harbin.

Yenan and Harbin radio stations will broadcast for the next 5 days the date of their departure from Harbin, route to be followed, ETA¹³ at point of contact between Communists and National Government forces. Separate clear operational message has been sent instructing USIS¹⁴ to monitor Harbin and that you forward to Embassy any information on release Rigg and Collins obtained from Harbin broadcasts.

It will be your responsibility to pass necessary information to [appropriate Government]¹⁵ Military Headquarters to permit safe reception Rigg and Collins at point of contact. It is desired that, if possible, you or Cowen¹⁶ be present at point of transfer to receive Rigg and Collins. Close liaison should be maintained with North-east China Command and they requested take appropriate action to assure protection and prompt transportation Rigg and Collins to Changchun.

Sent Changchun 27.

STUART

121.5493/4-447 : Telegram

The Acting Secretary of State to the Ambassador in China (Stuart)

WASHINGTON, April 4, 1947—8 p. m.

403. War Dept expresses concern safety Rigg [and] Collins and urges consideration whether any unexplored method approach might help secure their release. Dept has full confidence your judgment re handling this matter but desires be in position assure War Dept that all practicable steps are being taken. Accordingly if current attempt utilize UNRRA¹⁷ convoy should involve undue delay or bring unsat-

¹² Recently returned to Yen-an from Peiping where he had been Chinese Communist Party Commissioner at Executive Headquarters.

¹³ Estimated time of arrival.

¹⁴ United States Information Service.

¹⁵ Bracketed insertion on basis of copy of telegram in Embassy files.

¹⁶ Lt. Col. Edward T. Cowen, Assistant Military Attaché in China.

¹⁷ United Nations Relief and Rehabilitation Administration.

isfactory result¹⁸ please consider and report possibility other means communication with CCP.¹⁹ At present no additional channels occur to us other than through British should they soon despatch their Consul [to] Harbin or through Soviet ConGen [at] Harbin via Soviet Embassy [in] Nanking.

ACHESON

121.5493/4-947 : Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 9, 1947—noon.

[Received April 9—6: 03 a. m.]

766. Deptel 403, April 4, 8 p. m. was received just as the Embassy was about to send its 752, April 6, 10 a. m. (number cancelled) pointing out that despite its attempts to explore all possible channels to secure the release of Major Robert Rigg and Captain John Collins, such efforts had so far seemingly proven unavailing and suggesting as the only remaining alternative that the Soviet Embassy in Nanking request the Soviet Consul General at Harbin to transmit a message to the appropriate Chinese Communist authorities in Manchuria with the view of the establishment of some new channel of communication whereby the Communists might comply with their commitment to release Rigg and Collins immediately.

Pursuant to the Dept's suggestion, the Embassy has now taken up this question with the Soviet Embassy informally. Circumstances of the case whereby Rigg and Collins were captured when they became lost northeast of Changchun were explained to the Soviet Embassy, together with an account of the negotiations resulting in Chinese Communists' agreement to instruct General Lin Piao to release Rigg and Collins immediately and the failure of the arrangements to develop fruitfully due to bad atmospheric conditions. It was stated to the Soviet Embassy that since all other efforts of communication had failed and since the Soviet Union is the only govt which maintains representatives in Communist Manchuria, it would be appreciated if the Soviet Consul General at Harbin could be requested to transmit, on behalf of the American Embassy, a message to the appropriate Communist authorities asking them to establish a new channel of communications in order to comply with the Communist commitment for the release of Rigg and Collins.

¹⁸ This referred to the possibility of securing the return of the two officers by means of an UNRRA truck convoy which was carrying supplies from Changchun to Harbin.

¹⁹ Chinese Communist Party.

Soviet Embassy replied that the question is a delicate one from their standpoint and is further complicated by the fact that they have no direct communication with their officials in Communist Manchuria, but that they will be pleased to transmit the American request to Moscow for re-transmission to Harbin, upon receipt of an *aide-mémoire* which has now been delivered.

The following message has been received by the director, UNRRA China office,²⁰ from UNRRA chief regional representative in Manchuria:²¹

“Cable²² despatched to Li Li-san²³ at Harbin March 7 requesting interim care and safe conduct to national lines for Rigg and Collins on basis personal friendship. No reply received as radio communication discontinued. Bodine presently en route Harbin authorized make discreet enquiries, and if possible return Rigg and Collins by UNRRA transportation. Will continue efforts relative your request also on basis of personal regard for Rigg and Collins. Bodine advised to be guided by Clubb in all negotiations.”

STUART

121.5493/4-1447: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 14, 1947.

[Received April 14—1:42 a. m.]

803. Communist radio North Shensi on April 13 broadcast communiqué issued by Headquarters Manchurian United Democratic Army dated April 7 stating that “Major Rigg and Captain Collins, both of U. S. Army and Assistant Military Attachés of American Embassy in China, were caught alive while they were reconnoitering military positions of Manchurian United Democratic Army under cover of Kuomintang troops. This is confirmed by witnesses, material evidence and statements of the accused after careful investigation.”

After protesting strongly against American Government “directly participating in China’s civil war”, Headquarters of Manchurian United Democratic Army warned that American Government would have to be responsible for consequences ensuing from similar acts in

²⁰ Maj. Gen. Glen E. Edgerton.

²¹ Gordon Menzies.

²² Undated telegram drafted by Mr. Clubb for transmittal to General Lin Piao; it asked when the two officers could be released and pointed out that the UNRRA convoy offered “a most excellent and reasonably safe means” for returning them to Changchun. The message was turned over to Cornelius Bodine, who was in charge of the convoy, with the request that it be despatched at the first point in Communist-controlled territory having telegraphic connections with Harbin. (Nanking Embassy Files, Lot F79, 310 Rigg-Collins File)

²³ Chinese Communist political adviser to General Lin Piao.

the future. It stated "in pursuance of spirit of clemency Major Rigg and Captain Collins have been escorted out of territory."

Broadcast then relates circumstances of capture which do not differ materially from information previously available to Embassy. Communiqué states that "close Chiang Kai-shek²⁴-American collaboration can be seen from above facts. That is why when Changchun was panic-stricken Rigg and Collins personally went out to front lines for armed reconnaissance under cover of Kmt gunfire. Communists appeal to American people and world public opinion to halt direct aid by American Government to Chiang Kai-shek for waging civil war."

Sent Department as 803, repeated Changchun as 40.

STUART

121.5493/4-1547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING [April 15, 1947.]
[Received April 15—6: 15 a. m.]

812. Embassy has released following press statement today:

A Chinese Communist English-language radio broadcast on April 13 made the following statement concerning Major Robert Rigg and Captain John Collins, Assistant Military Attachés of the American Embassy:

"Major Rigg and Captain Collins, both of United States Army and Assistant Military Attachés of American Embassy in China, were caught alive while they were reconnoitering military positions of Manchurian United Democratic Army under cover of Kuomintang troops."

The Embassy wishes to state that Major Rigg and Captain Collins were merely observing military activities in the country of their assignment in pursuance of the normal functions of military attachés and were acting independently in this capacity.

Major Rigg and Captain Collins were captured by a Chinese Communist patrol in the forenoon of March 1, 1947, while observing military conditions approximately 21 kilometers northeast of Changchun. Subsequently General Chu Teh, Commander-in-Chief of Chinese Communist Forces, and his Chief of Staff, General Yeh Chien-ying, gave categorical assurances on March 11 to the Chief of the American Liaison Group at Yen-an, that orders had been issued to General Lin Piao, Commander-in-Chief of Chinese Communist forces in Manchuria, that Major Rigg and Captain Collins, then stated by General

²⁴ President of the National Government of the Republic of China.

Yeh Chien-ying to have been en route to Harbin, were to be released immediately upon their arrival there. At the same time channels of radio communication satisfactory to the Chinese Communist commanders were arranged in order to facilitate the return of Major Rigg and Captain Collins to Changchun.

The Embassy is awaiting further communication from the Chinese Communist authorities who have not yet complied with their commitment to release the two Assistant Military Attachés of this Embassy. End of release.

Sent Dept as 812, repeated Changchun as 41.

STUART

893.00/4-1947: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 19, 1947.

[Received April 19—4:15 a. m.]

845. Following is New China News Agency broadcast from north Shensi April 18:

“Dispatch from Manchuria says: Headquarters of Manchurian United Democratic Army has made decision to escort on April 24 two American officers captured near Changchun to quit the liberated area. Message from this headquarters will be broadcast successively for 5 days beginning from April 18 by north Shensi broadcast station. The message reads:

Message From Headquarters of Chinese Manchurian United
Democratic Army

This headquarters has decided to escort to quit the liberated area two American officers, Major Rigg and Captain Collins, captured on March 1 during battle at Hochipao near Changchun. They will be escorted to quit at 1200 hours on April 24 through Hungfangtze region south of Taolaichao. It is requested that American Consulate in Changchun will send men with credentials to place nearby Hungfangtze (literally red house) to meet them. The men sent there should carry white flags for signal.”

Sent Washington as 845, repeated Changchun as 46, Mukden as 29, Peiping as 64.

STUART

121.5493/4-2447: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 24, 1947—9 p. m.

[Received April 24—7:52 a. m.]

892. Following from Changchun: “Rigg and Collins released at 12:32. Both well. Have returned Changchun”.

The Military Attaché is bringing both Rigg and Collins directly to Nanking for consultation with the Embassy, without prior interviews by anyone. As soon as possible, after questioning in the Embassy, their report will be telegraphed to the Dept.

In view of the increasing public interest in this case, it will be necessary for the Embassy to make them available for a press conference after a period sufficient for the Dept to receive the Embassy's report has elapsed.

Their report to the press will be purely factual and will not in any sense divulge military positions of either party or Central Govt forces, or contain any information which might be construed as propaganda for one side or the other.

STUART

811.221/4-2547: Telegram

The Ambassador in China (Stuart) to the Secretary of State

NANKING, April 25, 1947—8 p. m.

[Received April 25—8:36 a. m.]

898. Major Rigg and Captain Collins arrived Nanking this afternoon and made their oral report to the Embassy which may be summarized as follows:

The circumstances of capture were approximately as previously reported. Immediately evacuated to Harbin over a period of 6 days during which time Captain Collins suffered from frozen feet. On arrival Harbin they were placed separately in solitary confinement under heavy guard in a domestic dwelling. This confinement was continued from March 6 to April 9. During this period they were frequently and separately interrogated by a "summary court". This apparently constituted trial but neither officer was informed that it was trial. Li Li-san conducted in part Collins trial and General Wang²⁵ the remainder and Major Rigg's. Officers were initially informed they were prisoners-of-war, subsequently by inference from various statements they were apparently on trial as spies and accused of fighting with the Kuomintang. Trial consisted of typical catch questions aimed in different fashion at each officer. Both officers answered factually, and did not disclose classified information. Officers succeeded in some coordination by surreptitiously exchanging notes left in common toilet. Li Li-san conducted trial in acceptable manner. General Wang used rough tactics, employing verbal abuse, and on several occasions both officers were threatened with torture. Results trial were summarized from Communist point of view in state-

²⁵ Presumably Gen. Huang Yi-feng, former Communist representative on the Communications Group of Executive Headquarters at Peiping.

ments of interrogation which officers were required to sign. On April 9, solitary confinement ended and Li Li-san invited them to lunch and informed them that commitment made by General Chu Teh about their release would be honored; otherwise they had sufficient grounds to hold them. Thereafter, minimum liberty allowed both officers until movement to release point. This movement made by American built weapons carrier and release to ConGen Clubb accomplished without incident.

During whole period no contact was allowed Rigg or Collins with anyone other than guards except for one short shopping tour under ground [*guard?*].

Entire period of capture characterized by hostile attitude on part of guards who, on many occasions, threatened them with bayonets. They also received rough treatment from political commissars attached to military units with which they came in contact. On all occasions American foreign policy was focal point of attack. Food and medical care were adequate.

STUART

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