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Foreign
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1934

Volume III

THE FAR EAST

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Diplomatic Papers

1934

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Volume III
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CONTENTS

	Page
LIST OF PAPERS	v
THE FAR EASTERN CRISIS:	
Chapter I: January 1-April 16, 1934	1
Chapter II: April 17-June 30, 1934	112
Chapter III: July 1-September 30, 1934	203
Chapter IV: October 1-December 31, 1934	285
CHINA:	
Problem of controlling the traffic in opium and narcotic drugs in China, including Manchuria and Jehol	349
Proposed international collaboration for the economic reconstruction of China; organization by Chinese bankers of the China Development Finance Corporation.	371
Effect of the silver-purchasing program of the United States Government upon China's economy	423
Measures taken by the United States for the protection of American lives and property in China	462
Attitude of the Department of State on the export to China of arms or munitions, including military aircraft	490
Proposal of the Chinese Government that a new treaty with the United States be negotiated to replace the commercial treaty of October 8, 1903	523
Disinclination of the American Government to raise its legation in China to the status of an embassy	535
Efforts for the consideration of American claims outstanding against China	542
Restrictions by China upon the importation of certain industrial chemicals	562
Representations against restrictions imposed by the Cantonese authorities upon the sale of liquid fuel by foreign companies	564
Efforts of the United States to meet situation created by imposition in China of taxes considered unfair to American trade	566
Denial to American firms of right to formal hearing under the Chinese Customs Rules of 1868	573
Reservation of American rights in proposed changes for control of pilotage at Shanghai	591
American interest in problems affecting the International Settlement at Shanghai	607
Concurrence in proposed alteration of the status of the Kuling Estate in Kiangsi, China	614
Re-registration of title deeds to real property of Americans in China	617
Registration of American and other foreign publications under the Chinese press law	618
Chinese censorship restrictions upon American motion pictures in China	620
Objection by China to operation of an unlicensed radio station by an American citizen in Hupeh; registration of American and other radio receiving sets	625

	Page
JAPAN:	
Political developments in Japan and efforts to improve relations with the United States	631
Protection of Japanese lives and property in the State of Arizona	690
Representations on establishment of oil monopolies in Japan and Manchuria	699
Trade relations between the United States and Japan; voluntary restriction of exports to the United States by the Japanese	799
Disapproval by Japanese Government of action by Mayor of Dairen in seeking contributions for air defense	818
Protection of contract rights of the Oriental Consolidated Mining Company, an American firm operating in Korea	820
Representations by the Japanese Government on behalf of Japanese steamship companies subject to United States war profits tax for the years 1918 and 1919	827
Proposed reciprocal arrangement for free importation of articles for personal use of consular officers; suggestions for a consular convention between the United States and Japan	839
SIAM:	
Proposed revision of the treaty of friendship and commerce between the United States and Siam, signed December 16, 1920	844
INDEX	851

LIST OF PAPERS

(Unless otherwise specified, the correspondence is *from* or *to* officials in the Department of State.)

THE FAR EASTERN CRISIS: JAPANESE POLITICO-ECONOMIC PENETRATION IN CHINA SOUTH OF "MANCHOUKUO"

CHAPTER I: JANUARY 1—APRIL 16, 1934

Date and number	Subject	Page
1934 Jan. 6 (401)	<i>From the Ambassador in Germany</i> Conversation with the Netherland Minister concerning a change in Japanese foreign policy envisaging more extensive control of the Far East, and developments toward that end.	1
Jan. 9 (21)	<i>From the Minister in China (tel.)</i> Report of general belief that an announcement will be forthcoming concerning plans for the establishment of Pu-yi as "Emperor of a Colonial Mongol Manchu Kingdom" on March 1; opinion that the proposed coronation is designed to bring the Mongols of Inner Mongolia under Japanese control.	2
Jan. 11 (640)	<i>From the Ambassador in Japan</i> Observations with respect to the political significance of the Japanese step toward coronation of Pu-yi as "Emperor of Manchoukuo."	2
Jan. 11 (644)	<i>From the Ambassador in Japan</i> Conversation with the Soviet Ambassador concerning possible renewal of Soviet-Japanese negotiations for the sale of the Chinese Eastern Railway; Soviet Ambassador's opinion that plans to establish "Manchoukuo" as a kingdom are for the specific purpose of eventual Japanese assimilation of North China and other adjacent territory.	3
Jan. 17 (42)	<i>From the Minister in China (tel.)</i> From Harbin, January 16: Japanese Consul General's confirmation of report that Pu-yi will be made emperor on March 1.	4
Jan. 17 (2470)	<i>From the Minister in China</i> Résumé of observations of a Japanese diplomatic officer concerning the division of opinion among Japanese leaders with respect to Japanese ambitions in China.	4
Jan. 18 (2757)	<i>From the Consul General at Harbin to the Minister in China</i> Information concerning recent "Manchoukuo"-Soviet conversations preparatory to resumption of negotiations for the sale of the Chinese Eastern Railway.	5
Jan. 22 (12)	<i>From the Ambassador in Japan (tel.)</i> Report of repercussions arising from publicity given to an address delivered by Stanley K. Hornbeck, Chief of the Division of Far Eastern Affairs, Department of State, on "Principles of American Policy in Relation to the Far East" before the Ninth Conference on the Cause and Cure of War, Washington, D. C.	6
Jan. 22 (13)	<i>From the Ambassador in Japan (tel.)</i> Report of general belief that Germany, in view of her withdrawal from the League of Nations, may no longer maintain her former attitude of nonrecognition of "Manchoukuo".	8

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1—APRIL 16, 1934—Continued

Date and number	Subject	Page
1934 Jan. 22 (7)	<i>To the Ambassador in Japan (tel.)</i> Instructions discreetly to inform Foreign Minister Hirota that the spirit and letter of Hornbeck's statements have evidently been subjected to distortion either in the process of bringing them to the attention of the Foreign Office or in the consideration of them by the Foreign Office.	8
Undated	<i>Address by the Japanese Minister for Foreign Affairs Before the Japanese Diet</i> Statement of Japan's foreign policy with emphasis on her position with relation to the "State of Manchoukuo". (Footnote: Receipt of copy of statement from Japanese Chargé January 22.)	9
Jan. 22	<i>Memorandum by the Consul and Vice Consul at Tsinan of a Conversation With the Chairman of the Shantung Provincial Government</i> Offer of General Han to furnish the United States concessions and military bases in Shantung as security in exchange for munitions of war in order to counteract further Japanese acts of aggression in North China. (Footnote: Instructions from the Minister in China to the Consul at Tsinan, January 29, to inform General Han that the United States is not interested in his proposal.)	13
Jan. 23 (15)	<i>From the Ambassador in Japan (tel.)</i> Report of various conjectures in connection with the resignation, January 22, of General Araki as Minister of War and of his replacement by General Hayashi.	15
Jan. 24 (16)	<i>From the Ambassador in Japan (tel.)</i> Information that Foreign Minister Hirota was advised of the distorted report of Hornbeck's address and that he agreed to make rectification.	16
Jan. 25 (17)	<i>From the Ambassador in Japan (tel.)</i> Advice that a correct report of Hornbeck's address was published prominently in Japanese newspapers on January 25.	17
Jan. 25 (65)	<i>From the Minister in China (tel.)</i> Exchange of views with the U. S. Asiatic Fleet Commander-in-Chief (texts printed), agreeing that, in the light of the general political situation in China and conditions in the Shanghai area, the U. S. Marine force at Shanghai should not be withdrawn or reduced.	17
Jan. 26 (19)	<i>From the Ambassador in Japan (tel.)</i> Information that Hirota, in reply to an interpellation in the Lower House concerning Hornbeck's speech, stated that the version published in Japan had been distorted, but that the American Ambassador had corrected the mistake.	17
Jan. 26 (656)	<i>From the Ambassador in Japan</i> Indication of aggressive aims of a certain group of Japanese military men as revealed in an interview between Consul General Davis and Lt. Gen. Kawashima, commander of Japanese troops in Chosen.	18
Jan. 26 (659)	<i>From the Ambassador in Japan</i> Observations on the Chinese Eastern Railway sale controversy, and general aspects of Soviet-Japanese relations.	18

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1—APRIL 16, 1934—Continued

Date and number	Subject	Page
1934 Jan. 30 (483)	<i>From the Ambassador in Germany</i> Denial by Dr. Meyer of the Foreign Office of any present German intention of recognizing "Manchoukuo"; his general views on the Far Eastern situation.	22
Feb. 1 (21)	<i>From the Ambassador in Japan (tel.)</i> Substance of Hirota's statement in the Diet, January 31, with respect to naval ratios and the questions of Manchuria and the mandated islands.	23
Feb. 3 (892)	<i>From the Consul General at Mukden to the Minister in China</i> Report of the general favorable change in sentiment of the people of "Manchoukuo" toward the new regime.	24
Feb. 8 (668)	<i>From the Ambassador in Japan</i> Observations concerning a renewed movement toward former Japanese aspirations for a Pan-Asiatic League through the use of propaganda pertaining to the supposed exploitation of Asiatic peoples by Western nations, and Japan's role as defender of Asia.	26
Feb. 8 (669)	<i>From the Ambassador in Japan</i> Report of public announcement, January 20, of the forthcoming enthronement on March 1 of Pu-yi as emperor of "Manchoukuo"; observations on the various implications of the move and the future developments to which it may lead.	29
Feb. 8 (670)	<i>From the Ambassador in Japan</i> Analysis of recent developments in Soviet-Japanese relations, and report of foreign observers' opinion that the possibility of avoiding armed conflict is greater than it was 6 months ago.	32
Feb. 13	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Conversation with the Soviet Ambassador, who expressed the opinion that Japan does not at present intend to attack the Soviet Union in the spring as formerly rumored in both countries.	36
Feb. 15	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Observations on U. S. policy of nonrecognition of "Manchoukuo"; opinion that there exists no real reason for either reconsideration or reiteration of the position taken by the previous Administration in 1932 and reaffirmed by the present Administration.	36
Feb. 16 (2542)	<i>From the Minister in China</i> Report of a conversation with certain Chinese officials, who expressed the belief that Japan will attack Russia but not immediately.	38
Feb. 16	<i>From the Counselor of Legation in China</i> Memorandum of February 14 (text printed) of a conversation with Tang Yu-jen, Administrative Vice Minister for Foreign Affairs, concerning Sino-Japanese relations.	39
Feb. 21 (680)	<i>From the Ambassador in Japan</i> Report on German commercial interests in Manchuria; opinion that <i>de jure</i> recognition of "Manchoukuo" by Germany is not imminent, but that the German Government and others may find it convenient to deal directly with "Manchoukuo" officials through their consular officers in Manchuria, without raising the question of recognition.	42

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1—APRIL 16, 1934—Continued

Date and number	Subject	Page
1934 Feb. 21 (682)	<i>From the Ambassador in Japan</i> Report of Japanese apprehension concerning American aid to Chinese aviation as indicated by various press reports and comments by Government officials.	44
Feb. 22 (2557)	<i>From the Minister in China</i> Information concerning Japanese proposals to Chinese authorities with respect to a policy of Sino-Japanese "friendship"; opinion that the Central Government may agree under certain conditions rather than invite Japan, by a policy of resistance, to sever North China completely from Nanking for the purpose of creating a subservient buffer state.	46
Feb. 23 (21)	<i>To the Ambassador in Japan (tel.)</i> Instructions to state to inquirers that the U. S. Government's policy of nonrecognition toward "Manchoukuo" is in no way changed, notwithstanding news reports to the contrary.	51
Feb. 23 (691)	<i>From the Ambassador in Japan</i> Report of definite improvement in the Soviet-Japanese situation; progress toward settlement of the fisheries dispute and resumption of negotiations for the sale of the Chinese Eastern Railway.	51
Feb. 23	<i>From the Counselor of Legation in China</i> Conversation with Marshal Chang Hsueh-liang, Vice Bandit Suppression Commissioner, concerning the present trend in Japanese domestic and foreign policy.	52
[Feb. 26]	<i>Memorandum by the Assistant Chief of the Division of Far Eastern Affairs of a Conversation With the British Deputy Under Secretary of State for Foreign Affairs</i> Discussion of Far Eastern problems of mutual interest to the United States and Great Britain, particularly the question of recognition of "Manchoukuo" by the powers.	55
Feb. 27 (101)	<i>From the Minister in China (tel.)</i> From Harbin, February 26: Report of the release of six Russian railway prisoners and assumption that the Tokyo conference will be resumed with respect to the sale of the Chinese Eastern Railway.	57
Feb. 27 (67)	<i>To the Chargé in Great Britain (tel.)</i> Instructions to inform the Foreign Office that the U. S. Government's policy of nonrecognition toward "Manchoukuo" remains unchanged despite current newspaper reports to the contrary.	57
Feb. 27 (665)	<i>From the Ambassador in France</i> Affirmative reply of the Foreign Office (text printed) to an inquiry as to whether measures had been taken by the French Government toward protection of French interests in the Chinese Eastern Railway.	58
Feb. 28 (564)	<i>From the Ambassador in Germany</i> Conversation with Mr. Daitz, head of the Foreign Political Office of the Nazi Party, who, in view of a German press report concerning possible U. S. recognition of "Manchoukuo", urged action toward that end on commercial grounds; advice, however, that Foreign Office position as reported in despatch No. 483, January 30, apparently remains unmodified by the comments of Mr. Daitz.	59

LIST OF PAPERS

IX

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1—APRIL 16, 1934—Continued

Date and number	Subject	Page
1934 Mar. 1	<i>From Mr. Hsieh Chieh-shih (tel.)</i> "Official" notification of the enthronement of Pu-yi as emperor of the state of "Manchoukuo".	59
Mar. 3	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Conversation with the Italian Ambassador concerning the question of nonrecognition of "Manchoukuo" in connection with recent developments in the Far East; mutual confirmation of unaltered positions of the United States and Italy on the subject.	60
Mar. 5 (16)	<i>To the Chargé in Guatemala (tel.)</i> Instructions orally to inform the Foreign Minister that the U. S. Government's policy of nonrecognition of "Manchoukuo" remains unchanged.	61
Mar. 6	<i>From the Chinese Chargé</i> Statement issued by the Chinese Foreign Minister at Nanking, March 5 (text printed), concerning the Chinese attitude toward the "Manchoukuo" regime.	61
Mar. 6 (42)	<i>From the Ambassador in Japan (tel.)</i> Information concerning the request of Mr. Pei Heng (Frank Ma), Third Secretary of the "Manchoukuo" Legation, for a visa to travel to the Philippines on a nonpolitical mission.	62
Mar. 7 (698)	<i>From the Ambassador in Japan</i> Quotations of various statements made in the present session of the Diet with respect to the Japanese mandated islands, occasioned by the possibility that relinquishment of the mandate might be demanded by the League of Nations, in view of Japan's notice of intention to withdraw from the League on March 27, 1935.	62
Mar. 8 (27)	<i>To the Ambassador in Japan (tel.)</i> Advice that the Department does not desire that a visa be granted to Mr. Pei Heng in view of the controversial political question connected with the purpose of his visit to the Philippines.	65
Mar. 8 (700)	<i>From the Ambassador in Japan</i> Report on the various aspects of Soviet-Japanese relations and role of Foreign Minister Hirota in achieving adjustment of certain controversies. Memorandum, March 9 (text printed), of a conversation with the Soviet Ambassador in Japan concerning present status of negotiations for the sale of the Chinese Eastern Railway and the possibility of a Soviet-Japanese war.	66
Mar. 10 (903)	<i>From the Consul General at Mukden to the Minister in China</i> Receipt of communications from the "Manchoukuo" Foreign Office defining briefly the policy of the "Manchoukuo" government and inviting the foreign powers to enter into formal diplomatic relations with the new state.	72
Mar. 13 (658)	<i>From the Consul General at Mukden</i> Report of the first dinner given by a "Manchoukuo" official for the Consular Body and representative members of the foreign and Japanese communities.	73
Mar. 13 (7)	<i>From the Ambassador in the Soviet Union (tel.)</i> Receipt of inquiries from the Foreign Office with respect to negotiation of a U. S.—Soviet nonaggression pact; request for instructions as to the U. S. attitude in the matter.	74

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1—APRIL 16, 1934—Continued

Date and number	Subject	Page
1934 Mar. 14 (11)	<i>From the Ambassador in the Soviet Union (tel.)</i> Conversation with Litvinov, Soviet Commissar for Foreign Affairs, who was told upon inquiry that there was no evidence of U. S. inclination to propose a nonaggression pact between the United States, the Soviet Union, Japan, and China, or to extend recognition to "Manchoukuo".	74
Mar. 15 (122)	<i>From the Minister in China (tel.)</i> Request for Department's views on the question of principle involved in the liquidation of the Liao River Conservancy Board; advice that the French Government holds that the dissolution of the Board constitutes violation of the conservancy agreement of 1914 and that protest should be filed by the consulates concerned, while the British Government holds that lack of protest at the proper time precludes any action at this juncture.	75
Mar. 16 (2591)	<i>From the Minister in China</i> Views of the chief of the Peiping Office of the Panchen Lama concerning the future of Inner Mongolia.	76
Mar. 17 (12)	<i>To the Ambassador in the Soviet Union (tel.)</i> Advice that the President's position on negotiating a bilateral nonaggression pact with the Soviet Union is unchanged, and that he views with disfavor any nonaggression pact restricted to less than the whole group of powers having interests in the Pacific.	78
Mar. 19 (718)	<i>From the Ambassador in France</i> Report of the foundation of the "Banque Franco-Mandchoue" looking toward the financing of French activities in Manchuria.	78
Mar. 19	<i>Memorandum by the Minister in China of a Conversation With the Chinese Vice Minister for Foreign Affairs</i> Discussion of the present status of Sino-Japanese relations.	79
Mar. 21 (25)	<i>From the Ambassador in the Soviet Union (tel.)</i> Conversation with Litvinov concerning a general nonaggression pact in the Pacific; Ambassador's comment that the United States is not interested in any pact which excludes China, and is not prepared to recognize "Manchoukuo".	82
Mar. 21	<i>Memorandum of Conversation, by the Counselor of Legation in China</i> Conversation with representatives of the Foreign Office concerning reported strained relations between Japan and the Soviet Union and the possible danger of an outbreak of war between them.	83
Mar. 22	<i>Memorandum by the Under Secretary of State</i> Inquiry of the Netherland Minister as to the position the Department would take, should the Japanese Government extend an invitation to the Diplomatic Corps to meet Pu-yi during his state visit to Tokyo.	85
Mar. 23 (714)	<i>From the Ambassador in Japan</i> Appraisal of the Soviet-Japanese situation and observations indicating that Japan has no intention of deliberately provoking a conflict in the immediate future.	85

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1—APRIL 16, 1934—Continued

Date and number	Subject	Page
1934 Mar. 23 (L-240 Diplo.)	<i>From the Counselor of Legation in China to the Minister in China</i> Report of a conversation with Mr. Li-Sheng-wu of the Foreign Office concerning certain press reports (excerpts printed) indicating a possible reversal of U. S. attitude toward nonrecognition of "Manchoukuo"; Chinese desire for restatement of Department's position on the question. (Footnote: Information that the Counselor, later on March 23, informed the Chinese Foreign Office of the substance of the Hull-Hirota exchange of views, February 21 and March 3.)	88
Mar. 26 (38)	<i>To the Ambassador in Japan (tel.)</i> Instructions to report facts and comments in case Pu-yi should make an official visit to Tokyo and invitations are issued for functions in his honor.	91
Mar. 27 (67)	<i>To the Consul General at Shanghai (tel.)</i> Instructions relative to Japanese offer to settle certain American claims arising from the hostilities at Shanghai in 1932.	91
Mar. 27 (2617)	<i>From the Minister in China</i> Report of recent activities in Peiping of Mr. C. Araki, Diplomatic Officer attached to the Japanese Kwantung Army Headquarters, who called at several of the local American missions and requested information as to the location of all American mission property in Hopei Province.	92
Mar. 28 (911)	<i>From the Consul General at Mukden to the Minister in China</i> Receipt of communication from the Kirin Provincial Government concerning American claims for losses by looting; advice that the communication is noncommittal but constitutes as satisfactory a reply as can be expected, so long as recognition of "Manchoukuo" is withheld by the U. S. Government.	94
Mar. 28	<i>From the Japanese Consul General at Shanghai to the American Consul General at Shanghai</i> Intention of the Japanese Government to give solatium to 19 American citizens and organizations for losses sustained in the Shanghai Incident of 1932 although the Japanese Government denies any responsibility in the matter.	95
Mar. 29 (2622)	<i>From the Minister in China</i> Résumé of a conversation with General Huang Fu, Chairman of the Peiping Political Affairs Readjustment Committee, concerning Sino-Japanese relations and conditions in China.	96
Mar. 30	<i>Memorandum by the Under Secretary of State</i> Conversation with the Soviet Ambassador concerning Soviet-Japanese relations; his opinion that war is not likely in the immediate future.	96
Mar. 31 (87)	<i>To the Minister in China (tel.)</i> Department's concurrence with French view concerning dissolution of the Liao River Conservancy Board; instructions to confer with French and British colleagues as to the advisability of joint protest to the Japanese Government.	97
Mar. 31 (662)	<i>From the Consul General at Mukden</i> Detailed report on the trend toward Japanese monopolization of trade in Manchuria.	98

THE FAR EASTERN CRISIS

CHAPTER I: JANUARY 1—APRIL 16, 1934—Continued

Date and number	Subject	Page
1934 Apr. 4 (151)	<i>From the Minister in China (tel.)</i> Request for clarification of Department's instructions with respect to representations to be made in regard to the Liao River Conservancy Board issue.	105
Apr. 4 (94)	<i>To the Minister in China (tel.)</i> Clarification of Department's instructions.	105
Apr. 7	<i>Memorandum by the Under Secretary of State</i> Record of the Soviet Ambassador's observations concerning conditions in "Manchoukuo" and Far Eastern affairs in general.	105
Apr. 11 (164)	<i>From the Minister in China (tel.)</i> Report of recent developments in Sino-Japanese relations; further indications of Japanese pressure to effect a "compromise" or policy of "friendship" with China.	106
Apr. 11 (2657)	<i>From the Minister in China</i> Comments of British Minister concerning the attitude which Great Britain would adopt in the event of war between Japan and the Soviet Union.	108
Apr. 16 (111)	<i>To the Minister in China (tel.)</i> Reminder that in the Department's opinion the initiative is with the French in the matter of objecting to the dissolution of the Liao River Conservancy Board. (Footnote: Report of German Government's attitude that it will join but not take the initiative in the proposal.)	109
Apr. 16 (24)	<i>From the Ambassador in the Soviet Union</i> Report on Soviet-Japanese relations; account of continued preparation for war in the Far East and general belief among Soviet leaders that Japan will eventually attack Russia.	109

CHAPTER II: APRIL 17—JUNE 30, 1934

1934 Apr. 18 (71)	<i>From the Ambassador in Japan (tel.)</i> Information concerning the announcement, April 17, by the Foreign Office spokesman, Eiji Amau, of Japan's objections to foreign assistance to China.	112
Apr. 18 (180)	<i>From the Minister in China (tel.)</i> From Counselor of Legation Peck, Nanking, April 18: Conversation with Acting Foreign Minister concerning difficult decision facing China with regard to Japanese insistence upon reopening of through railway traffic with "Manchoukuo"; Legation's view that Counselor should be instructed to say that the United States is not prepared to advise the Chinese Government in the matter.	113
Apr. 19	<i>From the Chinese Foreign Office to the Chinese Legation in Washington</i> Text of informal statement issued April 19 in reply to the Japanese announcement of April 17.	114
Apr. 20 (184)	<i>From the Minister in China (tel.)</i> Further information concerning French views on the procedure for registering protest in connection with the Liao River Conservancy Board issue.	115

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 17-JUNE 30, 1934—Continued

Date and number	Subject	Page
1934 Apr. 20 (72)	<i>From the Ambassador in Japan (tel.)</i> Advice that the only certain method of obtaining a correct interpretation of Amau's statement of Japanese policy of April 17 is to seek an explanation from Foreign Minister Hirota himself; indication that the Ambassador will not act unless instructed.	115
Apr. 20 (120)	<i>To the Minister in China (tel.)</i> Instructions to convey to Foreign Office Department's attitude that it would be inappropriate to give the Chinese Government advice in regard to the question of through railway traffic with Manchuria. (Footnote: Information that when this instruction was carried out, April 22, Dr. Wang Ching-wei, the Acting Foreign Minister, stated that if the Chinese Government did compromise on the issue, it would not do so in a way to disturb the principle of nonrecognition of "Manchoukuo".)	116
Apr. 20 (54)	<i>To the Ambassador in Japan (tel.)</i> Department's opinion that no action indicative of interest or concern should be taken at this time with regard to the Amau statement on Japanese policy. (Footnote: Information that in similar instructions to diplomatic representatives in the Soviet Union and China, the Department requested reports on reaction, official and unofficial, in those countries.)	117
Apr. 20 (751)	<i>From the Ambassador in Japan</i> Opinion that the Amau statement of April 17 conveys the true attitude of the Japanese Government toward foreign activities in China, but that the Foreign Office, for diplomatic reasons, is maintaining a position such that it can deny official issuance of the statement. Information that Amau made a supplementary statement to the press, April 20, modifying the tone of the original statement but not altering the basic policy.	117
Apr. 21 (187)	<i>From the Ambassador in Great Britain (tel.)</i> Résumé of British press reaction to Amau's statement of April 17; expectation that an official statement will be made in the House of Commons at an early date.	121
Apr. 21 (188)	<i>From the Ambassador in Great Britain (tel.)</i> Conversation with Sir John Simon, the Foreign Secretary, who expressed the hope that there might be an early U. S.-British exchange of views concerning the significance of Amau's statement.	122
Apr. 21 (187)	<i>From the Minister in China (tel.)</i> Information that Great Britain is unwilling to retreat from the position previously taken in connection with the Liao River Conservancy Board issue.	123
Apr. 21 (73)	<i>From the Ambassador in Japan (tel.)</i> Advice that foreign observers now believe that the recent definition of Japanese policy was fully endorsed by Hirota and was precipitated by Japanese apprehension of foreign activity in China.	123
Apr. 22 (60)	<i>From the Ambassador in the Soviet Union (tel.)</i> Report of Litvinov's comments concerning the Amau statement; his belief that the one way to stop Japan is to call on all powers interested in the Pacific for a joint protest.	124

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 17—JUNE 30, 1934—Continued

Date and number	Subject	Page
1934 Apr. 23 (190)	<i>From the Ambassador in Great Britain (tel.)</i> Report of Sir John Simon's statement in the House of Commons, April 23 (excerpt printed), on the necessity of communicating with the Japanese Government in order to clarify Great Britain's position, in the light of the Japanese statement of April 17.	125
Apr. 23 (156)	<i>To the Ambassador in Great Britain (tel.)</i> Information concerning Department's attitude with regard to the Japanese statement, and instructions to inform Sir John Simon that the U. S. Government would welcome an early exchange of views in the matter.	126
Apr. 23 (157)	<i>To the Ambassador in Great Britain (tel.)</i> Information that the Japanese Ambassador has commented to the press that the Japanese statement should not be regarded as directed against the United States; opinion that such comments are designed to lull the powers into a passive attitude.	127
Apr. 24 (55)	<i>From the Consul at Geneva (tel.)</i> Information that Yokoyama, Japanese Consul General, made a statement to the press, April 23, outlining Japan's Asiatic policy. General impression that it was addressed particularly to the League of Nations and prompted in part by developments in the League's program of technical assistance to China.	127
Apr. 24	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Résumé of certain facts which should be kept in mind in connection with consideration of a rejoinder to the Japanese Foreign Office statement.	128
Apr. 24 (125)	<i>To the Minister in China (tel.)</i> Advice that the Department will defer consideration of the Liao River Conservancy issue until information is received that the French desire to pursue the matter further.	129
Apr. 24 (55)	<i>To the Ambassador in Japan (tel.)</i> Instructions to obtain a copy of translation of text of the Japanese statement, as telegraphed to New York by Wilfrid Fleisher, <i>New York Herald Tribune</i> correspondent in Japan, and to inquire of Hirota as to the accuracy of the translation.	129
Apr. 24 (193)	<i>From the Minister in China (tel.)</i> Information as to Chinese press comment on Japanese statement of April 17.	130
Apr. 24 (196)	<i>From the Ambassador in Great Britain (tel.)</i> Report of personal views of Sir Victor Wellesley of the Foreign Office concerning the Japanese statement.	131
Apr. 24	<i>Memorandum by the Under Secretary of State</i> Conversation with the French Ambassador, who was told, upon inquiry, that the Department has not yet taken a definite position with respect to the Japanese statement.	132
Apr. 24	<i>To the Minister in Switzerland, at Geneva</i> U. S. position relative to the extent to which <i>de facto</i> relations may be permitted between foreign postal administrations and the Manchurian postal authorities without involving recognition of the existing regime in Manchuria; instructions to convey this information to League of Nations Advisory Committee.	133

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 17-JUNE 30, 1934—Continued

Date and number	Subject	Page
1934 Apr. 25 (30)	<i>From the Counselor of Legation in China (tel.)</i> Summary of Chinese official opinion regarding the Japanese informal statement of policy toward China.	134
Apr. 25 (200)	<i>From the Ambassador in Great Britain (tel.)</i> Foreign Office position that any suggestion for concerted consideration by the British and American Governments of the recent Japanese statement should not go beyond an exchange of views.	135
Apr. 25	<i>Memorandum by the Secretary of State</i> Conversation with the Chinese Minister, who inquired as to the Department's reaction to the Japanese statement and was advised that the Department was not prepared to make an official comment at present.	136
Apr. 25	<i>Memorandum by the Under Secretary of State</i> Italian Ambassador's advice that the Japanese Foreign Office confirmed to the Italian Ambassador in Tokyo that Amau's recent statement represented the official Japanese attitude.	137
Apr. 25 (30)	<i>To the Consul at Geneva (tel.)</i> Instructions to withhold comment concerning the Japanese statement, to report developments and reaction, and to repeat instructions to Paris and Rome.	137
Apr. 26 (77)	<i>From the Ambassador in Japan (tel.)</i> Advice that there is no authoritative text of the Japanese statement inasmuch as the statement was first issued orally in Japanese by Amau to press correspondents and later "unofficially" in written English translation; opinion, however, that Amau's statement was taken from an instruction approved by Hirota for transmission to all Japanese diplomatic missions for their guidance but was released without Hirota's knowledge or consent.	138
Apr. 26 (57)	<i>To the Ambassador in Japan (tel.)</i> Receipt from the Japanese Ambassador of translation of Hirota's instruction to the Japanese Minister in China; advice that Amau's statement of April 17, as reported in <i>Herald Tribune</i> text, seems to be substantially a paraphrase of that instruction.	139
Apr. 26 (32)	<i>From the Counselor of Legation in China (tel.)</i> Indications that China's spirit of resistance to Japan has been revived and strengthened by the belief that the effect of the Japanese statement of April 17 is to join the Nine-Power Treaty signatories with China as victims of Japanese treaty violation.	139
Apr. 26 (78)	<i>From the Ambassador in Japan (tel.)</i> Efforts to verify translation of Amau's statement; receipt of communication from Hirota (text printed), endorsed by him as representing his true policy toward China, and purporting to be gist of Amau's supplementary statement to the press of April 20.	140
Apr. 26 (79)	<i>From the Ambassador in Japan (tel.)</i> Confidential information that the British Ambassador under instructions sought a clarification of the Amau statement with special reference to the provisions of the Nine-Power Treaty and was told by Hirota that the statement failed to interpret correctly the policy of the Japanese Government.	141

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 17-JUNE 30, 1934—Continued

Date and number	Subject	Page
1934 Apr. 26	<i>From the Chief of the Division of Far Eastern Affairs to the Secretary of State</i> Résumé of the Japanese situation, and opinion that the Amau statement of April 17 represented a disclosure of policy rather than a declaration.	141
Apr. 26	<i>Memorandum by the Under Secretary of State</i> Conversation with the British Ambassador, who advised of his Government's opposition to any concerted action in the Far Eastern situation, and read the instructions (text printed) which had been sent to the British Ambassador in Tokyo concerning British views on the Japanese statement of policy toward China.	142
Apr. 27 (195)	<i>From the Counselor of Legation in China (tel.)</i> Minister's comments and views on the Japanese statement of policy.	143
Apr. 27 ((SC) EF37)	<i>From the Acting Secretary of the Navy</i> Request that all consular officers be instructed to furnish information with regard to Japanese shipping in order to detect any early indication of Japanese belligerent intentions.	144
Apr. 28 (61)	<i>From the Consul at Geneva (tel.)</i> Report of Secretary General Avenol's views of League of Nations policy vis-à-vis the Far Eastern situation.	145
Apr. 29	<i>From the Consul General at Canton (tel.)</i> Information that the Consuls at Canton have received for transmission a declaration by the Southwest Political Council addressed to the League of Nations and the Ministers of the signatory powers of the Nine-Power Pact, referring to Japanese statement of April 17 and urging that they discharge their treaty obligations.	147
Apr. 30 (84)	<i>From the Ambassador in Japan (tel.)</i> Amau's announcement that no official clarification of Japanese policy in China will be issued as had been previously announced. Information that an <i>aide-mémoire</i> was presented to the Foreign Minister on April 29.	148
Apr. 30 (213)	<i>From the Ambassador in Great Britain (tel.)</i> Information that Sir John Simon, in answer to questions in Parliament, stated that an exchange of assurances between Japan and Great Britain on the principle of equal rights in China had been effected by friendly inquiry on the basis of the Nine-Power Treaty of 1922.	148
May 1 (64)	<i>From the Consul at Geneva (tel.)</i> Further information concerning the current League of Nations relationship to the Far Eastern situation, particularly with reference to Japanese allegations of political activities against Rajchman, head of League's mission on technical assistance to China.	150
May 1 (85)	<i>From the Ambassador in Japan (tel.)</i> Conversation with the Soviet Ambassador, who commented upon the failure of the resumed negotiations for the sale of the Chinese Eastern Railway and his anticipation of further strained Soviet-Japanese relations.	152

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 17-JUNE 30, 1934—Continued

Date and number	Subject	Page
1934 May 1 (86)	<i>From the Ambassador in Japan (tel.)</i> Vice Foreign Minister's comment in press interview upon the frank and friendly nature of the U. S. <i>aide-memoire</i> of April 29, and advice that it will be answered in the same tone.	152
May 1 (61)	<i>To the Ambassador in Japan (tel.)</i> Substance of Secretary Hull's background comments at a press conference, April 30, on U. S. <i>aide-memoire</i> of April 29 to Japanese Government.	153
May 2 (176)	<i>To the Ambassador in Great Britain (tel.)</i> Instructions to compile an analytical report on the British Government's attitude toward the Japanese statements relating to China policy from April 17 through April 30; also to report on the reaction in Great Britain to the British Government's attitude.	153
May 2 (85)	<i>From the Ambassador in Italy (tel.)</i> Conversation with the Foreign Minister, who stated that his Government had not made any representations with respect to the Japanese declaration of policy.	154
May 3 (66)	<i>From the Consul at Geneva (tel.)</i> Substance of a conversation between Secretary General Avenol and Japanese Consul General Yokoyama, May 1, concerning the Japanese attitude toward the League's program of technical assistance to China.	154
May 3 (198)	<i>From the Counselor of Legation in China (tel.)</i> From the Minister, Nanking, May 2: Information that the Chinese Government has requested from the British Government an explanation of the reference in Sir John Simon's statement, April 30, to special rights of Japan "recognized by other powers".	156
May 3 (62)	<i>To the Ambassador in Japan (tel.)</i> Refutation of a Japanese news report that in May 1933, President Roosevelt pledged recognition of Japan as the "stabilizing influence of the Far East".	156
May 3 (761)	<i>From the Ambassador in Japan</i> Conversation with the Soviet Ambassador concerning the general aspects of Soviet-Japanese relations.	156
May 4 (342)	<i>From the Ambassador in France (tel.)</i> Information that the French reply, May 3, to the Japanese explanatory note on China policy established position of France as an upholder of the existing treaties.	159
May 4 (771)	<i>From the Ambassador in Japan</i> Background information concerning Amau's statement of April 17.	160
May 5 (202)	<i>From the Minister in China (tel.)</i> Advice that the Chinese Government considers the British Government's explanation of Sir John Simon's reference to Japanese special rights in China to be unsatisfactory, and has instructed its Minister to make further inquiries.	164

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 17—JUNE 30, 1934—Continued

Date and number	Subject	Page
1934 May 7	<i>Memorandum by the Secretary of State</i> Inquiry of the British Ambassador as to the Department's attitude toward Sir John Simon's recent statement concerning special Japanese rights in China; reply that the Department was not disposed to complain about the matter.	164
May 7 (686)	<i>From the Ambassador in Great Britain</i> Analysis of the British Government's attitude and action with respect to the Japanese statement of April 17.	165
May 8	<i>From the British Ambassador</i> Sir John Simon's answer (text printed) to a parliamentary question concerning the phrase relating to special Japanese rights in China.	172
May 9 (70)	<i>From the Consul at Geneva (tel.)</i> Conversation with the Chinese Minister, who related Avenol's advice that the best position for the Chinese in the League Technical Assistance Committee would be to ignore the Japanese public declarations and to proceed on the assumption that the assistance to China would continue as planned.	172
May 10	<i>From the Minister in China</i> Information that the Chinese Government has decided not to alter its present policy with respect to the question of postal service between China proper and Manchuria, but that it has discussed two possible methods of settling the question of through traffic on the Peiping-Mukden Railway.	173
May 10 (925)	<i>From the Consul General at Mukden to the Minister in China</i> Report of the appointment of Bishop Gaspais as the temporary representative of the Catholic Church in "Manchoukuo," and Japanese press comment that the appointment constituted <i>de facto</i> recognition of the new state by the Holy See. (Footnote: Denial in news despatch from Rome that this appointment in any way implied a recognition of "Manchoukuo.")	174
May 11	<i>To the Secretary of the Navy</i> Reasons for Department's reluctance to issue a general instruction to consular officers to report on movements and concentration of Japanese vessels, as requested in Navy Department's letter of April 27; information, however, that the Consul at Kobe, Japan, is under standing instruction to report monthly on Japanese shipping.	175
May 12 (92)	<i>From the Ambassador in Japan (tel.)</i> Advice that the French Ambassador is of the opinion that the French reply to the Japanese statement will cause a reopening of the discussion of Japanese policy since it refers to article 7 of the Nine-Power Treaty with which the recent Japanese statements of policy appear to conflict.	176
May 12 (71)	<i>To the Ambassador in Japan (tel.)</i> Substance, as reported by the Paris press, of the French note to Japan; information that the French Government, desirous of adopting an attitude in accord with the policies of the United States and Great Britain, had delayed its note until action had been taken by the other two countries.	176

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 17-JUNE 30, 1934—Continued

Date and number	Subject	Page
1934 May 14 (247)	<i>From the Minister in Switzerland (tel.)</i> Substance of the League Advisory Committee's draft proposal concerning transactions between the "Manchoukuo" and foreign postal administrations, such transactions not to involve the question of recognition of the "Manchoukuo" regime.	177
May 14 (248)	<i>From the Minister in Switzerland (tel.)</i> Information that Department's position as set forth in its instruction of April 24 is at variance with the advice of the technical organs of the League, and opinion that it might be advisable to concur in the Advisory Committee draft proposal should it be unanimously approved.	178
May 14 (250)	<i>From the Minister in Switzerland (tel.)</i> Indication that the entire Advisory Committee wishes to treat the postal administration question as a purely technical matter with no political significance; opinion that it was considered advisable to withhold comment, but that Department's views can be presented at next committee meeting, if desired.	179
May 14 (49)	<i>From the Ambassador in the Soviet Union</i> Conversation with Litvinov, who advised that discussions have been reopened with Japan for the sale of the Chinese Eastern Railway, which, if effected, will constitute <i>de facto</i> recognition of "Manchoukuo" by the Soviet Union; his further comments concerning the roles of the United States and Great Britain in the Far East crisis.	179
May 15 (152)	<i>To the Minister in Switzerland (tel.)</i> Advice that the Department prefers the course suggested in its instruction of April 24, but that, with certain provisions, it is not disposed to object to the Advisory Committee's proposal.	180
May 16 (253)	<i>From the Minister in Switzerland (tel.)</i> Report of the adoption of the Advisory Committee's proposal with a minor amendment offered by the American Minister.	180
May 17	<i>From the Ambassador in Japan to the Consul at Geneva</i> Outline of the political situation in Japan with particular reference to the Japanese attitude toward international co-operation at present and the basic Japanese aim of ultimate domination of East Asia.	181
May 18 (265)	<i>From the Ambassador in Great Britain (tel.)</i> Summary of Sir John Simon's statement relating to British policy in the Far East in reply to questions in the House of Commons, in which he pointed out the limitation of American cooperation in connection with the question of embarking on a policy of economic sanctions.	185
May 19 (267)	<i>From the Ambassador in Great Britain (tel.)</i> Quotation of official text of that portion of the Simon statement pertaining to sanctions and American cooperation.	186
May 22 (97)	<i>From the Ambassador in Japan (tel.)</i> Information concerning the delayed announcement of the recognition of "Manchoukuo" by El Salvador.	189
May 24	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Outline of the present U. S. diplomatic position in the Far East with special reference to the Naval Conference and the need for naval construction.	189

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 17-JUNE 30, 1934—Continued

Date and number	Subject	Page
1934 May 24 (223)	<i>From the Minister in China (tel.)</i> From the Counselor of Legation, Nanking, May 23: Report that the Chinese Government has decided to authorize resumption of through railway traffic with Manchuria under the control of an "international travel agency", and to permit resumption of post office relations in a way which will accord with the League resolution.	193
May 24 (9)	<i>From the Minister in El Salvador</i> Information concerning Salvadoran recognition of "Manchoukuo"; unfavorable local press comments on rumored reports of the League's intention to expel El Salvador for taking this action.	194
May 25 (95)	<i>From the Consul at Geneva (tel.)</i> Information that the Japanese Consul General has received official notification from his Government of El Salvador's recognition of "Manchoukuo".	195
May 28	<i>From the Counselor of Legation in China</i> Information concerning an instruction to certain government organs and a circular statement issued on March 11 by the National Government in support of its policy of nonrecognition of "Manchoukuo".	195
May 29	<i>To the Counselor of Embassy in Great Britain</i> Information for confidential transmission to the Foreign Office, should an opportune occasion arise, setting forth the facts underlying exchange of messages between Secretary Hull and Foreign Minister Hirota, of February 21 and March 3, and concerning the American wheat and cotton credit to China.	196
May 31 (293)	<i>From the Ambassador in Great Britain (tel.)</i> Opinion that Sir John Simon's statement, as reported in telegram No. 265, May 18, is not indicative of a new British pro-Japanese policy.	198
June 8	<i>From the Counselor of Legation in China</i> Conversation with the Japanese Minister, who expressed the opinion that the matter of through railway traffic and postal arrangements with Manchuria should be handled by the military authorities of Japan and China as a part of the armistice agreement of May 31, 1933, and that they bore no relation to the question of recognition of "Manchoukuo".	199
June 12 (825)	<i>From the Ambassador in Japan</i> Advice that Belgian and Netherland colleagues have been instructed by their Governments to decline invitations to any function in honor of Pu-yi unless the invitation is extended by the Emperor of Japan; also, to avoid any action or attitude which might be interpreted as implying intention of their Governments to recognize "Manchoukuo".	199
June 28 (325)	<i>From the Ambassador in Poland</i> Information through the Foreign Ministry that Poland has no intention of recognizing "Manchoukuo" (notwithstanding earlier reports to the contrary) as long as the League's attitude in the matter remains unchanged.	200

THE FAR EASTERN CRISIS

CHAPTER II: APRIL 17-JUNE 30, 1934—Continued

Date and number	Subject	Page
1934 June 29 (137)	<i>From the Ambassador in Japan (tel.)</i> Résumé of Kobe Consulate report concerning a concentration of Japanese shipping in home waters, but indication that it would appear to be a normal seasonal trend.	201
June 29	<i>To the Postmaster General</i> Information that the League of Nations has requested U. S. decision with regard to compliance with Advisory Committee recommendations as to postal traffic through Manchuria; request for views and comments concerning recommendations and U. S. proposed reply.	202
June 30 (283)	<i>From the Minister in China (tel.)</i> Report of announcement, June 28, by the Chinese and Japanese authorities of an agreement for the institution on July 1 of through traffic on the Peiping-Mukden Railway.	203

CHAPTER III: JULY 1-SEPTEMBER 30, 1934

1934 July 2	<i>From the Consul at Tientsin (tel.)</i> Information that through traffic on the Peiping-Mukden Railway was resumed on July 1 as scheduled, and that further steps are expected toward tacit recognition by Chinese Government that a non-Chinese regime of some permanence exists in Manchuria.	203
July 2 (880)	<i>From the Ambassador in Japan</i> Appraisal of potential incentives to a Soviet-Japanese war; opinion that the likelihood of war in 1934 appears definitely to have passed.	204
July 3	<i>From the Consul at Tientsin (tel.)</i> Information that postal relations with "Manchoukuo" have been partially resumed, and that transit negotiations between Chinese and Japanese officials are proceeding in Peiping.	208
July 5	<i>Memorandum by the Under Secretary of State</i> Conversation with the French Chargé d'Affaires concerning a report that the "Manchoukuo" authorities were undertaking to buy arms and ammunition abroad; concurrence in opinion that such sales should not take place.	209
July 5 (7393)	<i>From the Military Attaché in Japan to the Chief of the Military Intelligence Division, War Department</i> Observations gained from an inspection tour of certain points in "Manchoukuo", Korea, and Japan.	209
July 6 (148)	<i>From the Ambassador in Japan (tel.)</i> For the Secretary of the Treasury from Prof. James Harvey Rogers (on a mission to the Far East for the Treasury Department): Report on Japanese control of the economic situation in Manchuria.	214
July 10 (2831)	<i>From the Minister in China</i> Comments as to the significance of the agreement for the institution of through traffic on the Peiping-Mukden Railway.	215

THE FAR EASTERN CRISIS

CHAPTER III: JULY 1—SEPTEMBER 30, 1934—Continued

Date and number	Subject	Page
1934 July 11	<i>From the Acting Postmaster General</i> Indications from recent reports that occasions may arise necessitating relations between American and "Manchoukuo" Postal Administrations; concurrence in the Department's attitude toward conforming to the recommendations of the Advisory Committee.	216
July 11 (2828)	<i>From the Minister in China</i> Review of political and economic developments in China during the first 6 months of 1934.	217
July 18 (894)	<i>From the Ambassador in Japan</i> Information concerning the alleged conclusion of a Sino-Soviet agreement for the improvement of communications facilities in Inner Mongolia, and analysis of the ill effect such an agreement would have upon Soviet-Japanese relations.	220
July 19 (2613)	<i>To the Chargé in Switzerland</i> Letter to the Secretary General of the League of Nations (text printed), acknowledging the League communication concerning postal traffic in transit through Manchuria.	222
July 20 (202)	<i>From the Ambassador in the Soviet Union (tel.)</i> Litvinov's expectation of the success of the Chinese Eastern Railway negotiations; his belief, however, in the inevitability of a Soviet-Japanese conflict despite temporary improvement in the relations between the two countries.	223
July 20	<i>From the Chinese Legation</i> Telegram from the Foreign Ministry at Nanking concerning report that consular officers from countries which continue to withhold recognition from "Manchoukuo" will not be permitted to function there after April 1, 1935.	224
July 21	<i>From the Chief of the Division of Far Eastern Affairs to the Secretary of State</i> Opinion that exclusion of U. S. consular officers from Manchuria would in itself cause the United States little inconvenience and little economic loss.	224
July 26 (G-2 8881)	<i>From the Acting Military Attaché in China to the Chief of Staff, United States Army</i> Report of the organization of the Mongolian Autonomy Council in compliance with regulations promulgated by the National Government; comments concerning the political significance of this step.	225
July 27 (9570)	<i>From the Consul General at Shanghai</i> Information concerning the settlement of certain American claims against the Japanese Government resulting from the Shanghai Incident of 1932.	227
July 27 (L. 554)	<i>From the Consul at Hankow to the Minister in China</i> Comments concerning the collapse of the independent Kashgar regime at the hands of General Sheng Shih-ts'ai, Garrison Commander of Sinkiang; question as to whether the Chinese Government will seize this opportunity to consolidate its position in Sinkiang and take effective steps toward general rehabilitation and improvement of communications in that remote province.	228

THE FAR EASTERN CRISIS

CHAPTER III: JULY 1—SEPTEMBER 30, 1934—Continued

Date and number	Subject	Page
1934 July 30 (228)	<i>From the Ambassador in the Soviet Union (tel.)</i> Résumé of comments by Litvinov and Radek, <i>Pravda</i> editorial writer, concerning the reversal of British policy toward the Soviet Union; Radek's further comment that the next step of Soviet diplomacy would be to sign a nonaggression pact with Great Britain which would include a guarantee of the frontiers of India.	230
July 30 (229)	<i>From the Ambassador in the Soviet Union (tel.)</i> Further opinions of Litvinov and Radek with respect to Great Britain's change in attitude toward the Soviet Union, and Litvinov's favorable comment on the U. S. proposal to establish airplane bases on the Aleutian Islands.	231
Aug. 1 (236)	<i>From the Ambassador in the Soviet Union (tel.)</i> Confidential statement (text printed) by L. M. Karakhan, former Assistant Commissar for Foreign Affairs, concerning his mission to the Mongolian Republic occasioned by the discovery of a Japanese plot to overthrow the Mongolian Government and to replace it by a pro-Japanese government.	232
Aug. 3 (335)	<i>From the Minister in China (tel.)</i> Information concerning a request by the Kwantung Army that the British military authorities obtain its permission before holding maneuvers north of the Great Wall, and reported British reply offering to supply the Kwantung Army with a schedule of intended maneuvers as a matter of courtesy.	233
Aug. 3 (338)	<i>From the Minister in China (tel.)</i> Decision of General Huang Fu to resume his duties as Chairman of the Peiping Political Affairs Readjustment Council, largely as a result of the satisfactory settlement of informal Sino-Japanese negotiations at Dairen relating to administration of the demilitarized zone established by the armistice agreement of May 31, 1933.	234
Aug. 7 (345)	<i>From the Minister in China (tel.)</i> Information concerning preparations for the opening of a Chinese customs office at Kupehkwow in August and at five other passes shortly thereafter, primarily for the prevention of smuggling.	234
[Aug. 14]	<i>Report by the Vice Consul at Kobe</i> Analysis of the strategical value of Japan's new fast merchant fleet.	235
Aug. 16	<i>From the Secretary of the American Delegation at Geneva</i> Advice that the League Secretariat proposes to publish a digest of the replies received in connection with the Advisory Committee's recommendations on the question of postal traffic in transit through Manchuria, and requests permission to include the U. S. reply.	243
Aug. 16 (2906)	<i>From the Minister in China</i> Résumé of information from Mr. Hagiwara, an official of the Japanese Foreign Office on tour in China, concerning Japanese intentions toward North China.	244
Aug. 16 (2907)	<i>From the Minister in China</i> Summary of Mr. Hagiwara's views as to the Japanese attitude toward the next naval disarmament conference.	247

THE FAR EASTERN CRISIS

CHAPTER III: JULY 1-SEPTEMBER 30, 1934—Continued

Date and number	Subject	Page
1934 Aug. 17	<i>From the Consul at Tientsin (tel.)</i> Further information with respect to the establishment of new Chinese customs stations along the Great Wall, the first of which will be opened on August 18.	249
Aug. 21 (372)	<i>From the Minister in China (tel.)</i> From Mukden, August 20: Report concerning an assault, August 19, upon a British and American riding party by Japanese members of a road construction gang.	249
Aug. 22 (183)	<i>From the Ambassador in Japan (tel.)</i> Rumors of negotiations for a renewal of the Anglo-Japanese Alliance; advice that no official inquiries will be made unless instructed.	250
Aug. 22 (145)	<i>To the Ambassador in Japan (tel.)</i> Advice that the Department has no official information with respect to the revival of the Anglo-Japanese Alliance; instructions to continue to report on developments in the matter.	250
Aug. 23 (188)	<i>From the Ambassador in Japan (tel.)</i> Résumé of Foreign Minister's comments to news correspondents concerning the rumored Anglo-Japanese negotiations; belief that the British Embassy in Tokyo has no information on the question. (Footnote: Information that the Counselor of Embassy in Great Britain was told by the Foreign Office that there was no foundation for the rumors concerning the accord.)	251
Aug. 23 (935)	<i>From the Ambassador in Japan</i> Observations on the renewed tension in Soviet-Japanese relations resulting from events in Manchuria relating to the Chinese Eastern Railway.	251
Aug. 23 (2929)	<i>From the Minister in China</i> Comments concerning the question of recognition of "Manchoukuo".	258
Aug. 24 (269)	<i>From the Ambassador in the Soviet Union (tel.)</i> Soviet protest to Japanese Government, August 22, alleging Japanese aggressive actions and false statements in Manchuria tending to disorganize the operation of the Chinese Eastern Railway and violate treaty rights.	260
Aug. 24 (149)	<i>From the Ambassador in the Soviet Union</i> Observations concerning Soviet-Japanese negotiations for the sale of the Chinese Eastern Railway; views of certain Soviet officials with respect to the Soviet note of August 22.	261
Aug. 27 (273)	<i>From the Ambassador in the Soviet Union (tel.)</i> Résumé of Tass communiqué concerning Soviet reply to recent Japanese and "Manchoukuo" statements relating to Chinese Eastern Railway negotiations.	263
Aug. 28 (389)	<i>From the Minister in China (tel.)</i> From Harbin, August 27: Report of further arrests of Soviet employees of the Chinese Eastern Railway following interruption of negotiations in Tokyo.	264

THE FAR EASTERN CRISIS

CHAPTER III: JULY 1-SEPTEMBER 30, 1934—Continued

Date and number	Subject	Page
1934 Aug. 28	<i>From the Counselor of Legation in China</i> Summary of an interview between Mr. Hollis Lory of Stanford University and Dr. Wang Ching-wei, Acting Foreign Minister, concerning the Chinese attitude toward Japanese and Soviet ambitions in the Far East.	264
Aug. 31 (166)	<i>To the Secretary of the American Delegation at Geneva (tel.)</i> Advice that, provided other interested Governments adopt a similar attitude, the Department is not disposed to object to the publication of the U. S. reply concerning the question of postal traffic in transit through Manchuria.	266
Sept. 2 (282)	<i>From the Ambassador in the Soviet Union (tel.)</i> Information from the Japanese Embassy that negotiations have been reopened by the Soviets for the sale of the Chinese Eastern Railway and that Soviet reports of Japanese intention to seize the railway are groundless.	267
Sept. 4 (395)	<i>From the Minister in China (tel.)</i> Résumé of a conversation between the Counselor of Legation and the Soviet Ambassador at Nanking in which the latter took a serious view of the present Soviet-Japanese tension and the danger of Japanese seizure of the Chinese Eastern Railway.	267
Sept. 4 (398)	<i>From the Minister in China (tel.)</i> Report from the Consul General at Mukden (text printed) with respect to oral representations made in connection with assault by Japanese workman on British and American riding party on August 19. Concurrence in British Legation's views that attempts should be made for a satisfactory local settlement of the case.	268
Sept. 6 (280)	<i>To the Minister in China (tel.)</i> Approval of the Legation's proposal for efforts to bring about a satisfactory local settlement of the riding party case.	269
Sept. 7	<i>Memorandum by the Ambassador in Japan</i> Conversation with the Soviet Ambassador, who expressed his views concerning the Chinese Eastern Railway negotiations and Soviet-Japanese relations in general.	269
Sept. 7 (964)	<i>From the Ambassador in Japan</i> British Ambassador's denial of responsibility for reports concerning the revival of the Anglo-Japanese Alliance; translation of an article appearing in the Tokyo <i>Nichi-Nichi</i> on August 26 (text printed) purporting to set forth the views of the Foreign Office with respect to the conclusion of a political or economic pact with any power.	272
Sept. 10	<i>From the Consul at Tientsin (tel.)</i> Report of the establishment of five Chinese customs posts along the "Manchoukuo" border within the last month.	274
Sept. 14 (2975)	<i>From the Minister in China</i> Review of Japan's vacillating policy toward China.	275
Sept. 14 (18)	<i>From the Consul General at Harbin</i> Information and impressions concerning the Chinese Eastern Railway question.	278

THE FAR EASTERN CRISIS

CHAPTER III: JULY 1-SEPTEMBER 30, 1934—Continued

Date and number	Subject	Page
1934 Sept. 15 (2976)	<i>From the Minister in China</i> Report of increasingly unsatisfactory relations between Inner Mongolia and China owing to the failure of the Chinese to fulfill the terms of the agreement concerning the autonomous government established in Inner Mongolia in April.	280
Sept. 18 (979)	<i>From the Ambassador in Japan</i> Opinion that the admission of the Soviet Union to membership in the League of Nations will provide one more restraining influence, as did American recognition, in the conduct of Japan's relations with Soviet Russia.	281
Sept. 21 (425)	<i>From the Minister in China (tel.)</i> From Mukden, September 20: Information that Japanese Consul General's reply to representations concerning the assault incident of August 19 indicated unwillingness of Japanese local authorities to take any action against the assailants.	282
Sept. 25 (212)	<i>From the Chargé in Japan (tel.)</i> Information that the sale of the Chinese Eastern Railway has been accomplished although a few details remain unsettled.	283
Sept. 28 (216)	<i>From the Chargé in Japan (tel.)</i> Opinion that formal representations should not be made in regard to the assault incident in Manchuria, particularly as the British Embassy is making representations in the case, but that the discourteous and unsatisfactory attitude of the Japanese Consul General at Mukden might be brought informally to the attention of the Foreign Office.	283
Sept. 28 (989)	<i>From the Chargé in Japan</i> Information in connection with the rumored revival of the Anglo-Japanese Alliance indicating that there may be some sort of Anglo-Japanese understanding.	284
Sept. 29 (168)	<i>To the Chargé in Japan (tel.)</i> Authorization to proceed as suggested in telegram No. 216, September 28.	285

CHAPTER IV: OCTOBER 1-DECEMBER 31, 1934

1934 Oct. 1	<i>Memorandum by the Under Secretary of State</i> Conversation with the Soviet Ambassador concerning Japanese aims in respect to Inner and Outer Mongolia.	285
Oct. 3	<i>Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs</i> Outline of trade negotiations between Japan and Netherlands East Indies at conference in Batavia, in session since June.	286
Oct. 8	<i>To the Secretary of Commerce</i> Résumé of facts concerning the participation of American aviators in the establishment of a Chinese Government aviation school at Hangchow, China; reiteration of the Department's original view as to the inadvisability of involving the U. S. Government or any of its officers in plans of the Chinese Government with respect to military air training.	288

THE FAR EASTERN CRISIS

CHAPTER IV: OCTOBER 1—DECEMBER 31, 1934—Continued

Date and number	Subject	Page
1934 Oct. 10 (353)	<i>From the Ambassador in the Soviet Union (tel.)</i> Summary of Litvinov's views on the probable conclusion of a Soviet-Japanese nonaggression pact and question of recognition of "Manchoukuo".	291
[Oct. 11]	<i>Memorandum by the Under Secretary of State of a Conversation With the British Ambassador</i> Discussion of the British attitude toward Japan.	292
Oct. 20 (1019)	<i>From the Ambassador in Japan</i> Report of a controversy between the War Office and the Ministry of Overseas Affairs concerning the administration of the Kwantung Leased Territory, which may lead to the fall of the Okada Cabinet.	294
Oct. 31 (371)	<i>From the Chargé in the Soviet Union (tel.)</i> Substance of a Tass communiqué on the present state of Chinese Eastern Railway negotiations.	296
Nov. 1 (1030)	<i>From the Ambassador in Japan</i> Report on the unsettled problems between Japan and the Soviet Union, among the most important of which is Japan's undefined policy concerning Mongolia.	297
Nov. 1 (L-808)	<i>From the Consul General at Tientsin to the Chargé in China</i> Report of the establishment on November 1 of the "Commission for the Settlement of Affairs Pertaining to the War Zone".	301
Nov. 9 (3127)	<i>From the Chargé in China</i> Japanese activities indicating possible future Japanese military expansion in Chahar and Hopei Provinces and "Manchoukuo."	302
Nov. 10 (3125)	<i>From the Chargé in China</i> Reuter's <i>Foreign Service</i> report, November 5, of British decision that British troops at Shanhaikwan should abandon maneuvers beyond the Great Wall in order to avoid involving the British Government in a juridical controversy with Japan.	307
Nov. 19 (1512)	<i>To the Chargé in China</i> Approval of the Legation's position that question of free customs privileges should not be discussed with "Manchoukuo" officials in view of impossibility of granting reciprocity; instructions for the Consuls General at Harbin and Mukden to refrain from entering into any such discussions.	308
Nov. 20 (366)	<i>To the Chargé in China (tel.)</i> Department's comments and instructions concerning the Shanghai defense scheme as amended June 25.	308
Nov. 20 (51)	<i>From the Consul General at Harbin</i> Detailed report on the transfer of control over Japanese-"Manchoukuo" relations from the Foreign Office to the "Manchurian Affairs Bureau", and other steps giving the Japanese increased military, administrative, and economic control in Manchuria.	310
Nov. 21 (G-2 8974)	<i>From the Military Attaché in China to the Chief of Staff, United States Army</i> Chinese dissatisfaction with work of the American aviation group at Hangchow; efforts of Mussolini to insure a prominent position in China for the Italian aviation mission.	315

THE FAR EASTERN CRISIS

CHAPTER IV: OCTOBER 1-DECEMBER 31, 1934—Continued

Date and number	Subject	Page
1934 Nov. 24 (3156)	<i>From the Chargé in China</i> Report of recent changes in the Hopei Provincial Government and the Municipality of Tientsin which indicate a strengthening of the Japanese position and a weakening of the Chinese elements in the northern part of the Province which are opposed to concessions to the Japanese.	318
Nov. 28 (L-831)	<i>From the Consul General at Tientsin to the Chargé in China</i> Summary of statements of alleged fact and opinion made by local provincial and municipal officials, indicating that the Chinese have reached an accord with the Japanese on several long-pending issues affecting the political and military situation in North China.	320
Nov. 29 (546)	<i>From the Chargé in China (tel.)</i> From Harbin, November 28: Intention to refrain from attending inauguration ceremony of Mayor Lu Jung-huan as "Governor of Pinchiang Province", but to receive and return his call. To Harbin, November 29: Legation's approval of proposed action provided return call is made informally and unofficially.	323
[Dec. 4]	<i>Report by the Vice Consul at Kobe</i> Supplement to the August 14 report on the strategical value of Japan's new merchant fleet.	323
Dec. 6 (557)	<i>From the Chargé in China (tel.)</i> Suggestions in connection with Department's instruction No. 366, November 20, with respect to the Shanghai defense scheme.	330
Dec. 6	<i>Memorandum by the Ambassador in Japan</i> Conversation with the Netherland Minister concerning the naval conversations and Japanese plans in Asia.	331
Dec. 7 (560)	<i>From the Chargé in China (tel.)</i> Report of attacks by Communist troops upon Government forces at Kwangtung and Kwangsi, and of conversations under way between the representatives of the Chinese Government and the Southwest looking toward a solution of the conflict.	334
Dec. 7 (3175)	<i>From the Chargé in China</i> Information from Chinese and Japanese sources concerning the reestablishment of normal postal communications between North China and Manchuria.	336
Dec. 7 (1076)	<i>From the Ambassador in Japan</i> Foreign Office spokesman's oral statement, November 14 (substance printed), with respect to a press despatch concerning intention of the League of Nations Mandates Commission to investigate reports of alleged fortification of Japanese mandated islands in the South Seas, denying that Japan had fortified these islands and expressing Japanese determination to retain control of them after withdrawal from the League.	338
Dec. 7 (20)	<i>From the Consul General at Mukden to the Chargé in China</i> Information concerning an item in the <i>Hoten Mainichi</i> , December 6, reporting an alleged movement of the former North Eastern Army to establish the independence of North China, embracing the provinces of Hopei, Shantung, Shansi, Chahar, and Suiyuan; opinion that the item may represent a desire to orient the Japanese public on possible future developments in North China.	339

THE FAR EASTERN CRISIS

CHAPTER IV: OCTOBER 1—DECEMBER 31, 1934—Continued

Date and number	Subject	Page
1934 Dec. 11 (1078)	<i>From the Ambassador in Japan</i> Report of a change in Japanese representation in Manchuria occasioned in part by the recent introduction of new plans in the Japanese governmental organs in that region.	340
Dec. 14 (385)	<i>To the Chargé in China (tel.)</i> Attitude toward Legation's suggestions in telegram No. 557, December 6, pertaining to the Shanghai defense scheme.	340
Dec. 22 (3218)	<i>From the Chargé in China</i> Information concerning rumored Japanese proposals to the Chinese looking toward: (1) extension of the demilitarized area in North China, (2) "military cooperation" by the appointment of at least five Japanese military advisers to each of the coastal provinces, and (3) "economic cooperation" by a Japanese loan for projects in the Yangtze River Valley in the Northwest.	341
Dec. 24 (9782)	<i>From the Consul General at Shanghai</i> Apprehension of the Chinese public over recent maneuvers conducted by the Japanese Naval Landing Force in various areas of the International Settlement.	342
Dec. 31	<i>From the Under Secretary of State to the Chief of the Division of Far Eastern Affairs</i> Discussion with President Roosevelt of the awkward situation created by the simultaneous announcements of Japanese termination of the Washington Naval Treaty and U. S. Navy's intended maneuvers in the Pacific; disinclination of the President to consider suggestions toward modification of the Navy's plans.	343
Dec. 31 (219)	<i>To the Ambassador in Japan (tel.)</i> Information that the intended naval maneuvers consist only of defensive exercises in the area between Hawaii and the Aleutian Islands.	344
1935 Jan. 9 (3247)	<i>From the Chargé in China</i> Review of developments in China during the year 1934.	344

CHINA

PROBLEM OF CONTROLLING THE TRAFFIC IN OPIUM AND NARCOTIC DRUGS IN CHINA, INCLUDING MANCHURIA AND JEHOI

1934 Jan. 27 (796 Pol.)	<i>From the Consul at Geneva</i> Résumé of developments relative to the Chinese amendments to the report of the Opium Advisory Committee as adopted by the Council of the League of Nations on January 20.	349
Apr. 2 (132)	<i>To the Ambassador in Great Britain (tel.)</i> Background information concerning a request, March 16, by the League Council that certain foreign Governments, including the United States, furnish the Opium Advisory Committee with any information obtainable on narcotic drug traffic in Manchuria and Jehoi; instructions to ascertain informally whether the British Government would be willing to defer its reply pending an exchange of views with the U. S. Government. Advice that Stewart J. Fuller, representative on the Opium Advisory Committee, could join the discussion in London, May 2—May 5.	354

CHINA

PROBLEM OF CONTROLLING THE TRAFFIC IN OPIUM AND NARCOTIC DRUGS IN CHINA, INCLUDING MANCHURIA AND JEHO—Continued

Date and number	Subject	Page
1934 May 4 (223)	<i>From the Ambassador in Great Britain (tel.)</i> Agreement between representatives of the Foreign Office and the Embassy, May 3, to send a noncommittal acknowledgment to the League advising that the Minister for Foreign Affairs will furnish such information as can properly be done.	355
May 4 (179)	<i>To the Ambassador in Great Britain (tel.)</i> Concurrence in the action prescribed in telegram No. 223, May 4; instructions to advise the Department when the British reply has been forwarded to the League and to inform the Foreign Office that the U. S. Government is forwarding a similar reply.	355
May 26 (45)	<i>To the Consul at Geneva (tel.)</i> For Fuller: Receipt of information that British Government has decided no action is necessary at present in connection with the League's request of March 16, and advice that the Department will defer its reply to the League pending Fuller's return from London.	356
June 8 (236)	<i>From the Minister in China (tel.)</i> Chinese request to have a representative present during search of American gunboats on the Yangtze River for suspected smuggled narcotics; advice that the Legation concurs in the decision of Admiral Wainwright, commander of Yangtze Patrol, U. S. Asiatic Fleet, to whom the matter was referred, to refuse permission.	356
June 14 (170)	<i>To the Minister in China (tel.)</i> Department's concurrence in decision set forth in telegram No. 236, June 8.	357
June 28 (450)	<i>To the Ambassador in Great Britain</i> Quotation of a statement made in Parliament, June 7, by Sir John Simon concerning the League's request for information on narcotics traffic; instructions to inquire of the British Government as to its intentions in the matter.	358
July 13 (823)	<i>From the Ambassador in Great Britain</i> Advice that the British Government has not as yet replied to the League's request of March 16 and does not plan to take action at present.	359
July 26 (227)	<i>To the Minister in China (tel.)</i> Confidential information concerning a proposal of the Chinese representative on the Opium Advisory Committee with respect to the employment of A. E. Blanco, of the Anti-Opium Information Bureau, Geneva, to advise the Chinese Government in the suppression of opium and drug traffic.	360
July 30 (1418)	<i>To the Minister in China</i> Details concerning the report of the Opium Advisory Committee and U. S. and British attitudes toward the Council's request for information on narcotics traffic in Manchuria.	361
Aug. 2	<i>To the Consul General at Tientsin (tel.)</i> Instructions to report on the alleged action of the Japanese military in obtaining by force from the Chinese Magistrate at Changli the return of fines imposed upon and the narcotics seized from certain Chinese.	364

CHINA

PROBLEM OF CONTROLLING THE TRAFFIC IN OPIUM AND NARCOTIC DRUGS IN CHINA, INCLUDING MANCHURIA AND JEHO—Continued

Date and number	Subject	Page
1934 Aug. 8 (565)	<i>To the Ambassador in Japan</i> League Secretary General's note of March 19 to the Japanese Foreign Minister concerning supervision of narcotics traffic in Manchuria, and Japanese reply, May 22 (texts printed). (Footnote: The same, <i>mutatis mutandis</i> , to the Minister in China, August 8.)	365
Aug. 27 (626)	<i>From the Consul at Tientsin</i> Report on the Changli incident as requested in Department's telegram of August 2.	366
Sept. 4 (279)	<i>To the Minister in China (tel.)</i> Instructions to indicate informally to the appropriate authorities in Nanking the concern of the U. S. Government over the apparent increase in smuggling of prepared opium from China to the United States.	369
Sept. 21 (68)	<i>From the Counselor of Legation in China (tel.)</i> Report on the efforts of the National Health Administration to provide a lawful source of supply of narcotics for legitimate medicinal purposes.	370

PROPOSED INTERNATIONAL COLLABORATION FOR THE ECONOMIC RECONSTRUCTION OF CHINA; ORGANIZATION BY CHINESE BANKERS OF THE CHINA DEVELOPMENT FINANCE CORPORATION

1934 Jan. 13 (131)	<i>To the Counselor of Legation in Switzerland, at Geneva (tel.)</i> Instructions to accept informally any invitation to attend the meeting of the Committee on Technical Cooperation between the League of Nations and China, and to attend in a strictly unofficial capacity.	371
Jan. 16 (224)	<i>From the Counselor of Legation in Switzerland (tel.)</i> Account of the meeting of the Committee on Technical Cooperation between the League and China.	371
Jan. 18	<i>Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With the Japanese Chargé</i> Comments of the Chargé concerning the Reconstruction Finance Corporation \$50,000,000 loan to China and its effect upon U. S.-Japanese relations.	372
Feb. 10	<i>From the Counselor of Legation in China</i> Conversation with Yakichiro Suma, newly appointed Japanese Consul General and First Secretary of Legation at Nanking, who indicated Japanese opposition to any plan to finance China politically or economically with foreign capital, excluding Japanese participation.	373
Mar. 26	<i>From the Counselor of Legation in China</i> Conversation with German Minister, who related the substance of Mr. Y. Suma's remarks to him concerning the futility of any plans for the rehabilitation of China in which Japan does not take preponderant part.	375
Mar. 27 (130)	<i>From the Consul General at Shanghai (tel.)</i> Report of the first plenary meeting of the National Economic Council in Nanking, March 27, and of proposals adopted.	376

CHINA

PROPOSED INTERNATIONAL COLLABORATION FOR THE ECONOMIC RECONSTRUCTION OF CHINA; ORGANIZATION BY CHINESE BANKERS OF THE CHINA DEVELOPMENT FINANCE CORPORATION—Continued

Date and number	Subject	Page
1934 May 3 (241)	<i>From the Minister in Switzerland (tel.)</i> Information that the China Technical Committee will be called during the coming session of the League Council, May 14, and that the Minister will attend in the capacity prescribed by the Department.	377
May 3	<i>Memorandum by the Minister in China of a Conversation With Mr. David Drummond</i> Background information from Mr. Drummond concerning the steps toward organization of a Chinese bankers syndicate by Jean Monnet, a French financier who came to China at the invitation of Finance Minister T. V. Soong.	377
May 5	<i>Memorandum by the Minister in China of a Conversation With Mr. Jean Monnet</i> Further discussion of plans for financial assistance to China.	379
May 10 (149)	<i>To the Minister in Switzerland, at Geneva (tel.)</i> Request that the Counselor of Legation be instructed to attend meetings of the China Technical Committee as an unofficial observer, unless it appears that the Committee will take action on Japanese allegations concerning political activities of the Committee.	381
May 15 (251)	<i>From the Minister in Switzerland (tel.)</i> Information that inquiry reveals no intention of the Committee to take formal notice of Japanese claims as to its political activities.	381
May 15	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Conversation with the Chinese Minister, who expressed hope that the U. S. Government would take an active part in the forthcoming meeting of the China Technical Committee; advice to Minister that U. S. representatives cannot participate actively in a League Committee.	381
May 17 (255)	<i>From the Minister in Switzerland (tel.)</i> Account of the China Technical Committee meeting and adoption of a report (text printed) concerning the examination and action taken on report of the technical agent, Dr. Ludwig Rajchman, on his mission to China.	382
May 18	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Substance of a telegram from Professor J. H. Rogers to Secretary of the Treasury Morgenthau concerning a proposal by the Chinese Minister of Finance that the U. S. Government grant a rehabilitation loan to China; opinion that, until the U. S. Government has clearly defined its course concerning financial assistance to China and has issued express instructions accordingly, there should be no discussion by American officials with Chinese officials of any such possibility.	383
May 21 (233)	<i>From the Consul General at Shanghai (tel.)</i> For Morgenthau from Rogers: Preliminary report on the forthcoming establishment of the China Finance Development Corporation with a view toward securing foreign investment in China for rehabilitation projects.	385

CHINA

PROPOSED INTERNATIONAL COLLABORATION FOR THE ECONOMIC RECONSTRUCTION OF CHINA; ORGANIZATION BY CHINESE BANKERS OF THE CHINA DEVELOPMENT FINANCE CORPORATION—Continued

Date and number	Subject	Page
1934 May 26 (2744)	<i>From the Minister in China</i> Substance of a conversation between an American newspaper representative and Mr. Suma, Secretary of Japanese Legation, in which the latter expressed gratification at having learned that the Japanese Foreign Office had adopted some of his views concerning Monnet's scheme for inducing foreign investments in China; advice that Suma is said to view the scheme with disfavor for several reasons.	386
May 29 (411)	<i>To the Ambassador in France</i> Instructions to refrain from further reply to Mr. Charles Sée, Director of the Syndicat Europeen d'Entreprises, concerning his inquiry as to names of American firms which may be interested in cooperating on public works projects in China.	387
June 8 (2742)	<i>From the Minister in China</i> Report of the definite establishment of the China Development Finance Corporation, and Monnet's plans to return to the United States and Europe in furtherance of his scheme.	387
June 11	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Recommendation that the U. S. Government adopt an attitude favorable in principle toward international action, through the agency of the China Consortium of 1920, with a view to giving financial assistance to China.	388
June 12	<i>From the Chief of the Division of Far Eastern Affairs to the Secretary of State</i> Request for the Secretary's views concerning the possibility of using the China Consortium as an agency for cooperative action toward solving China's financial difficulties; request also for authority to engage in a general discussion of the China problem with Mr. Thomas Lamont of J. P. Morgan & Co.	390
June 12	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Telephone conversation with Mr. Lamont, who inquired as to the U. S. attitude toward British, French, and Japanese efforts to revive the China Consortium agreement and expressed the desire to discuss the question further with Mr. Hornbeck in New York before June 20.	391
June 13	<i>From J. P. Morgan & Co.</i> Acknowledgment of correspondence transmitting inquiry of Mr. Charles Sée, Director, concerning the question of American participation in the Syndicat Europeen d'Entreprises; advice that, in view of unfavorable existing conditions, the majority of the members of the American Group of the Consortium would prefer to see the group disbanded.	392
June 18	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Statement by telephone to Mr. Lamont (text printed) setting forth the views of the Administration as to the inadvisability of the American Group's withdrawal from the Consortium, and as to possible future action of the Consortium.	393
June 18	<i>To J. P. Morgan & Co.</i> Advice that the Department's views concerning the China Consortium have been expressed by Mr. Hornbeck in a telephone conversation with Mr. Lamont, June 18.	394

CHINA

PROPOSED INTERNATIONAL COLLABORATION FOR THE ECONOMIC RECONSTRUCTION OF CHINA; ORGANIZATION BY CHINESE BANKERS OF THE CHINA DEVELOPMENT FINANCE CORPORATION—Continued

Date and number	Subject	Page
1934 July 13 (958 Pol.)	<i>From the Consul at Geneva</i> Conversation with Rajchman, who gave his views on the relation of technical assistance to China to Japanese policy in the Far East.	395
July 13 (2843)	<i>From the Minister in China</i> Conversation with Jean Monnet, who recently assisted in the organization of the China Development Finance Corporation; Monnet's advice that the Japanese are seeking to cooperate with the organization since its nonpolitical character is now evident.	403
July 19 (218)	<i>To the Minister in China (tel.)</i> Instructions to evaluate an objection of the Japanese Legation, attributed to Suma, to the effect that Monnet's project violates the principle of the Consortium Agreement of 1920.	403
July 31 (2881)	<i>From the Minister in China</i> Opinion that there is no sound basis for the Japanese objection to the China Development Finance Corporation, and supposition that the unfavorable attitude grew out of Japanese suspicion that Monnet's activities were in preparation for foreign financial assistance to the Chinese which would exclude Japanese participation.	403
Aug. 21 (L-431 Diplo.)	<i>From the Counselor of Legation in China to the Minister in China</i> Conversation with Suma concerning negotiations between the British and Chinese Corporation and the China Development Finance Corporation for a loan for the purpose of completing the Shanghai-Hangchow-Ningpo Railway; Suma's comment upon the Japanese Government's interest in retaining the principle of supervision of foreign investments in China as embodied in the Consortium Agreement.	405
Aug. 28 (2941)	<i>From the Minister in China</i> Further information concerning Japanese objections to the China Development Finance Corporation because of its alleged League complexion and political character.	407
Sept. 1 (993 Pol.)	<i>From the Consul at Geneva</i> Report on developments in the League's project for technical assistance to China and the termination of Rajchman's activities in the matter.	408
Sept. 19	<i>Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With Mr. Thomas W. Lamont, of J. P. Morgan & Co.</i> Exchange of views on the participation of the American Group in the Consortium, and the practicability of utilizing the China Development Finance Corporation as a link between China and the Consortium.	412
Sept. 20	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Conversation with Monnet, who gave an account of his activities in the China Development Finance Corporation and his theory of using the Corporation in the development of business and industry in North China.	417

CHINA

PROPOSED INTERNATIONAL COLLABORATION FOR THE ECONOMIC RECONSTRUCTION OF CHINA; ORGANIZATION BY CHINESE BANKERS OF THE CHINA DEVELOPMENT FINANCE CORPORATION—Continued

Date and number	Subject	Page
1934 Sept. 27 (271)	<i>From the Minister in Switzerland (tel.)</i> Convocation of the Council Committee of Technical Cooperation between the League and China, September 28.	418
Sept. 28 (272)	<i>From the Minister in Switzerland (tel.)</i> Report of meeting of the China Technical Committee and unanimous adoption of the League technical organization's observations on the Rajehman report.	418
Oct. 5 (168)	<i>To the Minister in Switzerland (tel.)</i> Instructions to report on the status of the League Transit Committee's plan to conduct a survey of water conservancy and highway transportation problems in China; and, in view of the Committee's desire to include an American Army engineer in the work, to inquire whether foreign engineers already selected have been in the active military service of their respective governments.	419
Oct. 8 (274)	<i>From the Minister in Switzerland (tel.)</i> Advice that the engineers already selected are civil servants or private consultants, and that an American Army engineer was suggested only from the understanding that U. S. Army engineers have had the most experience with the type of river conservancy work to be investigated in China.	419
Oct. 9 (169)	<i>To the Minister in Switzerland (tel.)</i> Instructions to inform the director of the Communications and Transit Section that the Department perceives no objection to participation by an American civilian in the work of the survey. (Footnote: League announcement on November 7 that a mission composed of four engineers—British, French, Dutch, and Italian—had left for China.)	420
Oct. 11 [-16]	<i>From Mr. Thomas W. Lamont of J. P. Morgan & Co.</i> Résumé of a discussion with the Managing Committee of the American Group of the Consortium and its concurrence in the Department's view, as presented by Lamont, that the present would be an inopportune time for active consideration of dissolution of the American Group.	420
Oct. 12	<i>Memorandum by Mr. Raymond C. Mackay of the Division of Far Eastern Affairs</i> Conversation with Monnet concerning the progress and future activities of the China Development Finance Corporation.	421

EFFECT OF THE SILVER-PURCHASING PROGRAM OF THE UNITED STATES GOVERNMENT UPON CHINA'S ECONOMY

1934 Feb. 17 (59)	<i>From the Consul General at Shanghai (tel.)</i> Conversation with Arthur H. Young, American adviser to the Chinese Ministry of Finance, who expressed the hope that the Chinese Government would be consulted in advance if U. S. measures concerning silver unfavorable to China are in fact being considered.	423
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CHINA

EFFECT OF THE SILVER-PURCHASING PROGRAM OF THE UNITED STATES GOVERNMENT UPON CHINA'S ECONOMY—Continued

Date and number	Subject	Page
1934 [Feb. 20 (?)]	<i>From the Chinese Bankers Association to the Chinese Minister (tel.)</i> Communication for transmittal to President Roosevelt, concerning rumored U. S. silver measure, urging his support toward stabilization rather than drastic enhancement of silver price.	424
Feb. 21 (19)	<i>From the Counselor of Legation in China (tel.)</i> Résumé of discussion with two Chinese bankers on the silver question; general Chinese apprehension that the U. S. Government will take some measure to stabilize silver at a high level which would stimulate the flight of silver from China.	425
Feb. 22 (96)	<i>From the Minister in China (tel.)</i> Receipt of a report that Finance Minister Kung has directed the Chinese Minister in Washington to make representations to the U. S. Government on the undesirability of measures calculated to raise the price of silver.	426
Feb. 22 (97)	<i>From the Minister in China (tel.)</i> Report of opinions in well-informed circles in North China concerning important factors in the increase of trade.	426
Feb. 23 (71)	<i>From the Consul General at Shanghai (tel.)</i> Brief analysis of the silver question as it affects Chinese imports and exports; reported intention of Chinese bankers to demand an embargo or increased export duty as a precautionary measure against high-priced silver.	427
[Mar. 5 (?)]	<i>From the Shanghai Chinese General Chamber of Commerce and the Shanghai Foreign General Chamber of Commerce to the Chinese Minister (tel.)</i> Communication for transmittal to President Roosevelt endorsing the views of the Chinese Bankers Association as noted in its telegram of February 20.	428
Mar. 14 (120)	<i>From the Minister in China (tel.)</i> Information that news despatches from Washington continue to report the interest of Congress in legislation toward rehabilitation of silver; résumé of opinions of Chinese Government and financial circles concerning remedial measures in the event of drastic American action.	428
Mar. 23 (63)	<i>To the Consul General at Shanghai (tel.)</i> Instructions to accord appropriate assistance to Professor James H. Rogers, who is starting on a mission for the Treasury Department to obtain a first-hand view of present-day conditions in the monetary centers of the world. (Instructions to repeat to Peiping, Nanking, and Tokyo.)	430
Apr. 17 (173)	<i>From the Consul General at Shanghai (tel.)</i> For Morgenthau from Rogers: Preliminary report on the probable effect of further rise in silver prices upon already depressed conditions in agriculture.	430
Apr. 19 (183)	<i>From the Consul General at Shanghai (tel.)</i> For Morgenthau from Rogers: Report that the majority of the largest American import firms as well as Chinese bankers and advisers to the Foreign Minister, are more interested in stability of the silver price than in the level at which it is stabilized.	431

CHINA

EFFECT OF THE SILVER-PURCHASING PROGRAM OF THE UNITED STATES GOVERNMENT UPON CHINA'S ECONOMY—Continued

Date and number	Subject	Page
1934 Apr. 21 (187)	<i>From the Consul General at Shanghai (tel.)</i> For Morgenthau from Rogers: Indications that no responsible Chinese opinion in Shanghai favors a further rise in silver.	432
Apr. 23 (189)	<i>From the Consul General at Shanghai (tel.)</i> For Morgenthau from Rogers: Belief that, in view of the demand for stability by important groups already reported, the Chinese Government would welcome some plan assuring future stability of silver price in terms of major currencies.	433
May 2	<i>From the Consul General at Hankow (tel.)</i> For Morgenthau from Rogers: Chiang Kai-shek's comment as to adverse effect of higher silver on his agricultural rehabilitation program.	433
May 8	<i>From the Consul General at Hankow (tel.)</i> For Morgenthau from Rogers: Preliminary conclusions concerning the study of Chinese balance of international payments, and opinion that any further rise in the price of silver in terms of major currencies at this time would aggravate the adverse situation.	433
May 10	<i>From the Counselor of Legation in China</i> Transmittal of a memorandum of a conversation between the American Minister and the Secretary General of the National Defense Council on the price of silver and conditions in China.	434
May 16	<i>From the Consul General at Shanghai (tel.)</i> For Morgenthau from Rogers: Report on the depressed agricultural and trade conditions as affected by the complicated monetary situation in Western and Southwestern China.	435
May 17 (226)	<i>From the Consul General at Shanghai (tel.)</i> For Morgenthau from Rogers: Further study of Chinese adverse balance of international payments, and conversation with Finance Minister Kung, who proposed a U. S. rehabilitation loan to China as an economic counteractive.	436
May 18 (136)	<i>To the Consul General at Shanghai (tel.)</i> Instructions to inform Rogers of the Department's view that he should not receive or discuss any proposal for a loan unless expressly instructed to do so.	437
May 23 (239)	<i>From the Consul General at Shanghai (tel.)</i> For Morgenthau from Rogers: Report of the favorable reception in Shanghai of President Roosevelt's message to Congress, May 22, on the monetary use of silver.	437
June 28 (275)	<i>From the Minister in China (tel.)</i> For Morgenthau from Rogers: Information that the rise in silver is causing some concern in banking and governmental circles, and belief that protective measures are being considered by the Chinese Government inasmuch as Kung has asked Rogers' advice concerning increased export tax on silver.	438
July 6 (149)	<i>From the Ambassador in Japan (tel.)</i> For Morgenthau from Rogers: Opinion that a national embargo by the Chinese Government is unlikely at present but that an increase in export tax is apt to follow further silver outflow.	438

CHINA

EFFECT OF THE SILVER-PURCHASING PROGRAM OF THE UNITED STATES GOVERNMENT UPON CHINA'S ECONOMY—Continued

Date and number	Subject	Page
1934 July 11 (155)	<i>From the Ambassador in Japan (tel.)</i> For Morgenthau from Rogers: Belief that the favorable effects of President Roosevelt's silver message and ensuing legislation which brought temporary stability to Chinese exchange have been considerably tempered by recent rises in silver price, wider exchange fluctuations, and more persistent silver outflow.	439
Aug. 3	<i>From the Consul at Hong Kong (tel.)</i> For Morgenthau from Rogers: Further analysis of the factors leading to a more adverse balance of international payments, and comment that higher silver prices would aggravate the situation.	440
Aug. 20 (372)	<i>From the Consul General at Shanghai (tel.)</i> Representations of Finance Minister Kung, for transmittal to President Roosevelt, concerning the menacing effect of the Silver Purchase Act of 1934 upon Chinese interests; Kung's desire for an indication of probable U. S. policy in the future purchase of silver.	440
Sept. 22 (227)	<i>To the Consul General at Shanghai (tel.)</i> Statement of U. S. policy with respect to silver as suggested by the Treasury Department (text printed) in reply to Kung's message of August 20.	441
Sept. 24	<i>From the Chinese Minister</i> Further representations from Finance Minister Kung concerning the unfavorable effects of the Silver Purchase Act upon the Chinese economy; inquiry as to whether the U. S. Government would consider an exchange of gold for silver with the Chinese Government.	442
Sept. 28	<i>From the Chinese Legation</i> Information that a recent Chinese order intended to curb speculation in exchange and gold bar should not be misinterpreted as an embargo on silver.	443
Oct. 2	<i>Memorandum by the Secretary of State</i> Conversation with the Chinese Minister concerning Kung's recent inquiry as to an exchange of silver from China for U. S. gold and his representations against the Silver Purchase Act; Secretary Hull's reply that such an exchange is not a normal procedure between governments and his reiteration of the U. S. silver purchasing policy.	443
Oct. 2	<i>From the Chinese Minister</i> Transmittal of Kung's acknowledgment of the message conveyed in telegram No. 227, September 22; Kung's inquiry concerning nonreceipt of U. S. reply to the questions of exchange of Chinese silver for U. S. gold and future U. S. silver purchasing policy.	445
Oct. 9 (477)	<i>From the Consul General at Shanghai (tel.)</i> Advice from the American Minister that the Department will receive by radio from Peiping the text of a memorandum (<i>infra</i>), prepared by the Finance Ministry, explanatory of the imminent silver crisis in China.	446
Oct. 11 (462)	<i>From the Counselor of Legation in China (tel.)</i> Text of Finance Minister's memorandum on the exportation of silver from China.	446

CHINA

EFFECT OF THE SILVER-PURCHASING PROGRAM OF THE UNITED STATES GOVERNMENT UPON CHINA'S ECONOMY—Continued

Date and number	Subject	Page
1934 Oct. 12	<i>To the Chinese Minister</i> Reiteration of Secretary Hull's views as stated in his conversation with the Chinese Minister on October 2, and request that the communication be transmitted to Kung in reply to his inquiries of October 2.	449
Oct. 15	<i>From the Chinese Minister</i> Information concerning the Chinese Government's acknowledgment of U. S. views with respect to Chinese representations on the silver question, and appreciation of U. S. willingness to explore, through informal discussions, the larger problems connected with the subject.	450
Oct. 15 (489)	<i>From the Consul General at Shanghai (tel.)</i> Order issued by the Chinese Government (text printed) fixing customs duty and equalization charge on exports of silver.	450
Oct. 18 (473)	<i>From the Chargé in China (tel.)</i> Exchange of telegrams with Consul General at Shanghai (texts printed) relative to report that Central Bank of China intends to export silver free of duty, and National City Bank's request for protest that this is discriminatory against all banks other than the Central Bank of China.	452
Oct. 18 (331)	<i>To the Chargé in China (tel.)</i> Intention to await detailed report from Shanghai on the question of silver shipments; advice that meanwhile the Department does not desire to lodge protest with the Chinese Government in connection with the question.	452
Oct. 24 (512)	<i>From the Consul General at Shanghai (tel.)</i> Transmittal of regulations governing the newly established Foreign Exchange Stabilization Committee as published October 23 by the Kuomin News Agency, and comment that provision 5 appears to justify the previously expressed apprehension that the Central Bank of China intends to export silver probably without payment of export duty.	453
Nov. 5 (352)	<i>To the Chargé in China (tel.)</i> Instructions to inform the banks concerned that the U. S. Government is not prepared to intercede on their behalf with respect to the imposition without prior notice of a duty on the export of silver, or the claim of the Chinese Customs that its control over export cargo continues until clearance of the exporting vessel.	454
Dec. 10	<i>Memorandum by the Under Secretary of State</i> Record of the Chinese Minister's informal transmittal of a communication from the Chinese Government (<i>infra</i>).	454
[Dec. 9(?)]	<i>From the Chinese Minister of Finance to the Chinese Minister in Washington</i> Explanation of the Chinese silver dilemma and appeal to the U. S. Government to express its views concerning some form of cooperation to facilitate currency reorganization.	455
Dec. 10	<i>To President Roosevelt</i> Transmittal of a copy of Kung's communication of December 9, and information concerning the growing anti-American feeling in China due to the U. S. silver purchasing policy; inquiry as to whether the President would consider any modification of the present policy.	455

CHINA

EFFECT OF THE SILVER-PURCHASING PROGRAM OF THE UNITED STATES GOVERNMENT UPON CHINA'S ECONOMY—Continued

Date and number	Subject	Page
1934 Dec. 18	<i>Memorandum by the Economic Adviser</i> Discussion between Department officials and the Chinese Minister concerning a message (<i>infra</i>), drafted by the Treasury Department, to be transmitted to the Chinese Government in response to its recent representations on the U. S. silver program.	456
Dec. 18	<i>From the Treasury Department</i> Draft of a cable to be sent to the Central Bank of China by the Federal Reserve Bank of New York concerning the U. S. silver purchasing program, and an invitation to send a Chinese representative to discuss further details of the matter.	457
Dec. 19 (596)	<i>From the Consul General at Shanghai (tel.)</i> For Hornbeck and Johnson from Young: Report of threatening financial panic in China, and recommendation of two alternatives to meet the situation. (Footnote: Information that the Minister to China was on leave in the United States.)	457
Dec. 27	<i>From the Chinese Minister</i> Transmittal of a cablegram from Kung expressing appreciation of the U. S. Government's cooperative attitude in the silver situation, and enclosing a message from the Central Bank of China to the Federal Reserve Bank (text printed), accepting the invitation to send a representative to participate in further discussion of the problem.	458
Dec. 28	<i>Memorandum by Mr. Raymond C. Mackay, of the Division of Far Eastern Affairs, of a Conversation Between the Chief of the Division, the Economic Adviser, and Mr. Jean Monnet of Paris</i> Exploratory discussion of proposals to stem the outflow of silver from China and to reestablish confidence in the Chinese financial structure.	459
Dec. 29 (272)	<i>To the Consul General at Shanghai (tel.)</i> For Young from Hornbeck: Advice that careful consideration is being given to the U. S. silver policy and its effects on the economy of China, and that helpful results are anticipated from the procedure outlined by the Federal Reserve Bank on December 18.	460
Dec. 31	<i>From the Secretary of the Treasury</i> Information concerning a message from the New York Federal Reserve Bank to be transmitted to the Bank of China (text printed), advising that the procedure outlined on December 18 will be terminated in one week.	461
Dec. 31	<i>Memorandum by the Secretary of State</i> Conversation with the Chinese Minister, who expressed concern over the announced termination of the recent silver arrangement between the United States and China and asked for assurance that no major silver-purchasing operations were in immediate contemplation.	461

CHINA

MEASURES TAKEN BY THE UNITED STATES FOR THE PROTECTION OF AMERICAN LIVES AND PROPERTY IN CHINA

Date and number	Subject	Page
1934 Jan. 10 (26)	<i>From the Minister in China (tel.)</i> From Peck: Chinese notification of possibility of bombing of Amoy and Foochow in military operations for the suppression of the Fukien revolt, and request that American oil companies be advised to label their properties clearly in order that they may be identified from the air.	462
Jan. 13 (33)	<i>From the Minister in China (tel.)</i> From Foochow: Report of the orderly retreat of the Nineteenth Route Army southward through Foochow and Nantai Island and of negotiations under way for the peaceful taking over of Foochow by Chinese Government through the Navy; advice that rebel regime at Foochow has agreed to the landing of a Japanese armed force on Nantai Island for the protection of Japanese lives and property.	463
Jan. 15 (37)	<i>From the Minister in China (tel.)</i> From Foochow: Information that Senior Consul has requested Doyen of diplomatic body to make representations to the Chinese Government against the serious situation caused by Nanking bombing of the Nineteenth Army line of retreat; advice that the British have landed an armed guard of 40 men and the U. S. S. <i>Tulsa</i> 20 armed marines within the past 2 days.	463
Jan. 15 (1273)	<i>To the Minister in China</i> Authorization to file a formal demand with the National Government for indemnity of pecuniary losses sustained by Dr. Casper C. Skinsnes in connection with his efforts to procure the release of Rev. Bert Nelson, a Lutheran missionary captured by the Chinese Communists in 1930.	464
Jan. 16 (41)	<i>From the Minister in China (tel.)</i> Further information on troop movements.	466
Jan. 17 (43)	<i>From the Minister in China (tel.)</i> Report from Foochow that practically all of the Nineteenth Route Army soldiers are believed to have withdrawn from Foochow and Nantai Island, and that the Nationalist flag is again flying at Foochow; also that American marines have returned to the U. S. S. <i>Tulsa</i> , the British and Japanese landing forces to withdraw shortly.	467
Mar. 3 (720)	<i>From the American Minister in China to the Chinese Acting Minister for Foreign Affairs</i> Renewal of representations against forcible occupation by the Nationalist Army of American missionary property in the Province of Fukien.	467
Mar. 13 (2586)	<i>From the Minister in China</i> Advice that the latest information on the Skinsnes case is that the money will be recovered. (Footnote: Payment on February 19, 1936, by the Chinese Government of \$4,000 Chinese currency in settlement of this claim.)	469
July 20 (221)	<i>To the Minister in China (tel.)</i> Information and instructions for reply to the Ministry for Foreign Affairs concerning Chinese charges against the Baptist mission in Western Yunnan and the alleged political activities of Rev. William M. Young and his two sons, Harold and Vincent.	470

CHINA

MEASURES TAKEN BY THE UNITED STATES FOR THE PROTECTION OF AMERICAN LIVES AND PROPERTY IN CHINA—Continued

Date and number	Subject	Page
1934 Aug. 2 (334)	<i>From the Minister in China (tel.)</i> To the Commander in Chief of the United States Asiatic Fleet: Transmittal of three telegrams from the Consul at Foochow reporting the movement of Communist bandit troops toward Foochow and requesting the dispatch of a U. S. naval vessel to Pagoda Anchorage.	471
Aug. 3 (337)	<i>From the Minister in China (tel.)</i> Information that U. S. S. <i>Sacramento</i> has been ordered to proceed to Pagoda Anchorage.	472
Aug. 17 (2921)	<i>From the Minister in China</i> Report of assurances from General Ho Ying-chin, Chairman of the Peiping Military Council, concerning measures for protection of American citizens in the Western Hills and other districts not far from Peiping.	472
Aug. 27	<i>From the Vice Consul at Foochow (tel.)</i> Advice that presence of U. S. naval vessels is not now considered necessary but that one should be ready to return to Foochow immediately.	472
Sept. 13 (413)	<i>From the Minister in China (tel.)</i> Review of the Young cases and the question of their protection and personal safety; suggestion that William Young be urged by the Baptist Foreign Mission Board to depart from Yunnan and his sons to confine themselves strictly to mission work as defined by the treaties.	473
Oct. 10 (460)	<i>From the Chargé in China (tel.)</i> From Yunnanfu, October 9: Report of imminent Communist concentration in the Province of Kweichow and suggestion that all foreigners from that Province be evacuated, possibly through Yunnan. To Canton: Recommendation that all Americans withdraw from threatened areas before means of communication are interrupted.	474
Oct. 14	<i>From the Consul at Canton (tel.)</i> Report of withdrawal of Americans from eastern and northern stations to Anshun and Tuhshan.	475
Oct. 17 (472)	<i>From the Chargé in China (tel.)</i> Telegraphic report, October 15, from Yunnanfu of increasing Communist menace to safety of Americans in Kweichow and proposed arrangements for Vice Consul Smith to proceed to Kweiyang to assist with evacuation; instructions to Yunnanfu for immediate evacuation of Americans without awaiting arrival of the Vice Consul. To the Counselor of Legation at Nanking: Instructions to address a formal note to the Foreign Minister requesting assurance of protection of Americans in Kweichow and facilitation of their withdrawal if such action becomes necessary.	475

CHINA

MEASURES TAKEN BY THE UNITED STATES FOR THE PROTECTION OF AMERICAN LIVES AND PROPERTY IN CHINA—Continued

Date and number	Subject	Page
1934 Nov. 19 (1515)	<i>To the Chargé in China</i> Review of additional information concerning the Young cases and suggestion that the Legation, in view of conclusions previously drawn by the Vice Consul at Yunnanfu and endorsed by the Legation, refrain from further representations unless new developments arise. (Footnote: Decision of Baptist Foreign Mission Board not to return the Harold Youngs to China; Rev. William M. Young's departure from Yunnan for the United States on November 1.)	476
Nov. 20 (532)	<i>From the Chargé in China (tel.)</i> From Hankow: Information that, in view of Communist troop movements to the western part of Hunan Province, Americans in that area have been advised to withdraw.	478
Nov. 23 (3155)	<i>From the Chargé in China</i> Advice that the Foreign Ministry has again been requested, pending referral of the Young cases to the Department for instructions, to protect the lives and property of the missionaries in question.	478
Dec. 12 (81)	<i>From the Consul General at Nanking (tel.)</i> Report of capture of missionary J. C. Stam and his wife and infant by Communist bandits in southern Anhwei; advice that urgent representations have been made to the Provincial and National Governments to take immediate steps for their release.	479
Dec. 13 (384)	<i>To the Chargé in China (tel.)</i> Information concerning the discovery of the bodies of Mr. and Mrs. Stam; instructions for representations on behalf of the child, who is still missing, and for arrest and punishment of the culprits.	479
Dec. 14 (85)	<i>From the Consul General at Nanking (tel.)</i> From the Commander of the U. S. S. <i>Monocacy</i> : Receipt of official report from the Provincial Government of Anhwei confirming the murder of the Stams, the recovery of their bodies, and the unknown status of the child.	480
Dec. 14 (86)	<i>From the Consul General at Nanking (tel.)</i> Summary of further details concerning the capture and death of the Stam family as reported by the Vice Consul at Nanking, who interviewed American missionaries and officers of the U. S. S. <i>Monocacy</i> .	480
Dec. 17 (89)	<i>From the Consul General at Nanking (tel.)</i> Advice that the Stam child is safe at Wuhu; that George Atcheson, Jr., Consul at Nanking, has been instructed to proceed to Wuhu and other points, if necessary, to collect additional information, bring the bodies to Wuhu, and represent the Consulate General at the burial.	481
Dec. 18 (581)	<i>From the Chargé in China (tel.)</i> From Peck to the Commander of Yangtze Patrol, December 17: Request that a vessel be stationed at Wuhu for reassurance of Americans who have been advised to concentrate there in view of the northward movement of well-armed Communist troops from southern Anhwei.	483

CHINA

MEASURES TAKEN BY THE UNITED STATES FOR THE PROTECTION OF AMERICAN LIVES AND PROPERTY IN CHINA—Continued

Date and number	Subject	Page
1934 Dec. 18 (583)	<i>From the Chargé in China (tel.)</i> From Peck: Information that the <i>Panay</i> left Nanking December 18 for Wuhu and that practically all American citizens in southern Anhwei are now reported to be in Wuhu.	483
Dec. 19 (389)	<i>To the Chargé in China (tel.)</i> Request that Peck make representations to the Foreign Office relative to the situation in Anhwei Province and for the safety of American citizens.	483
Dec. 21 (590)	<i>From the Chargé in China (tel.)</i> Increasing tenseness of the situation in Hunan as reported by five American Catholic missionaries; advice that Peck has been instructed to bring the matter to the attention of the Foreign Office immediately and to request protection for Americans there.	484
Dec. 21 (591)	<i>From the Chargé in China (tel.)</i> Advice that all Americans have been evacuated from southern Anhwei except those at Wuhu and that three gunboats (American, British, and Japanese) are now at Wuhu.	484
Dec. 25 (599)	<i>From the Chargé in China (tel.)</i> Résumé of the basic facts concerning the Stam case which will appear in Consul Atcheson's detailed report of his investigation at Wuhu.	485
Dec. 28 (397)	<i>To the Chargé in China (tel.)</i> Instructions for formal note to Foreign Office (text printed) making strong representations in the Stam case.	486
Dec. 30 (606)	<i>From the Chargé in China (tel.)</i> Information from Peck that the bodies of the Stams have reached Wuhu; that Peck has been instructed to make oral representations in the light of the Department's instruction No. 397, December 28, but opinion that the proposed note to the Foreign Office should await the receipt of Atcheson's full report of his investigation.	487
Dec. 31 (91)	<i>From the Consul General at Nanking (tel.)</i> To the Legation: Advice that Atcheson has been instructed while in Wuhu for the Stam funeral to take official action giving results of the examination of the bodies and to collect any supplementary information concerning the capture of the Stams and conditions then existing in the Tsingteh area.	488
1935 Jan. 3 (3)	<i>From the Chargé in China (tel.)</i> Delivery of a formal note to the Foreign Office dated January 2, along lines of Department's previous instructions, amended to conform with recent information and Atcheson's report.	488
Jan. 3 (1)	<i>From the Consul General at Nanking (tel.)</i> Résumé of Atcheson's report of the funeral, testimony of the Stam servants, and facts concerning the examination of the bodies; advice that full report will follow.	489

CHINA

ATTITUDE OF THE DEPARTMENT OF STATE ON THE EXPORT TO CHINA OF ARMS OR MUNITIONS, INCLUDING MILITARY AIRCRAFT

Date and number	Subject	Page
1934 Apr. 13 (167)	<i>From the Minister in China (tel.)</i> Receipt of <i>aide-mémoire</i> from the Minister of War requesting that no aeroplanes or military weapons of any kind be sold to any province or municipality in China unless they are covered by <i>huchaus</i> (permits) issued by the Central Government of China; advice that the Legation is endeavoring discreetly to ascertain whether similar request has been made of other Legations. (Footnote: Information that similar representations had not been made to other Legations.)	490
Apr. 20	<i>From the Chinese Minister</i> Information that Chinese regulations concerning the importation of war materials into China from other countries require official <i>huchaus</i> from the Central Government or permits from the proper Legations, and that any departure from this procedure will render such goods liable to confiscation.	490
Apr. 28 (196)	<i>From the Minister in China (tel.)</i> Formal note from the Foreign Office, April 21 (text printed), enumerating regulations concerning the shipment of war materials from abroad into China and reiterating representations against certain alleged violations of the usual procedure.	491
Apr. 28	<i>Memorandum by the Assistant Chief of the Division of Far Eastern Affairs of a Conversation With the Chinese Minister</i> Discussion of the Chinese request that export licenses be withheld unless shipments of arms and munitions destined for China are covered by official <i>huchaus</i> ; Department's desire to be more adequately informed with respect to the factors underlying such a request.	492
May 3 (199)	<i>From the Counselor of Legation in China (tel.)</i> Information from Vice Minister for Foreign Affairs that identic formal notes were addressed to other interested powers on April 21, and that China desires U. S. cooperation in preventing shipments of arms not covered by Chinese Government <i>huchaus</i> .	493
May 7	<i>Memorandum by the Assistant Chief of the Division of Far Eastern Affairs</i> Further discussion with the Chinese Minister, who was told that the Department, although inclined to acquiesce in the Chinese request, would prefer to learn the attitude of other interested governments before reaching a final decision.	493
May 8 (141)	<i>To the Minister in China (tel.)</i> Instructions to obtain a list of the powers to which identic notes were addressed by the Chinese Government on April 21, and to request an expression of views from the representatives of the governments concerned.	494
May 15 (209)	<i>From the Minister in China (tel.)</i> List of countries to which identic notes were addressed by Chinese Government.	496
May 17 (213)	<i>From the Minister in China (tel.)</i> Advice that inquiry has been made of Belgian, British, French, German, Italian, Japanese, and Spanish Legations as to the attitude of their Governments toward the Chinese request but that no Legation has any definite information to date in the matter.	496

CHINA

ATTITUDE OF THE DEPARTMENT OF STATE ON THE EXPORT TO CHINA OF ARMS OR MUNITIONS, INCLUDING MILITARY AIRCRAFT—Continued

Date and number	Subject	Page
1934 May 19 (218)	<i>From the Minister in China (tel.)</i> Information that the British Government has indicated adherence to its present policy provided that the Chinese Government can enforce its import regulations and that other governments conform accordingly.	497
May 28	<i>Statement Issued by the Department of State</i> Revised regulations in regard to the export to China of arms and munitions of war.	497
May 28 (156)	<i>To the Minister in China (tel.)</i> Authorization to inform the Foreign Office of certain changes in U. S. procedure effected in compliance with Chinese requests of April 20 and 21 with the understanding that the Chinese Government will enforce its regulations uniformly in respect to all imports of arms and munitions of war; request that the Consulates General at Hong Kong and Canton be instructed to study carefully British procedure in connection with the movement of arms and munitions, including aircraft, through Hong Kong to China.	499
June 2	<i>To the Secretary of Commerce</i> Information concerning revised regulations pertaining to exportation of arms and munitions to China.	500
June 7 (2774)	<i>From the Minister in China</i> Information concerning the Japanese attitude toward recent Chinese requests.	501
June 27 (2810)	<i>From the Minister in China</i> Receipt of Foreign Office note enclosing a set of regulations governing duty exemptions on articles other than munitions of war imported into China for the use of foreign armed forces stationed in China and requesting compliance therewith; advice that other interested Legations have received similar notes, but that none, except the Japanese, have reached a decision although they have expressed dissatisfaction with the plan. Legation's opinion that the U. S. reply should contain a simple statement concerning the impracticability of the regulations.	502
June 30 (942)	<i>From the Consul General at Hong Kong</i> Report on the British procedure at Hong Kong in connection with the shipment of arms and munitions, including aircraft, to China.	504
July 21 (199)	<i>From the Vice Consul at Yunnanfu</i> Observations on the nondiscriminatory application of Chinese arms export regulations by Yunnan provincial authorities.	506
Aug. 4 (265)	<i>From the British Chargé</i> Statement of British policy as related to the arms export restrictions, and inquiry as to the U. S. position on the question.	506
Aug. 10	<i>To the British Chargé</i> Information concerning U. S. procedure in regard to arms and munitions exports to China; request to be informed of conclusions reached by the British Government upon completion of its consideration of the subject, particularly with respect to interpretation of what constitutes military aircraft.	508

CHINA

ATTITUDE OF THE DEPARTMENT OF STATE ON THE EXPORT TO CHINA OF ARMS OR MUNITIONS, INCLUDING MILITARY AIRCRAFT—Continued

Date and number	Subject	Page
1934 Aug. 11	<p><i>Memorandum by the American Minister in China of a Conversation With the French Chargé in China</i></p> <p>Oral reading to the French Chargé, upon inquiry, of the U. S. reply to the Chinese Government concerning control of shipments of munitions of war; information concerning French arms shipments to Kwangsi and Kwangtung Provinces through Hong Kong.</p>	511
Aug. 27 (1440)	<p><i>To the Minister in China</i></p> <p>Authorization to reply to the Chinese Government substantially as suggested in despatch No. 2810, June 27, if and when similar action is taken by principally interested colleagues.</p>	512
Oct. 11 (3025)	<p><i>From the Chargé in China</i></p> <p>Receipt of information indicating inability of the National Government to enforce its regulations with respect to war munitions exports into territory under the control of the Southwest Political Council or into Yunnan Province; advice, however, that the situation does not impose disadvantages upon American exporters in comparison with exporters of other nationalities.</p>	513
Oct. 24 (1056)	<p><i>From the Consul at Hong Kong</i></p> <p>Report on the procedure followed at present by the Hong Kong Government in granting licenses for the exportation of arms and munitions from Hong Kong to China, and other circumstances surrounding the arms traffic in Hong Kong.</p>	513
Oct 25	<p><i>Memorandum Prepared in the Division of Far Eastern Affairs</i></p> <p>Report on the shipment from the United States to China, Hong Kong, and Macao of arms and munitions of war for the period January 1, 1932, to October 22, 1934.</p>	516
Nov. 2 (3092)	<p><i>From the Chargé in China</i></p> <p>Advice that, in view of further notification by the Foreign Office of intention to enforce regulations with respect to importation of supplies for the foreign armed services in China, communications similar to that authorized by the Department have now been addressed to the Foreign Office by the U.S., British, and French Legations.</p>	518
Nov. 20 (3147)	<p><i>From the Chargé in China</i></p> <p>Receipt of further information from the Foreign Office, November 8, concerning the purpose behind the Chinese Government's desire to control importation of supplies to foreign armed services in China; Legation's reply, reiterating its position in the matter but expressing a willingness to consider any reasonable modification of the present procedure which will afford protection to Chinese revenue by preventing irregular practices.</p>	519
Dec. 12 (396)	<p><i>From the British Ambassador</i></p> <p>Explanation of the British position concerning the export of aircraft from Great Britain to China, and inability to endorse the U.S. definition of military aircraft; comments on U.S. exporters' complaints against disadvantageous shipping regulations in Hong Kong.</p>	521

CHINA

PROPOSAL OF THE CHINESE GOVERNMENT THAT A NEW TREATY WITH THE UNITED STATES BE NEGOTIATED TO REPLACE THE COMMERCIAL TREATY OF OCTOBER 8, 1903

Date and number	Subject	Page
1934 Jan. 9 (6)	<i>To the Minister in China (tel.)</i> Formal reply (text printed) to Foreign Office note of December 23, 1933, requesting that Chinese Government supply further information as to its plans and proposals for negotiation of a new treaty. Instructions to inform British colleague of substance of the notes.	523
Jan. 11 (28)	<i>From the Minister in China (tel.)</i> Advice that the U. S. note has been mailed to Peck for delivery to the Foreign Office on January 13.	524
Jan. 11	<i>From the British Embassy</i> Advice that China has asked British Government for negotiation of a new treaty to replace the Sino-British Treaty of 1902; that no reply has been sent pending receipt of further information from Peiping.	524
Jan. 23 (56)	<i>From the Minister in China (tel.)</i> Foreign Office acknowledgment, January 18 (text printed), of U. S. note of January 13, and expression of China's desire to abrogate the existing treaty provisions concerning extraterritoriality and inland river and coastal navigation.	525
Mar. 13 (64)	<i>To the Minister in China (tel.)</i> Background information concerning the problem of extraterritoriality for Peck's guidance in an informal discussion with a responsible Chinese official; Department's view that there is need for reconsideration of the Chinese policy of taking up with each of the various powers separately the question of extraterritorial jurisdiction in China.	526
Mar. 22 (132)	<i>From the Minister in China (tel.)</i> Request for clarification of the Department's instruction No. 64, March 22, as to whether the Department proposes joint rather than separate negotiations between the powers and China concerning extraterritoriality, inasmuch as Japanese participation in any joint discussions at this time would be likely to create an embarrassing situation.	529
Mar. 27 (141)	<i>From the Minister in China (tel.)</i> Offer of two suggestions for meeting the Chinese request for negotiation of a new commercial treaty.	529
Apr. 4 (95)	<i>To the Minister in China (tel.)</i> Instructions to acknowledge Chinese note of January 18 stating that the U. S. Government is giving consideration to the questions raised therein, but to hold in abeyance Department's instruction No. 64, March 22, pending receipt of British views on the subject.	530
Apr. 4 (317)	<i>To the Ambassador in Great Britain</i> Instructions to discuss informally with the Foreign Office the Department's views concerning revision of the Sino-American Treaty of 1903 and especially the question of extraterritoriality; to ascertain the status of negotiations for revision of the Sino-British Treaty of 1902; and to ascertain the British attitude toward possibility of approaching problems on parallel lines and with synchronized action.	530

CHINA

PROPOSAL OF THE CHINESE GOVERNMENT THAT A NEW TREATY WITH THE UNITED STATES BE NEGOTIATED TO REPLACE THE COMMERCIAL TREATY OF OCTOBER 8, 1903—Continued

Date and number	Subject	Page
1934 June 2 (158)	<i>To the Minister in China (tel.)</i> Information that the British Minister in China has been instructed by his Government to keep in touch with his American colleague in any discussions that may arise on the question of extraterritoriality.	532
June 5 (229)	<i>From the Minister in China (tel.)</i> British Legation's receipt of authorization to negotiate with the Chinese on general treaty revision matters but withhold consideration of revision of the extraterritorial clauses of any treaty until discussions of extraterritoriality have reached a mature stage with other powers; advice that no action has been taken as yet upon this authorization.	533
June 14 (248)	<i>From the Minister in China (tel.)</i> Exchange of views with the British Minister and general agreement that nothing should be done at present but to await further inquiry by the Chinese.	533
June 15 (172)	<i>To the Minister in China (tel.)</i> Concurrence in the Minister's view that no further action is required as the matter now stands; authorization, however, to take similar action if the British Minister receives instructions to carry out previous authorization as set forth in telegram No. 229, June 5.	534
July 6 (291)	<i>From the Minister in China (tel.)</i> Information that the British Legation on June 21 acknowledged the Foreign Office note concerning the Sino-British treaty and stated that it had been forwarded to the British Government for consideration.	535

DISINCLINATION OF THE AMERICAN GOVERNMENT TO RAISE ITS LEGATION IN CHINA TO THE STATUS OF AN EMBASSY

1934 Mar. 3	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Conversation with the Italian Ambassador, who related information from Rome that the Chinese Minister said he "was going to raise" the Chinese Legation there to the rank of Embassy and implied similar action at Washington, London, and Paris.	535
Sept. 25 (84)	<i>To the Ambassador in Italy (tel.)</i> Confidential information from the Italian Embassy that the Italian Government has decided to raise its Legation in China to the grade of Embassy; instructions to ascertain if possible conclusiveness of the reported decision and reasons therefor.	536
Sept. 26 (206)	<i>From the Ambassador in Italy (tel.)</i> Report on the probable reasons for raising the Italian Legation at Peiping to the status of Embassy, the two most significant being the influence of Ciano, son-in-law of Mussolini, and Italy's opposition to Japan.	537

CHINA

DISINCLINATION OF THE AMERICAN GOVERNMENT TO RAISE ITS LEGATION IN CHINA TO THE STATUS OF AN EMBASSY—Continued

Date and number	Subject	Page
1934 Sept. 26 (208)	<i>From the Ambassador in Italy (tel.)</i> Transmittal of press release announcing the Italian decision to raise its diplomatic representation in China to the rank of Embassy.	537
Sept. 27 (311)	<i>To the Minister in China (tel.)</i> Summary of information received to date concerning the recent decision of the Italian Government with respect to its diplomatic representation in China.	538
Sept. 27 (211)	<i>From the Ambassador in Italy (tel.)</i> Further information concerning the decision of the Italian Government to locate its Embassy at Shanghai; Foreign Office comment, upon inquiry, that consultation with other powers concerning the contemplated change in diplomatic status was not necessary in this instance.	539
Sept. 28	<i>Memorandum by the Secretary of State</i> Conversation with the Chinese Minister, who inquired whether the U. S. Government would be disposed to raise its Legation in China to the rank of Embassy as Italy has proposed to do.	539
Sept. 29 (708)	<i>From the Ambassador in France (tel.)</i> Report of French and British concern over the Italian decision to raise its Legation in China to an Embassy.	540
Oct. 9 (220)	<i>From the Chargé in Japan (tel.)</i> Report of British inquiry as to the Japanese attitude toward the Italian decision to raise its Legation in China to an Embassy, and reply from the Foreign Office that Japan would not be influenced by Italy into any precipitate action.	540
Oct. 9	<i>Memorandum by the Under Secretary of State</i> Conversation with the Chinese Minister, who was told that the United States has decided not to follow the Italian lead in raising its Legation in China to the rank of Embassy.	541
Oct. 9 (174)	<i>To the Chargé in Japan (tel.)</i> Advice that the Department has informed the British Embassy of its view that the present is not an opportune time to make a change in its diplomatic representation to China and that the Department would first confer with interested governments before making a change of this character; further advice that the Japanese Embassy was also orally informed to this effect.	541
Oct. 22	<i>Memorandum by the Under Secretary of State of a Conversation With the British Ambassador</i> Concurrence in the understanding that the United States, Great Britain, and France stand together in the opinion that the present is not the proper time to establish Embassies in Peiping, and further, that neither of the three powers will take such action without previous consultation with the other two.	541
Nov. 9 (246)	<i>From the Chargé in Italy (tel.)</i> Report of Italian announcement, November 9, of the appointment of Lojacono, Italian Ambassador to Turkey, as Ambassador to China.	542

CHINA

EFFORTS FOR THE CONSIDERATION OF AMERICAN CLAIMS OUTSTANDING AGAINST CHINA

Date and number	Subject	Page
1934 Jan. 20 (47)	<i>From the Minister in China (tel.)</i> Discussion between Wang Ching-wei, President of Executive Yuan and Acting Foreign Minister, and Counselor of Legation Peck concerning Chinese nonacquiescence in the American proposal for the establishment of a Sino-American claims commission; Wang's offer of two alternate suggestions for adjustment of debt situation.	542
Feb. 8 (1291)	<i>To the Minister in China</i> Instructions for presentation of claims for losses resulting from the looting of American property; advice that the Department is studying the question of ownership of property in the hands of Chinese who act as sales agents of American nationals, and the status of claims for losses of such property.	543
Feb. 16 (41)	<i>To the Minister in China (tel.)</i> Instructions to inform the Chinese Government of the U. S. opinion that its reasons for refusing to cooperate in the establishment of a claims commission are wholly inadequate; further instructions assiduously to press the Chinese Government toward acceptance of the American proposal.	544
Feb. 20 (93)	<i>From the Minister in China (tel.)</i> Request for authorization to join in British draft joint memorandum (text printed) protesting against Chinese default in the service of the Hukuang Railway loan agreement of 1911.	546
Feb. 21 (49)	<i>To the Minister in China (tel.)</i> Authorization to sign the British joint memorandum and suggestions for minor changes in phraseology.	547
Mar. 21 (127)	<i>From the Minister in China (tel.)</i> Receipt of Foreign Office note (excerpt printed) proposing a discussion of debt procedure between delegates appointed by the Chinese Ministries of Foreign Affairs, Finance, Communications and Railways with U. S. delegates; suggestion that Foreign Office be advised that proposal is unsatisfactory and designed to delay a definite solution of the matter.	547
Mar. 22	<i>Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With the Chinese Minister</i> Chinese Minister's inquiry as to the Department's attitude toward the latest Chinese proposal of a separate bureau to study the claims question; Hornbeck's comments concerning the apparent indifference of the Chinese Government toward effecting an equitable solution, and advice that the Department is considering the latest Chinese proposal but has not yet reached a conclusion.	548
Mar. 27 (78)	<i>To the Minister in China (tel.)</i> Concurrence in the Minister's suggestion concerning Chinese proposal reported in his telegram No. 127, March 21, and instructions also to inform Foreign Office that no adequate or convincing objections have been offered to date against the American proposal for a joint claims commission.	550

CHINA

EFFORTS FOR THE CONSIDERATION OF AMERICAN CLAIMS OUTSTANDING AGAINST CHINA—Continued

Date and number	Subject	Page
1934 Apr. 18 (29)	<i>From the Consul General at Nanking (tel.)</i> Information concerning a resolution passed by the Executive Yuan, April 17, to the effect that all American claims of unquestionable validity would be officially acknowledged upon presentation by the U. S. Government, and that a tribunal would be created for consideration of the doubtful claims if the quantity of claims justified such action.	551
Apr. 18 (181)	<i>From the Minister in China (tel.)</i> Opinion that the Chinese action reported in telegram No. 29, April 18, represents a diplomatic gesture prompted by the present Sino-Japanese crisis.	551
Apr. 19 (119)	<i>To the Minister in China (tel.)</i> Instructions for Peck to obtain as promptly as possible a written statement from the Chinese Government confirming the implied offer outlined in telegram No. 29, April 18; request for the Legation's views on the Chinese offer.	552
Apr. 21 (186)	<i>From the Minister in China (tel.)</i> Opinion that, although the Chinese request for a list of American claims appears to be sincere, the move is an additional bid for delay and subterfuge; belief, however, that the Department should supply a selected list of unquestionable claims and await developments.	552
Apr. 24 (192)	<i>From the Minister in China (tel.)</i> Unsigned memorandum received by Peck from Dr. Wang in person, April 21 (text printed), confirming the Chinese resolution of April 17; suggestion that Peck be authorized to present an acknowledgment of the memorandum to the Foreign Office stating that the proposal has been forwarded to the Department.	553
Apr. 26 (128)	<i>To the Minister in China (tel.)</i> Authorization for Peck to follow the procedure outlined in telegram No. 192, April 24; concurrence in the Legation's views set forth in telegram No. 186, April 21, and authorization to proceed accordingly.	553
Apr. 26 (2691)	<i>From the Minister in China</i> Substance of comments by Mr. Suma, Secretary of the Japanese Legation, concerning the Japanese policy of forbidding individual creditors to make individual arrangements with Chinese railways; opinion that the real Japanese motive is to retain unliquidated obligations in a form which will lend itself more readily to use as diplomatic pressure.	554
May 29 (225)	<i>From the Minister in China (tel.)</i> Suggestion for a change of procedure in the presentation of the list of American claims to the Chinese Government, as of possible help in securing the establishment of a claims commission.	554
June 1 (157)	<i>To the Minister in China (tel.)</i> Approval of proposed procedure, with certain instructions, including suggestions that no looting claims be included in the list and no attempt made to state the legal basis of the claims presented.	555

CHINA

EFFORTS FOR THE CONSIDERATION OF AMERICAN CLAIMS OUTSTANDING AGAINST
CHINA—Continued

Date and number	Subject	Page
1934 June 6 (231)	<i>From the Minister in China (tel.)</i> Request for the Department's approval to include all looting claims as a measure calculated to convince the Chinese Government of the desirability of the establishment of a claims commission.	556
June 8 (163)	<i>To the Minister in China (tel.)</i> Authorization to include looting claims provided that the remaining points of instruction No. 157, June 1, are followed.	556
June 30 (282)	<i>From the Minister in China (tel.)</i> Request for authorization to sign a British memorandum to the Foreign Office protesting default on June 15 of the service of the Hukuang loan.	557
July 5 (197)	<i>To the Minister in China (tel.)</i> Authorization to sign the British memorandum with certain minor changes in phraseology. (Footnote: Information that the suggested changes were incorporated in a joint memorandum dated August 10, 1934.)	557
Aug. 27 (2940)	<i>From the Minister in China</i> Information concerning the Foreign Office reply to the joint memorandum regarding Hukuang loan pleading insufficiency of customs revenues.	558
Oct. 6	<i>Memorandum of Conversation, by the Counselor of Legation in China</i> Further discussion with Wang Ching-wei of the American proposal for the establishment of a claims commission, and indication from Dr. Wang's remarks that the Chinese Government has made no further progress toward acceptance of the plan <i>in toto</i> than adoption of the resolution of April 17 by the Executive Yuan.	558
Oct. 12	<i>To Mr. Thomas W. Lamont of J. P. Morgan & Co.</i> Department's views concerning the proper approach to be made to the Chinese Government in connection with its obligations under the Hukuang loan agreement.	560
Oct. 25	<i>From the American Group of the China Consortium</i> Recommendation that the Department urge other interested governments toward stronger representations to the Chinese Government concerning its obligations under the Hukuang loan in view of reliable information that the Foreign Minister's plea of insufficient customs revenues appears to be a statement contrary to fact.	561

CHINA

RESTRICTIONS BY CHINA UPON THE IMPORTATION OF CERTAIN INDUSTRIAL CHEMICALS

Date and number	Subject	Page
1934 Aug. 22 (2928)	<i>From the Minister in China</i> Background information concerning the unsuccessful attempt of an American firm to secure a permit from the Saltpeter and Sulphur Bureau of Kiangsi for the importation into China of certain industrial chemicals; opinion that, in view of China's right to restrict the traffic in such commodities on the basis of classifying them as munitions of war, and in the absence of discrimination against American merchants, no valid complaint can be registered against the policy of the Chinese Government.	562
Oct. 22 (1493)	<i>To the Chargé in China</i> Concurrence in the Legation's view on the industrial chemicals question.	563

REPRESENTATIONS AGAINST RESTRICTIONS IMPOSED BY THE CANTONESE AUTHORITIES UPON THE SALE OF LIQUID FUEL BY FOREIGN COMPANIES

1934 Jan. 16 (39)	<i>From the Minister in China (tel.)</i> Advice that, pending receipt of further information concerning the granting by Chinese authorities at Canton of subsidies to native oil distillers, the Legation is taking no action on behalf of American oil companies.	564
Jan. 31 (2495)	<i>From the Minister in China</i> Information concerning U. S. and British representations to both Foreign Office and local officials at Canton protesting discrimination against foreign oil companies in the collection of the kerosene tax by the action of the provincial government in granting a rebate to Chinese refiners in the form of a subsidy.	565
May 7 (139)	<i>To the Minister in China (tel.)</i> To Canton: Authorization to remind the Southwest Political Council and Canton officials on some opportune occasion of their obligation to observe treaties between China and the foreign powers.	565
June 14 (2782)	<i>From the Minister in China</i> Information concerning representations by U. S. and British Consuls General at Canton in an attempt to forestall the establishment of a quota system at the insistence of the government-protected refiners, and their receipt of verbal assurances that no quota project was being considered.	566

EFFORTS OF THE UNITED STATES TO MEET SITUATION CREATED BY IMPOSITION IN CHINA OF TAXES CONSIDERED UNFAIR TO AMERICAN TRADE

1934 Oct. 2 (316)	<i>To the Minister in China (tel.)</i> Authorization to discuss informally with the appropriate Chinese officials the unfortunate situation created by the collection in various parts of China of illegal and discriminatory taxes coupled with the proposed application of an import tax on American leaf tobacco.	566
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LIST OF PAPERS

LV

CHINA

EFFORTS OF THE UNITED STATES TO MEET SITUATION CREATED BY IMPOSITION
IN CHINA OF TAXES CONSIDERED UNFAIR TO AMERICAN TRADE—Continued

Date and number	Subject	Page
1934 Oct. 3 (1466)	<p><i>To the Minister in China</i></p> <p>Instructions to make representations to the Chinese Government to the effect that certain of the means for assisting domestic industry as outlined in the Industrial Encouragement Act would appear to contravene various treaty commitments of the Chinese Government and that in consequence the Legation reserves such rights of American nationals as may be adversely affected by the operation of the Act.</p>	567
Nov. 9 (3129)	<p><i>From the Chargé in China</i></p> <p>Advice that Department's instructions were carried out after discussion with British Legation, which is addressing a formal note to the Chinese Government citing various causes of complaints on behalf of British capital in China, none of which would appear to afford a basis for representations against the Industrial Encouragement Act.</p> <p>(Footnote: Information from the Minister, March 7, 1935, of Foreign Office assurance that the Act would not interfere with the utilization of foreign capital and technical cooperation.)</p>	568
Nov. 28 (543)	<p><i>From the Chargé in China (tel.)</i></p> <p>Information concerning repeated Foreign Office requests that U. S. and other interested Legations comply with the Chinese regulations pertaining to the business tax law. Advice that the French Legation has refused to comply, while the British Legation is considering granting permission to tax British nationals on a nondiscriminatory basis, under certain safeguards, and desires the Department's views concerning agreement to a similar line of action.</p>	570
Dec. 6 (377)	<p><i>To the Chargé in China (tel.)</i></p> <p>Advice that the Department is not in a position to endorse the British proposal; that, however, the Department would consider an alternative procedure in the event that other interested governments indicate a willingness to acquiesce in the tax question.</p>	571
Dec. 31 (401)	<p><i>To the Minister in China (tel.)</i></p> <p>Instructions to act in accordance with Department's telegram No. 316, October 2, in connection with any further action toward the proposed increase in leaf tobacco import duties.</p>	572
1935 Jan. 9 (10)	<p><i>From the Chargé in China (tel.)</i></p> <p>Representations by Counselor of Legation Peck at Nanking, in accordance with Department's No. 401, December 31, and Chinese reply that the increased import duty on leaf tobacco has already been officially sanctioned but not yet enforced.</p> <p>(Footnote: Report from Peck, January 28, 1935, that the Chinese Government had abandoned its intention to double the import duty on leaf tobacco.)</p>	572

CHINA

DENIAL TO AMERICAN FIRMS OF RIGHT TO FORMAL HEARING UNDER THE CHINESE CUSTOMS RULES OF 1868

Date and number	Subject	Page
1934 Jan. 9 (2459)	<i>From the Minister in China</i> Summary of developments during the past year in respect of arbitrary action by the Customs toward American firms; advice that the Inspector General of Customs has been furnished a list of the principal cases involved.	573
Jan. 18	<i>From the Inspector General of Chinese Customs to the American Minister in China</i> Observations and comments concerning developments in the Socony-Vacuum, Frazar, and International Truck and Storage Company cases at Lungkow, Tsingtao, and Shanghai, respectively; reiteration of the Inspectorate's policy opposing arbitrary action by the Customs against merchants.	457
Feb. 1	<i>From the American Minister in China to the Inspector General of Chinese Customs</i> Inability of the Legation to accept the position of the Customs on certain issues involved in the cases previously discussed; further representations in view of recent developments in the Frazar case and notification of intention to bring the matter to the attention of the Foreign Office.	579
Feb. 10 (706)	<i>From the American Minister in China to the Chinese Acting Minister for Foreign Affairs</i> Representations against the Foreign Ministry's interpretation of the Treaty of 1928 as implying the relinquishment by the United States of its rights established by prior treaties, and insistence that the cases of confiscation involving property of American citizens seized by the Custom House authorities be adjudicated under the Customs Rules of 1868.	581
Mar. 7	<i>From the Chinese Acting Minister for Foreign Affairs to the American Minister in China</i> Reiteration of the Chinese position in regard to Rules of 1868, and refusal to recognize the protest and reservations made by the Legation.	583
Nov. 5 (1503)	<i>To the Chargé in China</i> Instructions to ascertain the views of other interested governments concerning the Chinese Government's disregard of the Rules of 1868; summary (text printed) of treaty provisions for examination in connection with the question of the establishment and present status of the Rules of 1868.	585

RESERVATION OF AMERICAN RIGHTS IN PROPOSED CHANGES FOR CONTROL OF PILOTAGE AT SHANGHAI

1931 July 8 (1082)	<i>From the Minister in China</i> Request for instructions as to the attitude that the Legation and Consul General at Shanghai should assume in the event that the Chinese Government attempts to enforce recent regulations pertaining to Government control of pilotage at Shanghai.	591
Sept. 29 (352)	<i>To the Minister in China (tel.)</i> Opinion that the present system of control of the Shanghai pilot service may not be legally changed without the consent of the interested powers; request for views of the Legation and Consulate General at Shanghai, and of the other interested foreign representatives as to the attitude to be taken if China should attempt to put new regulations into effect.	592

CHINA

RESERVATION OF AMERICAN RIGHTS IN PROPOSED CHANGES FOR CONTROL OF PILOTAGE AT SHANGHAI—Continued

Date and number	Subject	Page
1931 Oct. 15 (776)	<i>From the Minister in China (tel.)</i> From Shanghai, October 14: Request for further clarification of the Department's views concerning control of pilotage; division of opinion among colleagues as to the applicability of references cited in support of the Department's views.	593
Nov. 2 (403)	<i>To the Minister in China (tel.)</i> List of treaty citations for study in connection with regulations governing pilots at Shanghai.	593
Nov. 25 (1006)	<i>From the Minister in China (tel.)</i> From Shanghai, November 24: Report of meetings of the Pilotage Board on October 23 and November 10 upon completion of investigation of conditions of the Shanghai pilotage service; request for instructions as to the attitude to assume at the next meeting on December 1, in view of a new proposal for compulsory pilotage of vessels of 450 feet.	594
Nov. 28 (441)	<i>To the Minister in China (tel.)</i> Reiteration of the Department's opinion that the present system of the Shanghai pilotage service may not be legally changed without consent of the interested powers; instructions, however, for Consul General at Shanghai to cooperate with his colleagues and make no objection to proposed changes, but reserving rights of American nationals under existing system.	595
Dec. 8 (1058)	<i>From the Minister in China (tel.)</i> From Shanghai, December 5: Information that proposal concerning compulsory pilotage of vessels over 450 feet would discriminate against American ships; intention to propose that compulsory pilotage, if it is desirable, should apply to all ocean-going vessels.	596
Dec. 11	<i>From the Consul General at Shanghai (tel.)</i> Inquiry as to whether compulsory pilotage exists by law in principal U. S. ports for merchant vessels.	597
Dec. 14	<i>To the Consul General at Shanghai (tel.)</i> Advice that under the respective State laws pilotage is required in principal U.S. ports for all vessels engaged in foreign trade.	597
1934 Apr. 10 (1338)	<i>To the Minister in China</i> Further comments in support of the Department's opinion that the General Pilotage Regulations of 1868 cannot be revised by the Chinese Government without the consent of the powers still possessing extraterritorial rights in China.	597
Apr. 10 (745)	<i>From the American Minister in China to the Chinese Acting Minister for Foreign Affairs</i> Representations against the unilateral abrogation or modification of the pilotage regulations by the Chinese Government; U. S. willingness, however, to consider any reasonable proposals for changes in the regulations provided certain safeguards are assured.	599
May 3 (2702)	<i>From the Minister in China</i> Information from Shanghai concerning efforts of the Ministry of the Navy to negotiate through irregular channels the question of pilotage authority to the exclusion of the Chinese Maritime Customs, while the same question is under negotiation by the interested Legations with the Foreign Office and the Ministry of Finance.	600

CHINA

RESERVATION OF AMERICAN RIGHTS IN PROPOSED CHANGES FOR CONTROL OF
PILOTAGE AT SHANGHAI—Continued

Date and number	Subject	Page
1934 June 21 (258)	<i>From the Minister in China (tel.)</i> Steps taken by the Chinese Government to meet the objections of the interested powers to the new pilotage regulations unilaterally established; indication of emergency measures, however, for the renewal of pilot licenses on July 1 in the event that the Commissioner of Customs refuses renewal.	601
June 21 (260)	<i>From the Minister in China (tel.)</i> From Shanghai, June 21: Advice that the Acting Harbor Master has been authorized to extend the licenses of pilots who are members of the Shanghai Pilots Association for 90 days from July 1.	602
June 23 (263)	<i>From the Minister in China (tel.)</i> From Counselor of Legation Peck, Nanking, June 21: Receipt of a copy of the Revised Provisional Pilotage Regulations, June 1934, the revision having been made on the basis of representations from interested powers.	603
June 25 (185)	<i>To the Minister in China (tel.)</i> Department's approval of the precautionary plan for renewal of pilot's licenses referred to in Minister's telegram No. 258, June 21.	603
June 29 (279)	<i>From the Minister in China (tel.)</i> Report of the successful completion of examination for pilot's license by Apprentice Pilot C. F. Erbe, an American citizen whose case had been delayed by the Chinese Government.	603
Sept. 18 (298)	<i>To the Minister in China (tel.)</i> General instructions to cooperate with interested colleagues and to continue working toward a satisfactory arrangement which will provide adequate safeguards for the American interests involved and at the same time be acceptable to the Chinese authorities.	604
Oct. 22 (480)	<i>From the Chargé in China (tel.)</i> Report that the Chinese, as a result of Japanese and French representations against modification of the present regulations, may drop the matter of revision.	604
Dec. 20 (588)	<i>From the Chargé in China (tel.)</i> Advice that British negotiations with the Inspector General of Customs have resulted in agreement on the revised pilotage regulations embodying amendments which had been sought by the principally interested powers other than Japan and France; belief that the Chinese Government will offer this proposal officially and that the U. S. Government should accept it with certain provisions, and reserving certain treaty rights.	604
Dec. 26 (395)	<i>To the Chargé in China (tel.)</i> Department's concurrence in the recommendations set forth in telegram No. 588, December 20, and authorization to take action accordingly.	606

CHINA

AMERICAN INTEREST IN PROBLEMS AFFECTING THE INTERNATIONAL SETTLEMENT
AT SHANGHAI

Date and number	Subject	Page
1934 Mar. 17 (125)	<i>From the Minister in China (tel.)</i> Comments on a proposal by the Japanese Consul General concerning the policing of extra-Settlement roads area, which has been forwarded to Central Government by the Chinese authorities at Shanghai; recommendation that the proposal be accepted, in view of the prolonged negotiations attending the question, but that active support be withheld.	607
Mar. 21 (71)	<i>To the Minister in China (tel.)</i> Department's approval of the Legation's recommendation, and authorization to instruct Shanghai accordingly; instructions, however, to keep in mind the Department's views that the matter should be settled by local agreement.	608
May 10 (7933)	<i>From the Consul General at Shanghai to the Minister in China</i> Comments on certain items in the Japanese Consul General's proposal and the attitude of the British Consul General and the Shanghai Municipal Council concerning them.	608
Oct. 5 (450)	<i>From the Minister in China (tel.)</i> Facts concerning a judicial dispute between the Shanghai Municipal Council and the Chinese District Court with respect to the arraignment of certain Chinese detectives of the International Settlement police force; opinion that the Council should be supported in its stand, set forth in its letter of September 19 to the Court (excerpt printed). (Footnote: Department's approval, October 10, of Legation's recommendations.)	610
Dec. 6 (3176)	<i>From the Chargé in China</i> Receipt of information as to the fundamental views of the Japanese Government on the scope of the proposed extra-Settlement roads agreement; advice that the Legation has instructed the Consul General at Shanghai to avoid discussion of the Japanese demands and to refrain from endorsing the Japanese fundamental views.	613

CONCURRENCE IN PROPOSED ALTERATION OF THE STATUS OF THE KULING ESTATE
IN KIANGSI, CHINA

1933 Dec. 1 (385)	<i>To the Minister in China (tel.)</i> Advice that the Department questions the advisability of opening negotiations toward rendition of the Kuling Estate to China in view of the possible impairment of the rights of American lot owners and the uncertain status of the administration of the area involved.	614
Dec. 28 (938)	<i>From the Minister in China (tel.)</i> Indication of circumstances under which Legation would interpose no objection to opening of negotiations and would instruct Consul at Hankow accordingly; inquiry as to Department's approval. (Footnote: Department's approval, December 29.)	615

CHINA

CONCURRENCE IN PROPOSED ALTERATION OF THE STATUS OF THE KULING ESTATE IN KIANGSI, CHINA—Continued

Date and number	Subject	Page
1934 Nov. 15 (525)	<i>From the Chargé in China (tel.)</i> Advice that the British Legation has been authorized to conclude the proposed agreement with certain minor changes in the draft; recommendation that Consul at Hankow be authorized to concur in the conclusion of the agreement according to the British version.	616
Nov. 20 (365)	<i>To the Chargé in China (tel.)</i> Authorization to concur in the conclusion of the agreement as outlined in telegram No. 525, November 15. (Footnote: Information that rendition of the Kuling Estate to China took place on January 1, 1936.)	616

RE-REGISTRATION OF TITLE DEEDS TO REAL PROPERTY OF AMERICANS IN CHINA

1934 Mar. 26 (1327)	<i>To the Minister in China</i> Approval of certain recommendations previously offered by the Legation with respect to the applicability to American nationals of Chinese regulations governing the registration and taxation of land in China.	617
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REGISTRATION OF AMERICAN AND OTHER FOREIGN PUBLICATIONS UNDER THE CHINESE PRESS LAW

1934 Jan. 18 (13)	<i>To the Minister in China (tel.)</i> Authorization to reply to a Foreign Office note of November 17, 1933, stating U. S. willingness to endorse voluntary <i>pro forma</i> registration of American publications with the Ministry of Interior but refusal to endorse any compulsory measures or to recognize applicability of the Chinese press laws to American nationals. (Footnote: Information that the U. S. and British Legations replied to the Foreign Office on February 14, 1934.)	618
Nov. 20 (3152)	<i>From the Chargé in China</i> Chinese Government's recommendation that all Chinese and foreign newspapers or periodicals published in China be registered before the end of February 1935; advice that the Legation has reiterated its position in the matter and has instructed the consular officers concerning certain safeguards to be pointed out to those American publishers who find it expedient to register.	618

CHINESE CENSORSHIP RESTRICTIONS UPON AMERICAN MOTION PICTURES IN CHINA

1934 Apr. 9	<i>From the Counselor of Legation in China</i> Account of the successful conclusion of lengthy negotiations by the Metro-Goldwyn-Mayer Studios to obtain permission to take motion pictures in China for use in connection with a film production of the novel "The Good Earth."	620
----------------	---	-----

CHINA

CHINESE CENSORSHIP RESTRICTIONS UPON AMERICAN MOTION PICTURES
IN CHINA—Continued

Date and number	Subject	Page
1934 Apr. 23	<i>From the Counselor of Legation in China</i> Report on recent changes in the official organization controlling the motion picture industry in China whereby control over motion picture matters has passed in large measure from the Government to the Kuomintang.	622
July 2 (1400)	<i>To the Minister in China</i> Instructions for the guidance of Counselor of Legation Peck in connection with informal representations against Chinese censorship of amateur motion pictures.	624

OBJECTION BY CHINA TO OPERATION OF AN UNLICENSED RADIO STATION BY AN
AMERICAN CITIZEN IN HUPEH; REGISTRATION OF AMERICAN AND OTHER
RADIO RECEIVING SETS

1934 Mar. 22 (2603)	<i>From the Minister in China</i> Receipt of a report from the Consul General at Hankow concerning a Chinese demand that an unlicensed radio station operated by Rev. R. J. Mueller, an American citizen, at Shihnan, Hupeh, be dismantled; Legation's recommendation that the Consul General withhold his proposed suggestion that Mueller acquiesce in the Chinese demand pending further inquiry into the Chinese laws.	625
Apr. 19 (182)	<i>From the Minister in China (tel.)</i> To Shanghai: Instructions to refrain from suggesting that Americans register their receiving sets and to request information from the Bureau of International Telegraphs as to regulations requiring such registration and as to the authority under which such regulations were issued.	627
Apr. 21 (122)	<i>To the Minister in China (tel.)</i> Approval of the Legation's instructions to Shanghai and request for information concerning developments.	628
May 3 (134)	<i>To the Minister in China (tel.)</i> Approval of the Legation's proposed instructions to the Consul General at Hankow concerning the unlicensed radio station operated by Mueller.	628
Aug. 8 (1426)	<i>To the Minister in China</i> Nonobjection to the procedure adopted by the Legation concerning the voluntary registration of American-owned receiving sets.	628
Oct. 3 (3015)	<i>From the Minister in China</i> Advice that the Consul General at Hankow has been authorized to acquiesce in a Chinese proposal for the solution of the Mueller case with a reservation designed to permit a continuance of efforts to obtain a license for the operation of the station should Mueller desire to resume its use.	629

JAPAN

POLITICAL DEVELOPMENTS IN JAPAN AND EFFORTS TO IMPROVE RELATIONS WITH
THE UNITED STATES

Date and number	Subject	Page
1934 Jan. 11 (639)	<i>From the Ambassador in Japan</i> Comments on the significance to the political life of Japan of the birth of Crown Prince Akihito; opinion that intrigues to compel the Emperor to abdicate will subside and the political stability of the Imperial Court will be strengthened.	631
Feb. 1 (32)	<i>From the Chargé in Great Britain (tel.)</i> Information that Japanese Ambassador-designate Saito will sail for America on February 3; that he has expressed his desire to seek from President Roosevelt an assurance that the United States would not use force in its future relations with Japan.	633
Feb. 2	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Attitude which should be assumed by the Department in the event that Ambassador Saito seeks from the President an assurance that the United States will not use force in its future relations with Japan or some assurance as to U. S. peaceful intent toward Japan.	634
Feb. 16 (16)	<i>To the Ambassador in Japan (tel.)</i> Receipt by the President of an invitation from the Pan Pacific Association to visit Japan; instructions to express informally to the Vice President of the Association the President's appreciation of the invitation and his inability to accept due to the pressure of his public duties.	635
Feb. 28	<i>Memorandum by the Assistant Chief of the Division of Far Eastern Affairs</i> Conversation, in London, with the Japanese Ambassador to Great Britain, who expressed the opinion that a policy of non-spectacular action to build up friendship would best serve to improve relations between the United States and Japan, and who advocated an adjustment of the immigration question.	636
Mar. 2	<i>From the Japanese Ambassador</i> Communication from the Japanese Foreign Minister (text printed) advising Ambassador Saito of a recent Japanese order for the suppression of certain types of publications considered harmful to Japan's relations with foreign powers.	637
Mar. 9 (702)	<i>From the Ambassador in Japan</i> Résumé of press reports concerning a meeting of the Budget Committee of the House of Peers on February 23 at which discussions were centered upon the importance of creating a mutual understanding between the United States and Japan with regard to their respective positions and the question of concluding an agreement establishing the division of the Pacific Ocean into Japanese and American zones.	638
Mar. 22	<i>Memorandum by the Secretary of State</i> Conversation with the Italian Ambassador, who was told, upon inquiry, that no important subjects have been discussed between the United States and Japan other than matters contained in the recent exchange of notes between Secretary Hull and Japanese Foreign Minister Hirota. (Footnote: Information that a similar inquiry was made by the Belgian Ambassador on the same day.)	639

JAPAN

POLITICAL DEVELOPMENTS IN JAPAN AND EFFORTS TO IMPROVE RELATIONS WITH THE UNITED STATES—Continued

Date and number	Subject	Page
1934 Mar. 26 (139)	<i>From the Minister in China (tel.)</i> From Nanking, March 24: Comments made to the press by the Foreign Office concerning the recent U. S.-Japanese exchange of notes confirming the fact that no important negotiations are under way.	639
Apr. 3	<i>Memorandum by the Secretary of State</i> Transmittal by the Japanese Ambassador of translations of Japanese news reports concerning the U. S.-Japanese exchange of notes, which were unanimously favorable in tone and comment.	640
Apr. 5 (726)	<i>From the Ambassador in Japan</i> Comments as to the frequency with which so-called "unofficial envoys of good will" have left Japan for the United States in recent months, and information concerning others scheduled for the near future; opinion that these visits are officially inspired and have some definite object in view.	640
Apr. 6 (732)	<i>From the Ambassador in Japan</i> Opinion that Foreign Minister Hirota has definite plans for proposing an agreement for the establishment of American and Japanese zones in the Pacific Ocean, possibly in connection with the forthcoming naval disarmament conference.	643
Apr. 6 (736)	<i>From the Ambassador in Japan</i> Discussion of the military influence in Japan during the past two years.	644
Apr. 12	<i>Memorandum by the Under Secretary of State</i> Conversation with the Chinese Minister, who was told, upon inquiry, that there was no truth to reports originating in the Japanese press that Japan had made a proposal to the United States for a treaty of nonaggression; further, that the United States had made no counterproposal concerning a joint non-aggression pact between the United States, Japan, China, and the Soviet Union.	648
Apr. 13	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Inquiry by the Italian Ambassador as to reports in circulation in Moscow that a joint nonaggression pact between United States, Japan, the Soviet Union, and China is under consideration; advice to Ambassador that such reports are groundless.	649
May 4 (772)	<i>From the Ambassador in Japan</i> Report of the celebration of the eightieth anniversary of the signing of the first treaty between the United States and Japan.	649
May 16	<i>Memorandum by the Secretary of State</i> Informal conversation with Ambassador Saito on existing U. S.-Japanese relations; receipt of an unsigned memorandum from the Ambassador containing his views on certain topics, and Secretary Hull's agreement to confer further with him after examining the memorandum.	650
May 29	<i>Memorandum by the Secretary of State</i> Further conversation with Ambassador Saito concerning his confidential memorandum submitted May 16, which contained eight points proposing a "joint declaration" of policy; Secretary Hull's nonacceptance of the suggestion, and his comments on each point (substance printed).	653

JAPAN

POLITICAL DEVELOPMENTS IN JAPAN AND EFFORTS TO IMPROVE RELATIONS WITH THE UNITED STATES—Continued

Date and number	Subject	Page
1934 June 9	<i>To President Roosevelt</i> Transmittal of the Secretary's memorandum of May 29 (<i>supra</i>) for background information, and suggestion that no encouragement be given Ambassador Saito to think or to report to his Government that the President is favorably disposed toward his proposal.	661
June 11 (94)	<i>To the Ambassador in Japan (tel.)</i> Denial of press reports that the President contemplates or desires a meeting in Hawaii for a discussion with high Japanese officials.	662
June 13 (122)	<i>From the Ambassador in Japan (tel.)</i> Opinion that such stories as reported in Department's telegram No. 94, June 11, are trial balloons and should be allowed to die of inanition.	662
June 15 (100)	<i>To the Ambassador in Japan (tel.)</i> Advice that Ambassador Saito's suggestion for a "joint declaration" of policy has been definitely rejected; that no matters of policy were discussed between the President and Saito upon the latter's farewell call.	663
June 15 (101)	<i>To the Ambassador in Japan (tel.)</i> Instructions to inform Hirota orally that the President has no thought of conferring with Japanese officials during his Hawaiian cruise.	663
June 18 (128)	<i>From the Ambassador in Japan (tel.)</i> Intention of Hirota to curb local press speculations in view of information that the President's trip is to be solely recreational.	664
June 22 (131)	<i>From the Ambassador in Japan (tel.)</i> Information that the Vice Minister for Foreign Affairs was the "high official" responsible for a press report to the <i>New York Herald Tribune</i> , June 21, concerning Japan's desire for a non-aggression pact with the United States.	664
June 26	<i>Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With the Japanese Ambassador</i> Discussion of certain general topics which the Ambassador might like to consider in connection with his trip to Japan.	664
June 29 (106)	<i>To the Ambassador in Japan (tel.)</i> Advice that United Press despatch from Washington, June 26, to the effect that Saito is returning to Japan after sounding out the President and the Secretary of State on certain important topics, is entirely misleading and that there has been no negotiation on any subject.	667
July 5 (883)	<i>From the Ambassador in Japan</i> Résumé of press comments reflecting the perceptible hardening of public opinion on the question of abolishing the naval ratio principle and demanding parity in defense in connection with the naval disarmament conference in 1935.	667
July 6 (147)	<i>From the Ambassador in Japan (tel.)</i> Belief that the choice of certain men for the key positions in the new Cabinet indicates a general trend away from aggressive nationalism.	671

JAPAN

POLITICAL DEVELOPMENTS IN JAPAN AND EFFORTS TO IMPROVE RELATIONS WITH THE UNITED STATES—Continued

Date and number	Subject	Page
1934 July 16	<i>To the Ambassador in Japan</i> Observations concerning the activities of George Bronson Rea, an American citizen employed nominally by the "Manchoukuo" authorities as a "counselor to the Ministry of Foreign Affairs", who in fact engages in political propaganda in Washington; desire that Foreign Minister be informed of U. S. objections to the situation.	672
July 26	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Conversation with the Japanese Chargé, who reported an unfortunate incident at Mukden—the intrusion by a Japanese youth into the American Consulate General and an attempted assault upon Vice Consul Hall; expression of Japanese regrets.	675
July 27 (231)	<i>To the Minister in China (tel.)</i> Instructions to take no action in Mukden incident pending further word from the Department; advice that at present the Department is not disposed to make an issue on the basis of information before it.	676
July 29 (329)	<i>From the Minister in China (tel.)</i> From Mukden, July 28: Information that the Japanese youth responsible for recent attack on U. S. consular officer is being deported to Japan for examination by police authorities; suggestion that action be deferred pending receipt of further facts and information concerning legal aspects of the case.	676
Aug. 6 (134)	<i>To the Ambassador in Japan (tel.)</i> Request for the text of an article which appeared in the <i>Japan Advertiser</i> , August 5, by General Tanaka, former Japanese Military Attaché at Washington, in which the word "insolent" was used in connection with comments on President Roosevelt's report concerning the U. S. naval establishment at Hawaii; request for the Ambassador's comments.	677
Aug. 7 (173)	<i>From the Ambassador in Japan (tel.)</i> Transmittal of the passage from Tanaka article as requested (text printed); advice that the word "insolent" might be taken to apply either to the President or to a series of American acts, and opinion that the matter should be brought to the attention of the Foreign Office.	677
Aug. 8 (136)	<i>To the Ambassador in Japan (tel.)</i> Instructions to make informal representations to the Foreign Minister concerning the Tanaka article.	678
Aug. 18 (181)	<i>From the Ambassador in Japan (tel.)</i> Advice that the Foreign Minister was sympathetic toward representations against the Tanaka article, and that the <i>Japan Advertiser</i> has been officially censured for publishing the obnoxious phrase.	679
Aug. 20	<i>From the Ambassador in Japan</i> Advice that Foreign Minister has been informed in a friendly way concerning George Bronson Rea and his activities in Washington but that no representations were made. (Footnote: Report from Consul at Dairen, August 31, of Mr. Rea's return to Manchuria.)	679

JAPAN

POLITICAL DEVELOPMENTS IN JAPAN AND EFFORTS TO IMPROVE RELATIONS WITH
THE UNITED STATES—Continued

Date and number	Subject	Page
1934 Sept. 14 (157)	<i>To the Ambassador in Japan (tel.)</i> Expression of appreciation of Consul Chase's careful handling and thorough presentation of the Mukden case; instructions, however, to take no further action with respect to the incident.	680
Nov. 2	<i>Memorandum by the Assistant Chief of the Division of Far Eastern Affairs</i> Conversation with the Japanese Ambassador concerning willingness of Japanese Government to permit visits of American citizens to the Pacific islands under Japanese mandate upon assurance that no improper purposes were connected therewith.	681
Nov. 2 (398)	<i>From the Consul at Kobe</i> Summary of remarks made by a Japanese officer in a highly inflammatory and anti-American address to the Young Men's and Ex-Soldiers' Association of Suma, a suburb of Kobe, on October 29; opinion that naval discussions now in progress at London have undoubtedly stirred up anti-foreign feeling in Kobe and prompted speeches such as the one reported.	682
Nov. 5	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Conversation with Japanese Ambassador, who reiterated willingness of his Government to permit visits to mandated islands of Pacific, including visits of naval vessels.	683
Dec. 11 (1079)	<i>From the Ambassador in Japan</i> Memorandum on the recent political tendencies in Japan and the strong nationalist feeling.	684
Dec. 29 (1116)	<i>From the Ambassador in Japan</i> Memorandum on the decline of foreign prestige attending the present Japanese drive toward a state of isolated self-sufficiency.	687

PROTECTION OF JAPANESE LIVES AND PROPERTY IN THE STATE OF ARIZONA

1934 Aug. 22 (143)	<i>To the Ambassador in Japan (tel.)</i> Information from the Japanese Chargé concerning reported instances of hostile acts directed against the persons and property of certain Japanese nationals engaged in farming in the State of Arizona; advice that apparently both Americans and Japanese are charged with having violated the Arizona alien land law but that there is no evidence of force being used. Instructions to inform the Foreign Office that none but lawful processes will be followed, and further to suggest that sensational discussion of the matter be discouraged.	690
Aug. 24 (189)	<i>From the Ambassador in Japan (tel.)</i> Advice that the pertinent facts of the Arizona incident have been brought to the attention of the Vice Minister for Foreign Affairs who has given assurance of cooperation in discouraging sensational discussion and expressed appreciation of the Department's efforts.	691
Sept. 21	<i>Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With the Japanese Chargé</i> The Chargé's expression of confidence that the Department will take appropriate steps toward insuring the safety and rights of Japanese nationals in Arizona.	692

JAPAN

PROTECTION OF JAPANESE LIVES AND PROPERTY IN THE STATE OF ARIZONA—
Continued

Date and number	Subject	Page
1934 Sept. 26 (184)	<i>From the Japanese Chargé</i> Representations against reported renewal of the anti-Japanese movement in Arizona, and request for protection of the lives and property of Japanese nationals residing in that State.	693
Sept. 29	<i>To the Japanese Chargé</i> Information that the proper authorities of the State of Arizona have given assurances that appropriate protective measures had been taken and would continue to be taken.	694
Oct. 4	<i>From the Governor of Arizona</i> Assurance of cooperation, and opinion that the incidents cited by the Japanese Embassy are attributable to communistic activities in the Salt River Valley at the present time.	694
Oct. 9 (221)	<i>From the Chargé in Japan (tel.)</i> Information that ultrapatriotic societies, by urging strong action in the Arizona case, have been causing considerable annoyance to the Foreign Office, which has tried to minimize the situation.	695
Oct. 9	<i>To the Japanese Chargé</i> Information that the Governor of Arizona has given assurance that the courts of Arizona have the situation well in hand, and that every precaution will be taken to forestall any violence.	695
Oct. 9 (176)	<i>To the Chargé in Japan (tel.)</i> Advice that the Department is confident that the Arizona State authorities are giving appropriate attention to the situation, and that the Japanese Chargé in Washington has been so informed.	696
Oct. 11	<i>Memorandum by the Under Secretary of State</i> Conversation with the Japanese Chargé, who requested the sending of Federal Agents to Phoenix in view of the fact that no arrests had been made; explanation that the question is under consideration by the Attorney General.	696
Dec. 10 (272)	<i>From the Ambassador in Japan (tel.)</i> Information that Hirota, upon being questioned in the House of Peers on the status of the Arizona case, gave his opinion that proper steps were being taken, and further suggested that the acts of violence were committed by aliens who wished to dissipate the relations between the United States and Japan.	697
Dec. 11 (203)	<i>To the Ambassador in Japan (tel.)</i> Advice that Department of Justice agents are investigating the affected area in Arizona and that the Governor has established an arbitration committee; comment that the agitation is not anti-Japanese but anti-alien in character.	697
Dec. 20	<i>Memorandum by the Chief of the Division of Far Eastern Affairs</i> Conversations on December 18 and 19 with the Japanese Ambassador, who was informed of developments in the Arizona case, including excerpts from the report of Federal agents operating in the Salt River Valley.	698

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND MANCHURIA

Date and number	Subject	Page
1934 Mar. 2 (106)	<i>From the Minister in China (tel.)</i> Fruitless results of local representations against discrimination in the application of the "Manchoukuo" import tax on kerosene; suggestion that representations be made through the Ambassador at Tokyo toward elimination of the Japanese Army burning test which governs the classification of illuminating oils, and advice that British Legation is suggesting similar action.	699
Mar. 5 (39)	<i>From the Ambassador in Japan (tel.)</i> Data concerning impending Japanese legislation for petroleum control, and advice that British colleague has inquired, on behalf of British interests, as to future policy of administration of the law; suggestion that similar representations be made on behalf of Standard-Vacuum Co.	700
Mar. 8 (92)	<i>To the Ambassador in Great Britain (tel.)</i> Instructions to ascertain orally whether the British Foreign Office concurs in the U. S. view that the "Manchoukuo" customs practice concerning illuminating oils is discriminatory; if so, to inquire as to the possibility of lodging similar protests simultaneously at Toyko.	701
Mar. 13 (28)	<i>To the Ambassador in Japan (tel.)</i> Instructions to make an informal statement to the Foreign Office similar to that made by British colleague concerning future Japanese policy for petroleum control.	702
Mar. 14 (66)	<i>To the Minister in China (tel.)</i> Report from Embassy in Great Britain (text printed) indicating British disinclination to recommend representations suggested in Department's telegram No. 92, March 8. Request for details of "Manchoukuo" customs practices, since Department may make representations independently.	702
Mar. 17 (126)	<i>From the Minister in China (tel.)</i> Desire of American oil interests in Manchuria to obtain a reclassification of tariff items; opinion that any representations in this connection should be made in accordance with despatch No. 106, March 2.	703
Mar. 22 (126)	<i>From the Ambassador in Great Britain (tel.)</i> Information that British Government is looking into the technical aspects of the discriminatory customs case in Manchuria; Foreign Office request for information concerning the U. S. decision on the whole question.	704
Mar. 29 (60)	<i>From the Ambassador in Japan (tel.)</i> Report of the Diet's approval of the petroleum control law, but advice that the enforcing regulations have not been promulgated as yet.	704
Mar. 30 (85)	<i>To the Minister in China (tel.)</i> Information concerning instructions to the Embassy in London, requesting British views toward simultaneous representations in the event that the proposal of the American oil interests for a reclassification of tariff items is rejected by the Commissioner of Customs at Dairen.	705

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND
MANCHURIA—Continued

Date and number	Subject	Page
1934 Apr. 10 (160)	<i>From the Minister in China (tel.)</i> Indication that the British Embassy at Tokyo proposes to make representations in accordance with the U. S. suggestion as outlined in Department's telegram No. 85, March 30; belief of Consul General at Mukden that similar U. S. representations have become desirable.	706
Apr. 12 (67)	<i>From the Ambassador in Japan (tel.)</i> Advice that the British Consul at Dairen has been authorized to associate himself with representations being made by the foreign oil companies on the matter of Dairen oil discrimination, but that no formal representations have been made as yet by the British Embassy.	706
Apr. 14 (167)	<i>From the Ambassador in Great Britain (tel.)</i> Information from Foreign Office that British Ambassador in Tokyo has been instructed to take action in concert with the U. S. Ambassador.	707
Apr. 16 (171)	<i>From the Minister in China (tel.)</i> Advice that the U. S. and British Legations agree that no representations should be made at Tokyo pending the outcome of local representations to the Dairen Commissioner of Customs by the oil companies.	707
Apr. 17 (175)	<i>From the Minister in China (tel.)</i> Opinion of U. S. and British Legations, upon further consideration, that representations in Tokyo should not be withheld, but should be made now with a view to obtaining favorable consideration of the tariff formula suggested by the companies to the customs authorities.	708
Apr. 19 (52)	<i>To the Ambassador in Japan (tel.)</i> Instructions to make representations at the Foreign Office with a view toward reinforcing the representations of the oil companies at Dairen.	708
Apr. 25 (74)	<i>From the Ambassador in Japan (tel.)</i> Advice that representations have been carried out in accordance with Department's telegram No. 52, April 19.	708
Apr. 28 (81)	<i>From the Ambassador in Japan (tel.)</i> Oral information from the Foreign Office that two officials will be attending a consular conference in Manchuria in the near future, and at that time will make a thorough investigation of the problem of oil duties.	709
June 12 (243)	<i>From the Minister in China (tel.)</i> British suggestion for immediate representations to the Japanese Government concerning proposed establishment in the autumn of an oil monopoly of the Manchuria Petroleum Co.; desire for Department's views.	709
June 19 (257)	<i>From the Minister in China (tel.)</i> Information from the Consul General at Mukden that the proposed legislation for the oil monopoly will be enacted about September, and his suggestion that any contemplated representations be made prior to September.	710

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND MANCHURIA—Continued

Date and number	Subject	Page
1934 June 20 (180)	<i>To the Minister in China (tel.)</i> Inclination of the Department to favor U. S. and British concerted action on the "Manchoukuo" oil monopoly by informal representations to the Japanese Government prior to the establishment of the monopoly; instructions to ascertain attitude of U. S. Ambassador in Tokyo.	710
July 2 (286)	<i>From the Minister in China (tel.)</i> Telegram from the Ambassador in Japan, June 28 (text printed), expressing nonobjection to proposed action on Manchurian oil monopoly and suggesting possible bases for representations.	711
July 2 (868)	<i>From the Ambassador in Japan</i> Announcement made by the "Manchoukuo" Legation in Tokyo which would seem to envisage participation of the Japanese in the monopoly, but exclusion of other non-"Manchoukuo" capital; opinion that, if this proves to be the case, protest could be made to Japan on the ground of infringement of article 3 of the Nine-Power Treaty.	712
July 3 (142)	<i>From the Ambassador in Japan (tel.)</i> Summary of a British <i>aide-mémoire</i> left with the Foreign Minister on July 2, invoking article 3 of the Nine-Power Treaty. Concurrence in British Embassy's view that the issue comprises an important test case of the open-door policy in Manchuria, and request for further instructions as to U. S. representations.	713
July 5 (112)	<i>To the Ambassador in Japan (tel.)</i> Authorization to make informal representations similar to the recent British <i>aide-mémoire</i> .	714
July 9	<i>Memorandum by the First Secretary of Embassy in Japan of a Conversation With the Chief of the Commercial Affairs Bureau, Japanese Foreign Office</i> Disinclination of Kurusu to associate violation of treaty rights with the "Manchoukuo" oil monopoly question, and his concern over reports that an embargo on the exportation of crude oil to Japan is under consideration by foreign oil companies as a retaliatory measure against the Japanese Petroleum Control Law.	715
July 14 (304)	<i>From the Minister in China (tel.)</i> Information that the British Consulate at Mukden has now been instructed to make representations to the "Manchoukuo" authorities.	718
July 20 (220)	<i>To the Minister in China (tel.)</i> Instructions for the diplomatic missions in Tokyo, Peiping, and Manchuria, including Dairen, to report developments in the oil monopoly issue and to give careful consideration at all times to the question of advisability of making further representations either in Tokyo or in Manchuria. Instructions to repeat to Tokyo.	718

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND
MANCHURIA—Continued

Date and number	Subject	Page
1934 Aug. 3 (168)	<i>From the Ambassador in Japan (tel.)</i> Substance of Foreign Office reply, August 2, to the Ambassador's informal representations with respect to the "Manchoukuo" oil monopoly, disclaiming any influence in connection with the proposal and recommending direct negotiations between the United States and "Manchoukuo" concerning the question of treaty contravention. (Footnote: Information that British Embassy received an essentially similar memorandum on the same date.)	719
Aug. 8 (174)	<i>From the Ambassador in Japan (tel.)</i> Information from the British Ambassador concerning the "Manchoukuo" reply to recent British representations, stating that nonrecognition of "Manchoukuo" by the powers absolves the "Manchoukuo" government from any treaty obligations voluntarily assumed upon its establishment.	720
Aug. 11 (354)	<i>From the Minister in China (tel.)</i> Report on developments in the oil monopoly proposal as they will affect foreign oil interests in "Manchoukuo."	720
Aug. 20 (182)	<i>From the Ambassador in Japan (tel.)</i> Opinion that further representations in Tokyo regarding Manchurian oil monopoly would be futile; suggestion, however, that the Department consider the expediency of discussing with the British Government the advisability of a partial or total embargo on exports of certain crude oils to Japan. Advice that British colleague concurs and is cabling his Government accordingly.	721
Aug. 20 (368)	<i>From the Minister in China (tel.)</i> From Mukden, August 18: Opinion that the rumored withdrawal of Soviet Neft oil interests from Manchuria is more probably connected with the increased Russo-Japanese tension than with the oil monopoly question. (Footnote: Further information from Mukden, August 25, that Neft is apparently curtailing, if not completely discontinuing, its business in Manchuria.)	723
Aug. 22 (184)	<i>From the Ambassador in Japan (tel.)</i> Substance of further British representations to the Foreign Office to make an effort to dissuade the "Manchoukuo" authorities from proceeding further with the oil monopoly plan, or from similar action in breach of treaty stipulations or the open-door principle.	723
Aug. 28	<i>To Mr. A. G. May of the Standard-Vacuum Oil Company</i> Résumé of developments arising out of representations made by the American Embassy at Tokyo respecting the Manchurian oil monopoly.	724
Aug. 28 (387)	<i>From the Minister in China (tel.)</i> Résumé of recent despatches from the Consul at Mukden, and his suggestion that the situation calls for prompt agreement between the foreign firms concerned on a common plan of action, and appointment of qualified negotiators in Manchuria as soon as the actual intentions of Japanese and "Manchoukuo" authorities are clarified.	725

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND MANCHURIA—Continued

Date and number	Subject	Page
1934 Aug. 29 (149)	<i>To the Ambassador in Japan (tel.)</i> Instructions to make an informal reply to the Foreign Office memorandum of August 2, reiterating the U. S. position.	727
Aug. 31 (191)	<i>From the Ambassador in Japan (tel.)</i> Advice that an informal memorandum has been sent to the Foreign Office according to Department's instructions; information that the Standard-Vacuum Oil Co., Rising Sun (Shell interests), and Texas Co. have agreed not to submit quotations to the Manchuria Oil Company, which is now requesting bids for crude oil for the refinery under constructions at Dairen.	727
Aug. 31 (151)	<i>To the Ambassador in Japan (tel.)</i> Résumé of suggestions by oil interests and of inclination of British Foreign Office looking toward possible joint representations by the British, Netherland, and U. S. Governments against Japanese petroleum regulations. U. S. willingness to consider any proposals from the British and Netherland Governments for such action.	728
Sept. 5 (196)	<i>From the Ambassador in Japan (tel.)</i> Information from Goold, general manager of the Standard-Vacuum Oil Co. in Japan, that the refusal of the three major companies to submit crude oil quotations for the Dairen refinery is being rendered valueless by the decision of two independent California oil companies to submit bids.	729
Undated	<i>Memorandum by the Counselor of Embassy in Japan of a Conversation With the Japanese Vice Minister for Foreign Affairs on September 5</i> General views of the Vice Minister concerning the oil question in Manchuria and enforcement of the petroleum control law in Japan.	729
Sept. 11 (358)	<i>To the Ambassador in Great Britain (tel.)</i> Instructions to report latest developments between the Foreign Office and the Embassy; receipt of confidential information that the British and Netherland Governments have already made representations to the Japanese Government.	730
Sept. 12 (519)	<i>From the Ambassador in Great Britain (tel.)</i> Comments of Foreign Office official concerning the U. S. attitude toward possible joint action; advice that no new information has been received from the Foreign Office.	731
Sept. 19 (205)	<i>From the Ambassador in Japan (tel.)</i> Substance of a Netherland <i>aide-mémoire</i> to the Foreign Office, September 18, setting forth the difficult position of the Netherland oil interests due to the Japanese petroleum control law.	731
Sept. 19 (529)	<i>From the Ambassador in Great Britain (tel.)</i> Foreign Office opinion that U. S. Government might wish to authorize informal representations in Tokyo on behalf of American oil interests similar to representations of British and Netherland Governments.	732
Sept. 21 (162)	<i>To the Ambassador in Japan (tel.)</i> Message for the Foreign Office (text printed), to be presented informally and orally, with respect to the adverse effects of the petroleum control law upon American oil interests in Japan.	733

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND MANCHURIA—Continued

Date and number	Subject	Page
1934 Sept. 21 (365)	<i>To the Ambassador in Great Britain (tel.)</i> Instructions to inform the Foreign Office of the Department's instructions to Tokyo, and to inquire whether the British Government, in view of the negative results of its representations made 2 months ago, would be willing to express substantially similar views to the Japanese Government.	734
Sept. 22 (960)	<i>From the Consul at Mukden to the Minister in China</i> Further observations on the oil monopoly in Manchuria.	735
Sept. 25 (213)	<i>From the Chargé in Japan (tel.)</i> Advice that representations were made, September 24, in accordance with Department's telegram No. 162, September 21.	737
Oct. 5 (1001)	<i>From the Chargé in Japan</i> Observations on the oil problems in Japan and Manchuria, and in support of the proposal for U. S. control of crude oil exports to Japan.	737
Oct. 10 (222)	<i>From the Chargé in Japan (tel.)</i> Substance of renewed British representations to the Japanese Government on October 5 with respect to the petroleum control law.	740
Oct. 17 (1013)	<i>From the Ambassador in Japan</i> Report of opposition of the Japanese military to the proposed Manchurian monopoly for fear of retaliatory measures by foreign crude oil suppliers which would interfere with military needs in time of war.	741
Oct. 21 (478)	<i>From the Chargé in China (tel.)</i> From Mukden: Summary of an oral statement to representatives of the Standard-Vacuum Oil and the Asiatic Petroleum Companies by the "Manchoukuo" Finance Ministry, October 20 (text printed), concerning the administrative objectives of the monopoly and requesting certain information as to imports and sales of the companies for the determination of quotas by the monopoly.	742
Oct. 22 (232)	<i>From the Ambassador in Japan (tel.)</i> Opinion that any further action contemplated by the U. S. Government should be decided upon before the Petroleum Committee meets within the near future.	743
Oct. 24 (483)	<i>From the Chargé in China (tel.)</i> Advice that no reply has been made by the foreign oil representatives to the "Manchoukuo" statement of October 20. Opinion of Consul at Mukden that strong diplomatic representations would delay indefinitely the establishment of the monopoly; Legation's suggestion that Consul General Ballantine, upon his transfer to Mukden, might be authorized to proceed to Hsinking for discussion of this and other pending matters.	744
Oct. 24 (484)	<i>From the Chargé in China (tel.)</i> Information on question of discrimination in the importation of kerosene into Manchuria and representations by foreign oil companies to the customs officials. Advice that British officials will take up matter informally at Hsinking, and Legation's opinion that U. S. action should be withheld pending arrival of Consul General Ballantine.	745

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND MANCHURIA—Continued

Date and number	Subject	Page
1934 Oct. 24 (485)	<i>From the Chargé in China (tel.)</i> Report of the Monopoly Bureau's request to Chinese agents of the Standard-Vacuum Co. that delegates be sent to a meeting scheduled for October 26 at Hsinking for the purpose of selecting distributors of monopoly kerosene.	745
Oct. 24	<i>Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With the President of the Standard Oil Company of New Jersey</i> Discussion of the latest developments in the Japanese oil situation.	746
Oct. 26 (236)	<i>From the Ambassador in Japan (tel.)</i> Substance of statements made by Amau, Japanese Foreign Office spokesman, at a press conference, October 26, concerning Japanese position with respect to the proposed oil monopoly in "Manchoukuo".	748
Oct. 26 (183)	<i>To the Ambassador in Japan (tel.)</i> Advice that the Department has not yet reached a decision on the suggestion pertaining to further representations as set forth in telegram No. 483, October 24, from China.	749
Oct. 26 (10)	<i>To the Ambassador in Great Britain (tel.)</i> Advice that U. S. concern and action with respect to the Japanese and "Manchoukuo" oil questions are in no way related to U. S. objectives and procedure at the London naval conversations, contrary to press stories from Tokyo.	749
Oct. 29 (238)	<i>From the Ambassador in Japan (tel.)</i> Opinion that in any further consideration of the oil problems, the petroleum control system in Japan and the proposed oil monopoly in "Manchoukuo" should be linked together; recommendation of further consideration of an embargo or restriction of U. S. crude oil exports to Japan in order to strengthen future representations in Tokyo.	750
Oct. 30 (496)	<i>From the Chargé in China (tel.)</i> Opinion of Consul at Dairen that oil companies should unite in formulation of a counterproposal to obtain some modification of the monopoly scheme.	751
Oct. 31 (184)	<i>To the Ambassador in Japan (tel.)</i> Reluctance of the Department to use an embargo or restriction of exports; opinion that practical steps toward solution of the oil question should originate with the British and Netherland Governments, inasmuch as their private interests are more involved than American interests.	752
Nov. 1 (502)	<i>From the Chargé in China (tel.)</i> From Mukden, October 30: Official announcement, October 30, by the "Manchoukuo" government, which appears to be a modification of the oral statement of October 20 and may represent a desire to come to terms with the oil companies.	753
Nov. 1 (241)	<i>From the Ambassador in Japan (tel.)</i> Substance of a Foreign Office memorandum of October 31, in reply to oral representations outlined in Department's No. 162, September 21, explaining the scope and intention of the petroleum control law. Receipt of similar memorandums by the British Embassy and the Netherland Legation.	753

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND
MANCHURIA—Continued

Date and number	Subject	Page
1934 Nov. 2 (242)	<i>From the Ambassador in Japan (tel.)</i> Information from Amau concerning the expected completion within a day or two of the Foreign Office reply to the second U. S. informal protest against the proposed oil monopoly.	754
Nov. 6 (244)	<i>From the Ambassador in Japan (tel.)</i> Information concerning letters from the Ministry of Commerce and Industry to the foreign oil companies requiring them to submit their import and storage plans by November 15; advice that consultations are in progress inasmuch as the oil companies consider this an ultimatum.	754
Nov. 6 (245)	<i>From the Ambassador in Japan (tel.)</i> Summary of the Japanese reply to U. S. representations against the "Manchoukuo" oil monopoly, disclaiming any responsibility in the formulation of "Manchoukuo's" industrial policy.	755
Nov. 8 (249)	<i>From the Ambassador in Japan (tel.)</i> Message from Goold for transmittal to Standard-Vacuum Oil Co. in New York (text printed), recommending defensive measures to forestall the ill effects of Japanese and "Manchoukuo" oil situations; information that a similar message has been transmitted to the Rising Sun Co. in London.	755
Nov. 8 (250)	<i>From the Ambassador in Japan (tel.)</i> Information from the Netherland Minister concerning his explanation of the oil situation to his Government and his recommendation that a united front be presented to the Japanese Government by the foreign oil companies in conjunction with their Governments.	756
Nov. 10	<i>Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With Mr. P. W. Parker of the Standard-Vacuum Oil Company</i> Further discussion of the oil problems, with particular reference to U. S. position on restriction of petroleum exports, prior to Mr. Parker's departure for Tokyo as a representative of the New York office.	757
Nov. 16 (1060)	<i>From the Ambassador in Japan</i> Opinion that the stockholding provision of the petroleum control law is largely a military measure designed to build up oil reserves in Japan for use in case of war; inquiry as to whether the Department would consider the adoption of a new line of attack by claiming that forced oil storage by American firms to provide a war-time reserve for Japan conflicts with article 1 of the U. S.-Japanese treaty of commerce of 1911.	758
Nov. 22	<i>Memorandum by the Under Secretary of State</i> Conversation with the British Ambassador relative to U. S.-British cooperation to date with respect to the oil problems in Japan and "Manchoukuo"; indication of Department's assumption that the British Government desired to take the initiative in any governmental action inasmuch as British oil interests were involved to a greater degree than American interests.	759

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND
MANCHURIA—Continued

Date and number	Subject	Page
1934 Nov. 22 (254)	<p><i>From the Ambassador in Japan (tel.)</i> Information from the British Ambassador that he has received instructions to make renewed representations to Japan concerning the oil monopoly in "Manchoukuo". His comment on British Government's apparent misinterpretation of certain telegrams from its Ambassador in Washington on U. S.-British action and cooperation.</p>	760
Undated	<p><i>Memorandum by the Consul General at Harbin of a Conversation With the Soviet Acting Consul General at Harbin on November 22</i> Refutation, in response to Soviet inquiry, of a report concerning an agreement between American and British oil interests to boycott Manchuria; discussion of the importance of maintaining the principle outlined in the Nine-Power Treaty.</p>	761
Nov. 23 (193)	<p><i>To the Ambassador in Japan (tel.)</i> Summary of previous negotiations in cooperation with the British Government with respect to the oil questions. Instructions to ascertain the nature of the latest British representations on the Manchurian situation, and request for Ambassador's opinion as to the advisability of another U. S. <i>démarche</i> to the Japanese Government similar to that of the British.</p>	762
Nov. 24 (257)	<p><i>From the Ambassador in Japan (tel.)</i> Second request of the Commerce and Industry Department that British and American oil companies file their complete import plans for 1935; subsequent conference between Japanese officials and company representatives resulting in a proposal for modification of the stockholding provisions of the petroleum regulations.</p>	764
Nov. 24 (258)	<p><i>From the Ambassador in Japan (tel.)</i> Message from Goold for transmittal to Standard-Vacuum Oil Co., New York, recommending acceptance of the modified stockholding proposal, provided it does not prejudice any contemplated action by the company or the Governments.</p>	766
Nov. 24 (259)	<p><i>From the Ambassador in Japan (tel.)</i> Information, in reply to Department's telegram No. 193 of November 23, concerning nature of British representations to the Foreign Office, November 24.</p>	766
Nov. 27 (262)	<p><i>From the Ambassador in Japan (tel.)</i> Opinion, in reply to Department's inquiry, that a further U. S. <i>démarche</i> in the "Manchoukuo" situation, similar to the recent British action, would be desirable.</p>	768
Nov. 27 (603)	<p><i>From the Ambassador in Great Britain (tel.)</i> For Hornbeck from Dooman (adviser to the American delegation at the London preliminary naval conversations): Informal conversation with Foreign Office official, who indicated the British Government would favor concerted action between British and American oil companies on three specified conditions.</p>	769

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND
MANCHURIA—Continued

Date and number	Subject	Page
1934 Nov. 28 (197)	<i>To the Ambassador in Japan (tel.)</i> Information from the Standard-Vacuum Co. representative concerning favorable reception by Standard and also by Shell interests in London of the proposal for stockholding modifications, provided Department agrees; Department's nonobjection to the plan provided it meets with the approval of the oil companies and the U. S. and British Embassies in Tokyo.	770
Nov. 28 (198)	<i>To the Ambassador in Japan (tel.)</i> Instructions for an <i>aide-mémoire</i> to be handed to the Foreign Minister, similar to the recent British <i>démarche</i> , concerning the "Manchoukuo" monopoly.	771
Nov. 29 (545)	<i>From the Chargé in China (tel.)</i> From Mukden, November 28: Report of results of negotiations between the American company representatives and the monopoly authorities at Hsinking; conviction of company representatives that there is no advantage in compromising.	771
Nov. 30 (265)	<i>From the Ambassador in Japan (tel.)</i> Advice that no reply has been received by the Consulate at Dairen concerning its proposal for a reclassification of kerosene, and that the British Consul General at Mukden will make renewed informal representations to the "Manchoukuo" Government; inquiry as to Department's attitude toward similar U. S. action.	772
Nov. 30 (419)	<i>To the Ambassador in Great Britain (tel.)</i> Instructions to inform Foreign Office of U. S. decision to make further representations to Japan concerning the "Manchoukuo" monopoly, and of the Department's nonobjection to the Japanese proposal for submission of provisional import plans by the oil companies, provided it meets with the approval of the companies and the U. S. and British Embassies in Tokyo.	773
Dec. 1 (266)	<i>From the Ambassador in Japan (tel.)</i> Delivery to the Foreign Office, December 1, of <i>aide-mémoire</i> based on Department's instructions in telegram No. 198, November 28.	773
Dec. 5 (422)	<i>To the Ambassador in Great Britain (tel.)</i> Instructions for the guidance of Dooman and Hugh Millard (Second Secretary of Embassy) in further conversation with Foreign Office official.	774
Dec. 6 (376)	<i>To the Chargé in China (tel.)</i> Authorization to instruct Consul General at Mukden to take action, orally and informally, similar to the renewed representations of his British colleague concerning Manchurian import tariff on kerosene.	776
Dec. 7 (614)	<i>From the Ambassador in Great Britain (tel.)</i> Report of the results of the conversation between Foreign Office officials and Dooman and Millard.	776
Dec. 8 (271)	<i>From the Ambassador in Japan (tel.)</i> Information that British Ambassador has been instructed to make renewed representations concerning Japanese petroleum law provided U. S. Ambassador takes similar action; summary of British provisional <i>aide-mémoire</i> , with comments and request for Department's instructions.	777

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND MANCHURIA—Continued

Date and number	Subject	Page
1934 Dec. 8 (200)	<i>To the Ambassador in Japan (tel.)</i> Instructions to take no action other than to inform the British Ambassador that in the light of reports of recent conversations held in the British Foreign Office, the Department does not understand the issuance of such instruction at this stage.	779
Dec. 10 (201)	<i>To the Ambassador in Japan (tel.)</i> Information concerning the conversations between Dooman and British Foreign Office officials; advice that before reaching a decision on Ambassador's telegram No. 271 of December 8, the Department intends to inform the British Foreign Office of its opinion as to the inadvisability of making a further <i>démarche</i> until the oil company senior representatives have had an opportunity to confer with Japanese officials.	779
Dec. 10 (428)	<i>To the Ambassador in Great Britain (tel.)</i> Request for clarification of Foreign Office position with respect to recent instructions to the British Ambassador in Japan concerning a further <i>démarche</i> .	782
Dec. 11 (620)	<i>From the Ambassador in Great Britain (tel.)</i> Advice that the recent instructions to the British Ambassador in Japan are construed as further informal representations; observation that British and American oil companies are apparently not in entire agreement as to the course to be followed in preparing the way for their proposed consultations with the Japanese authorities. Intention to await further instructions before making any approach to the Foreign Office.	783
Dec. 13 (274)	<i>From the Ambassador in Japan (tel.)</i> Information concerning recent conversations between British and American Embassy officials and Kurusu of the Foreign Office, in which Kurusu urged that foreign oil companies join with Japanese oil interests in an effort to obtain a modification of the petroleum law; suggestion for U. S. oral and informal representations (substance printed), and advice that the British Ambassador is recommending to the Foreign Office that his previous instructions be revised accordingly.	785
Dec. 13 (275)	<i>From the Ambassador in Japan (tel.)</i> Substance of suggestion by Kurusu for negotiations in regard to the "Manchoukuo" oil monopoly; opinion that adoption of Kurusu's suggestion would imply acceptance of the monopoly system and weaken the U. S. treaty position. (Footnote: Department's concurrence, December 17.)	787
Dec. 13 (1083)	<i>From the Ambassador in Japan</i> Report of developments in "Manchoukuo" oil monopoly situation, and information that the oil companies have steadily refused to commit themselves with the "Manchoukuo" officials for fear of removing the negotiations from a plane of international principles to one of simple commercial transactions.	787
Dec. 14 (204)	<i>To the Ambassador in Japan (tel.)</i> Advice that the Department will consult London before reaching a conclusion concerning the suggestion set forth in Ambassador's telegram No. 274, December 13.	789

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND
MANCHURIA—Continued

Date and number	Subject	Page
1934 Dec. 14 (431)	<i>To the Ambassador in Great Britain (tel.)</i> Instructions to ask the Foreign Office to collaborate on the working out of a tentative understanding as to the course to be followed in U. S. and British instructions to Tokyo, and to report the exact terms to the Department for confirmation or comment.	789
Dec. 15 (276)	<i>From the Ambassador in Japan (tel.)</i> Information that, on December 13, the Netherland Minister made formal representations to the Japanese Government, similar to the British representations of November 24 on the "Manchoukuo" oil monopoly.	791
Dec. 18 (628)	<i>From the Chargé in Great Britain (tel.)</i> Results of conversation with Foreign Office officials in accordance with instructions outlined in Department's telegram No. 431, December 14.	791
Dec. 20 (434)	<i>To the Chargé in Great Britain (tel.)</i> Advice that Ambassador in Japan is being informed of the essential points in telegram No. 628, December 18, with authorization, provided British colleague concurs, to make informal oral representations to the Japanese Government; instructions to inform the Foreign Office and report any developments.	793
Dec. 20 (210)	<i>To the Ambassador in Japan (tel.)</i> Transmittal of information received in telegram No. 628, December 18, from Great Britain, and suggestion that Ambassador confer with British colleague; authorization for action as outlined in Ambassador's telegram No. 274, December 13, provided British Ambassador takes similar action and American oil interests so desire.	793
Dec. 20 (29)	<i>From the Consul General at Mukden to the Chargé in China</i> Report of results of concerted British and American representations concerning the "Manchoukuo" kerosene import tariff, and advice that no mention of "Manchoukuo" or the "Manchoukuo" Government was made in the representations.	795
Dec. 22 (283)	<i>From the Ambassador in Japan (tel.)</i> Concurrence of British colleague with regard to the proposed further representations to the Japanese Government; advice that the two Embassies will confer jointly with the local oil company representatives before proceeding with representations.	796
Dec. 24 (215)	<i>To the Ambassador in Japan (tel.)</i> Instructions to give assurance to the Standard-Vacuum representatives in Tokyo that the inconclusive adjournment of the London naval conversations will in no way alter the U. S. Government's attitude toward the oil situations in Japan and "Manchoukuo".	797
Dec. 25 (284)	<i>From the Ambassador in Japan (tel.)</i> To Shanghai, December 24: Message (text printed) from the local Standard-Vacuum representative to Gould outlining the procedure recommended by the British and American Embassies and requesting instructions.	797

JAPAN

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN JAPAN AND
MANCHURIA—Continued

Date and number	Subject	Page
1934 Dec. 27 (285)	<i>From the Ambassador in Japan (tel.)</i> Advice that, upon concurrence of the oil companies, the British and American Embassies made oral representations substantially as outlined in Ambassador's telegram No. 274, December 13, which were received sympathetically by Kurusu.	798
Dec. 29 (286)	<i>From the Ambassador in Japan (tel.)</i> Report of Kurusu's reply (substance printed), and advice that special representatives of the oil companies will proceed to Tokyo for discussions with the Japanese officials about January 7.	798

TRADE RELATIONS BETWEEN THE UNITED STATES AND JAPAN; VOLUNTARY
RESTRICTION OF EXPORTS TO THE UNITED STATES BY THE JAPANESE

1933 Dec. 13	<i>Memorandum by the Assistant Chief of the Division of Far Eastern Affairs</i> Conversation with the Japanese Chargé, who raised a question concerning news reports that various American manufacturers and producers were anxious to restrict the import of various commodities from Japan, particularly tuna fish and lead pencils, and further expressed the hope that such small and purely commercial questions could be solved in a manner mutually satisfactory to both nations.	799
1934 Feb. 2	<i>Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With the Japanese Chargé</i> Chargé's presentation of an informal memorandum (<i>infra</i>).	800
Feb. 2	<i>From the Japanese Chargé</i> Information that representatives of the Japanese tuna industry are being sent to California with a view to bringing about an understanding between American and Japanese tuna industries; hope that U. S. Government will cooperate with Japanese Government in promoting this understanding.	801
Feb. 19	<i>Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs</i> Conversation concerning the Department's desire to enter into some form of "gentlemen's agreement" with the Japanese Government restricting imports of Japanese lead pencils into the United States, so that a tariff increase, recommended by the Tariff Commission for the protection of the Code for pencil manufacturers, might be avoided.	801
Mar. 2	<i>Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs</i> Further discussion of proposals connected with the question of restricting importation of lead pencils from Japan.	803
Apr. 2	<i>Memorandum by the Assistant Secretary of State</i> Statement (text printed) of an informal arrangement with respect to the restriction of the importations of lead pencils from Japan, initialed by U. S. and Japanese representatives.	804

JAPAN

TRADE RELATIONS BETWEEN THE UNITED STATES AND JAPAN; VOLUNTARY RESTRICTION OF EXPORTS TO THE UNITED STATES BY THE JAPANESE—Continued

Date and number	Subject	Page
1934 May 10	<i>Memorandum by the Secretary of State</i> Conversation with the Japanese Ambassador concerning the U. S. attitude toward entering into negotiations for bilateral reciprocity trade agreements.	806
May 22	<i>To the Consul General at Tokyo (tel.)</i> Request for statistics concerning the export of rag rugs from Japan to the United States for the period between May 11 and May 31, in view of the possibility of conclusion of an agreement similar to that covering lead pencils.	807
June 20	<i>Memorandum by the Secretary of State</i> Conversation with the Japanese Ambassador and his Counselor concerning U. S.-Japanese trade relations; Ambassador's presentation of a memorandum (<i>infra</i>) embracing the views of the Japanese Government.	807
Undated	<i>From the Japanese Embassy</i> Desire for adjustment of U. S.-Japanese interests in certain industries where competition occurs, in order to avoid difficulties in the broad lines of trade relations between the two countries. (Footnote: Handed to the Secretary of State by the Japanese Ambassador, June 20.)	809
June 27	<i>Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs</i> Conversation with Japanese officials, who expressed their Government's desire to enter into conversations looking toward adjustment of tuna fish imports from Japan before any U. S. restrictive measures are taken. Approval of Japanese suggestion if matter cannot await a careful study of the entire question of U. S.-Japanese commercial relations.	810
Undated	<i>From the Japanese Embassy</i> Information concerning the efforts of the Japanese Government and the Exporters Association to restrict the exportation of china and porcelain ware to the United States, and expression of hope that the U. S. Government will negotiate with the Japanese Government before taking any action such as imposing additional duty or quota restrictions. (Footnote: Received in the Department July 6.)	812
July 6	<i>From Mr. Eugene H. Dooman of the Division of Far Eastern Affairs to the Assistant Secretary of State</i> Substance of the memorandum received from the Japanese Embassy July 6 (<i>supra</i>), with request for instructions as to reply.	813
Undated	<i>To the Japanese Embassy</i> Advice that the effects of the measures undertaken by the Japanese Exporters Association will be considered in connection with an investigation of imports of china and porcelain ware into the United States, and that the U. S. Government will confer with the Japanese Government in the event that restrictive measures become necessary. (Footnote: Handed to the Japanese Chargé on July 16.)	813
Aug. 24	<i>Memorandum by the Chief of the Division of Far Eastern Affairs of a Conversation With the Japanese Chargé</i> Discussion of Japanese apprehension concerning the effect of the pending Philippines tariff act on Japanese-Philippine trade.	814

JAPAN

TRADE RELATIONS BETWEEN THE UNITED STATES AND JAPAN; VOLUNTARY RESTRICTION OF EXPORTS TO THE UNITED STATES BY THE JAPANESE—Continued

Date and number	Subject	Page
1934 Oct. 4 (996)	<i>From the Chargé in Japan</i> Information concerning the indiscriminate use by Japanese manufacturers of American trademarks and the simulation of American packages, labels, and containers.	815
Undated	<i>Statement by the Secretary of State, October 30</i> Opinion that, in view of the recently revealed Japanese naval demands at the London conversations, the United States should not agree to any Philippine trade restrictions against which Japan could complain until the entire combinations of problems relating to the Far East are settled. (Footnote: Information that statement was telephoned to the Assistant Secretary of State by the Executive Assistant to the Secretary of State from Pinehurst, N. C., on October 30.)	817

DISAPPROVAL BY JAPANESE GOVERNMENT OF ACTION BY MAYOR OF DAIREN IN SEEKING CONTRIBUTIONS FOR AIR DEFENSE

1934 July 27 (126)	<i>To the Ambassador in Japan (tel.)</i> Instructions to ascertain from the Consul at Dairen the facts concerning a request that foreign firms contribute toward the air defense of Dairen.	818
July 31 (164)	<i>From the Ambassador in Japan (tel.)</i> Information from Consul at Dairen that the request for air defense contributions came from the Mayor of Dairen but without direct or indirect compulsion; suggestion that the matter be brought to the attention of the Foreign Office, inasmuch as the spirit of the treaty of 1911 is infringed if American firms are placed in a position of fearing retaliatory measures for noncompliance.	818
July 31 (130)	<i>To the Ambassador in Japan (tel.)</i> Instructions to confer informally with the Foreign Minister, expressing the hope that the Japanese Government will disavow the action of the Mayor of Dairen.	819
Aug. 23 (186)	<i>From the Ambassador in Japan (tel.)</i> Information from the Vice Minister for Foreign Affairs concerning the Japanese Government's disapproval of the Mayor's action, and measures taken by the Governor of Kwantung Province to rectify the situation.	819

PROTECTION OF CONTRACT RIGHTS OF THE ORIENTAL CONSOLIDATED MINING COMPANY, AN AMERICAN FIRM OPERATING IN KOREA

1932 July 25 (40)	<i>To the Ambassador in Japan</i> Instructions to give appropriate attention to the facts in the case of the Oriental Consolidated Mining Co. which involves the question of alleged unlawful action by the Japanese Government by way of indirectly levying a tax on the operations of the company.	820
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JAPAN

PROTECTION OF CONTRACT RIGHTS OF THE ORIENTAL CONSOLIDATED MINING COMPANY, AN AMERICAN FIRM OPERATING IN KOREA—Continued

Date and number	Subject	Page
1932 Sept. 23 (134)	<i>From the Ambassador in Japan</i> Contentions of the company and of the Japanese Government regarding the Japanese embargo on the export of gold; request for instructions concerning formal representations in view of difficulties arising from the Japanese Government's refusal to permit the company to export gold in a desired quantity in order to meet its obligations in the United States.	820
Nov. 3 (175)	<i>To the Ambassador in Japan (tel.)</i> Authorization discreetly to bring the matter of the Oriental Consolidated Mining Co. to the attention of the Foreign Office and to endeavor to induce the authorities to grant the company's request.	822
Dec. 23 (235)	<i>From the Ambassador in Japan</i> Résumé of developments resulting in the Finance Department's refusal to admit the validity of the company's claim; advice that informal representations will be continued pending the outcome of efforts by the Foreign Minister and the Finance Minister to devise some method whereby the company may dispose of its product without loss.	822
1933 Feb. 10 (38)	<i>From the Ambassador in Japan (tel.)</i> Decision of the company's counsel, Dr. Kishi, to file an export application with the Governor General of Chosen.	823
May 10 (380)	<i>From the Ambassador in Japan</i> Report of the company's decision to sell its gold on hand to the Bank of Japan; advice that the case may be considered closed for the time being, but that the company reserves the right to resume the case at some future time.	823
1934 Oct. 2 (992)	<i>From the Chargé in Japan</i> Information concerning a complaint of the Oriental Consolidated Mining Co. with respect to the levying of income tax upon its employees; advice that the Consul at Seoul has been instructed to withhold his proposed reply to the Chief of the Foreign Affairs Section, Japanese Government General of Chosen (text printed) pending a review of the case by the Department.	824
Dec. 3 (645)	<i>To the Ambassador in Japan</i> Approval of the Consul's proposed reply, with certain changes in phraseology, whereby the company will agree to the payment of the income tax, but not to inspection of its books by the Chosen authorities.	826

JAPAN

REPRESENTATIONS BY THE JAPANESE GOVERNMENT ON BEHALF OF JAPANESE STEAMSHIP COMPANIES SUBJECT TO UNITED STATES WAR PROFITS TAX FOR THE YEARS 1918 AND 1919

Date and number	Subject	Page
1934 Undated	<p><i>From the Japanese Embassy</i></p> <p>Statement concerning additional war profits tax for 1918 and 1919 levied by the U. S. Treasury Department on three Japanese steamship companies which were chartered by the United States Shipping Board; Japanese contention that charter fees and Japanese subsidy of these companies are not taxable, and request that the 90-day time limit be extended to allow settlement of the question by negotiations between the two Governments.</p> <p>(Footnote: Received in the Department July 26.)</p>	827
Aug. 3	<p><i>To the Secretary of the Treasury</i></p> <p>Transmittal of a copy of Japanese statement received July 26 (<i>supra</i>) and expression of the Department's hope that, in view of the complicated character of the question, the Treasury Department will give favorable consideration to the Japanese request for a careful examination of the arguments in the case.</p>	828
Aug. 16	<p><i>From the Secretary of the Treasury</i></p> <p>Summary information concerning the long-standing tax dispute; assurance that upon the filing of petitions with the U. S. Board of Tax Appeals for a redetermination of the deficiency, the Commission of Internal Revenue will give the Japanese statements serious consideration from the standpoint of a case in litigation before the Board.</p>	829
Aug. 20 (158)	<p><i>From the Japanese Chargé</i></p> <p>Memorandum (text printed) setting forth in detail the views of the Japanese Government on the question of taxation imposed by the U. S. Treasury Department upon the three Japanese shipping companies.</p>	830
Aug. 24	<p><i>From the Ambassador in Japan</i></p> <p>Opinion that the Treasury Department should be approached with a view toward reexamination of the assessments made against the shipping companies in order to insure a fair and equitable decision not only for purely technical reasons but also for possible bearings on general U. S.-Japanese relations.</p>	835
Aug. 28	<p><i>From the Secretary of the Treasury</i></p> <p>Résumé of developments of the case and advice that the Department may assure the Japanese representatives of the Treasury Department's disposition to discuss and settle amicably the tax dispute under consideration.</p>	836
Sept. 17	<p><i>To the Ambassador in Japan</i></p> <p>Advice that State Department officials in conversations with officials of the Treasury Department have emphasized their non-intention of influencing in any way the decisions arrived at by the competent authorities concerning the technical aspects of the case but have stressed the importance of the matter as related to questions of major policy.</p>	837
Nov. 3	<p><i>Memorandum by the Assistant Chief of the Division of Far Eastern Affairs of a Conversation With the Special Assistant to the Assistant General Counsel, Bureau of Internal Revenue</i></p> <p>Indication that careful analysis is being made of the case by the Bureau of Internal Revenue and that a mutually satisfactory adjustment may be reached.</p>	838

JAPAN

PROPOSED RECIPROCAL ARRANGEMENT FOR FREE IMPORTATION OF ARTICLES FOR PERSONAL USE OF CONSULAR OFFICERS; SUGGESTIONS FOR A CONSULAR CONVENTION BETWEEN THE UNITED STATES AND JAPAN

Date and number	Subject	Page
1934 June 4 (532)	<i>To the Ambassador in Japan</i> Instructions to ascertain whether there exists a reciprocal arrangement between the Japanese Government and any other government for duty-free importation of articles for personal use of consular officers; and if so, to propose to the competent Japanese authorities the conclusion of a similar arrangement between the United States and Japan.	839
Oct. 17 (624)	<i>To the Ambassador in Japan</i> Acknowledgment of the Embassy's report to the effect that no reciprocal consular convention exists between Japan and any other countries, and instructions to propose to the Japanese authorities the conclusion of an arrangement as outlined in instruction No. 532, June 4.	839
Nov. 2	<i>Memorandum by the Assistant Chief of the Division of Far Eastern Affairs</i> Conversation with the Japanese Ambassador, who stated his Government's willingness to enter into negotiations looking toward the conclusion of a consular convention with the United States, possibly along the lines of the U. S.-German consular convention.	840
Nov. 15	<i>Memorandum by the Third Secretary of Embassy in Japan</i> Conversation between officials of the Embassy and the Foreign Office on the subject of a new consular treaty between the United States and Japan.	841
Dec. 28 (1103)	<i>From the Ambassador in Japan</i> Transmittal of two memorandums of conversations between Embassy staff members and Japanese authorities in which it appears that despite the Embassy's initiation of a proposal for a reciprocal agreement, the Foreign Office desires to shift negotiations to Washington and to submit a draft of a comprehensive consular treaty.	842

SIAM

PROPOSED REVISION OF THE TREATY OF FRIENDSHIP AND COMMERCE BETWEEN THE UNITED STATES AND SIAM, SIGNED DECEMBER 16, 1920

1934 May 22	<i>From the Siamese Legation</i> Inquiry as to whether the U. S. Government would consent to proceed with the revision of article 3 of the U. S.-Siamese treaty of friendship and commerce of 1920 and postpone consideration of other revisions of the treaty until 1936, when the general revision of treaties with various countries will take place.	844
June 16 (6)	<i>To the Minister in Siam (tel.)</i> Substance of the Siamese Legation's note of May 22, and advice that every effort is being made by the Department and the Siamese Minister to expedite a decision in the matter.	844
June 21	<i>To the Siamese Legation</i> U. S. willingness to proceed with the revision of article 3, and presentation of new draft article 3 (text printed) for comments.	845

SIAM

PROPOSED REVISION OF THE TREATY OF FRIENDSHIP AND COMMERCE BETWEEN
THE UNITED STATES AND SIAM, SIGNED DECEMBER 16, 1920—Continued

Date and number	Subject	Page
1934 Aug. 20 (12)	<i>From the Minister in Siam (tel.)</i> Suggestion that the Department suspend treaty negotiations in view of the present uncertain political situation in Siam.	847
Aug. 23 (119)	<i>From the Minister in Siam</i> Supplement to telegram No. 12, August 20, concerning the political situation in Siam.	847

THE FAR EASTERN CRISIS¹

JAPANESE POLITICO-ECONOMIC PENETRATION IN CHINA SOUTH OF "MANCHOUKUO"

CHAPTER I: JANUARY 1–APRIL 16, 1934

Movement for extension of Japanese influence beyond "Manchoukuo;" Foreign Minister Hirota's statement of January 23; replacement of General Araki by General Hayashi as Japanese War Minister; unchanged nonrecognition policy of United States toward "Manchoukuo;" installation of Pu-yi as "Emperor Kang-teh of Manchoutikuo," March 1; Hirota-Hull exchange of views; Minister Johnson's report on Japanese pressure for "compromise" with China, April 11; Ambassador Bullitt's review of Soviet position vis-à-vis Japan, April 16

790.94/57

The Ambassador in Germany (Dodd) to the Secretary of State

No. 401

BERLIN, January 6, 1934.
[Received January 20.]

SIR: I have the honor to inform the Department that the Dutch Minister here called on me this morning and reported a conversation which he had held a few days ago with his chief, Secretary Colyn.

Amongst other things, the Minister said that the Dutch authorities had become very anxious about the development of what is called an Asiatic League of Nations. Colyn reported to him that the Japanese Government had appointed two generals (Hoshmoto and Yomoka) to travel about China to organize in Manchukuo, Mongolia, the Shanghai district, Indo-China and Siam groups whose purpose it is to bring about a close co-ordination with Japan, and ultimately give Japan control of the Far East. This activity, the Minister says, has been rather intense since the American recognition of Russia.

The Minister then said that information directly from Japan showed that that country has changed her policy of immediate challenge to Russia to one of delay, the idea being that it would require three or four years to establish controls in the regions named.

He also described a changing Japanese tariff policy destined to ease the relations of Japan with all the countries concerned; but he insisted that unanimous opinion at The Hague is that the Japan-

¹ Continued from *Foreign Relations*, 1933, vol. III, pp. 1 ff.; for additional correspondence, see *ibid.*, Japan, 1931–1941, vol. I, pp. 127–146, 223–239, 253–276.

ese foreign policy includes the annexation of the Philippines and the Dutch possessions.

The Minister expressed the urgent hope that England, France and the United States might find some way to co-operate and stabilize economic and political relations in the Far East.

Respectfully yours,

WILLIAM E. DODD

893.01 Manchuria/980 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, January 9, 1934—noon.

[Received January 9—7:44 a. m.]

21. It is generally believed that announcement of enthronement of Pu Yi as Emperor of a Colonial Mongol Manchu Kingdom or Empire will be made on January 15th, enthronement to occur March 1st. There would appear to be in this a plan to bring under Japanese control the Mongols of Inner Mongolia. Such a plan might work, for there is resentment among Mongols against attempts of Chinese to regulate Mongol land holdings. A Mongol Manchu Kingdom backed by Japan's power which would confirm Mongol princes in their ancient rights and status would win support of Mongols who are isolated and fear northward moving landhungry Chinese.

JOHNSON

893.01 Manchuria/992

The Ambassador in Japan (Grew) to the Secretary of State

No. 640

TOKYO, January 11, 1934.

[Received January 29.]

SIR: I have the honor to enclose a memorandum² of an interview which the Counselor of the Embassy held with the Vice Minister for Foreign Affairs on the subject of the proposed coronation of Pu Yi as "Emperor of Manchukuo". The Department will note that the Japanese regard it as a measure for regularizing the present situation as it will confirm the fact that the region is definitely separated from China and is not to be considered Japanese territory.

Only time can tell the effect of this move. It may be well, however, to review briefly the reasons, from the Japanese point of view, which have led to the establishment of "Manchukuo" and to estimate from these premises what the next development is likely to be. The pri-

² Not printed.

mary purpose of Japanese action has been to separate Manchuria, where the greatest Japanese interests are located, from the political intrigues and military operations which have caused such confusion in China. Failure to keep out of intramural China finally resulted in the expulsion of Chang Hsueh Liang from Manchuria. The present step appears to be calculated to emphasize unmistakably the complete political divorce of this area from the Chinese Republic. The coronation will be accompanied, I understand from reliable sources, by a new treaty between Japan and "Manchukuo" which will give extensive powers to Japan in respect of "Manchukuo's" foreign relations. Assuming the validity of Japanese objections to political connections between China and Manchuria, this grant of power to Japan will mean that the Japanese are determined to maintain the definite separation which now exists. Apparently any new negotiations which Japan may contemplate with the Chinese will be distinct from and unrelated to the question of Manchuria.

Other portions of the Vice Minister's remarks, while containing much that is controversial in character, are interesting principally as indicating the point of view of at least one person in a responsible position in the Government here—that Japan has the responsibility for the peace and order of the Far East. This point of view is widely held in Japan, and with it goes a corollary—that Japan is to be consulted on any question affecting China which is of more than local importance.

Respectfully yours,

JOSEPH C. GREW

761.94/688

The Ambassador in Japan (Grew) to the Secretary of State

No. 644

Tokyo, January 11, 1934.

[Received January 29.]

SIR: With reference to my despatch No. 610, December 14, 1933,³ I have the honor to inform the Department that last night we reciprocated the dinner of the Soviet Ambassador, receiving the Ambassador and Madame Yureneff and practically the entire staff of the Soviet Embassy at dinner at the Embassy.

In the course of conversation Mr. Yureneff said he believed that his recent step in proposing a renewal of the negotiations for the sale of the Chinese Eastern Railway, as soon as the Russian employees now under arrest by the authorities of "Manchukuo" should be released, had "infuriated" General Araki ⁴ and the Japanese military authori-

³ *Foreign Relations*, 1933, vol. III, p. 483.

⁴ Gen. Sadao Araki, Japanese Minister of War, December 1931–January 21, 1934.

ties because it interfered with their plans to keep Soviet-Japanese relations acute for the purpose of retaining public support for the army and the large appropriations demanded for military purposes. The Ambassador seemed optimistic that the reopened negotiations for the sale of the railway would prove successful. He further observed that in his opinion the plans to establish "Manchukuo" as a kingdom or empire on March 1 were being made with the specific purpose of the eventual assimilation of North China and, ultimately, other adjacent territory.

I asked the Ambassador whether his comments on the attitude of the Japanese army might be taken to mean that he considered inevitable an eventual attack on Soviet Russia. He replied in the negative but felt that anything might happen in future and that one must be constantly alert. He said that in his opinion the future peace of the world, especially in the Far East, would depend upon friendly understanding and cooperation between the United States, Great Britain and Soviet Russia and that if war should break out in Europe, which he believed to be probable, he felt that civilization could be saved from complete wreckage only if these three countries should abstain from the conflict.

In this connection I enclose a memorandum⁵ of a conversation between the American Naval Attaché and the Soviet Naval Attaché at the dinner mentioned above.

Respectfully yours,

JOSEPH C. GREW

893.01 Manchuria/984 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, January 17, 1934—10 a. m.

[Received January 17—4:25 a. m.]

42. The following telegram has been received from the Consul General at Harbin:

"January 16, 11 a. m. Japanese Consul General confirms report that Pu Yi will be made Emperor on March 1st."

JOHNSON

793.94/6555

The Minister in China (Johnson) to the Secretary of State

No. 2470

PEIPING, January 17, 1934.

[Received February 10.]

SIR: I have the honor to report that a member of my staff had a conversation to-day with a Japanese diplomatic officer with regard to Japanese ambitions in China. This officer, who is entirely out of

⁵ Not printed.

sympathy with the Japanese military, stated that, although he had little actual information about the plans of the military, he had certain opinions which he would express in strict confidence.

This officer stated that he thought it quite probable that Inner Mongolia would before long be a part of Pu Yi's empire. When questioned with regard to the possibility of Japanese expansion further west, that is, into Sinkiang, where Japanese agents are now said to be at work, he expressed the view that such expansion, although possible, belongs to the distant future, if it is to occur at all. He does not believe that Pu Yi's capital will be moved from Changchun. Admitting that there are Japanese agents attempting to bribe Chinese leaders in North China to become independent of Nanking for the purpose of expanding "Manchukuo" into this area, he apparently believes that these agents lack sufficient funds for the purpose as well as the support of the proper Japanese authorities elsewhere. His statements indicated that, in his opinion, Japanese leaders are still not in agreement on Japan's policy of expansion on the continent and that he seems to think that the more conservative Japanese leaders would be able to prevent the establishment of an independent North China through Japanese activities and its absorption by "Manchukuo". His own opinion in this connection was that such over-expansion as the absorption of North China would cause the eventual collapse of Japan. Referring to the division of opinion among Japanese leaders, he said that he regarded General Araki as as much of a puppet as Pu Yi and thought that if General Araki were to die there would be no difficulty in finding another military puppet to take his place. He views those younger officers who were responsible for the conquest of Manchuria as being still a source of difficulty and danger. In this connection he said that he feels that they were responsible for the death of General Muto, Japan's first ambassador to "Manchukuo", who, being "an honorable and upright man", died as a result of the unhappiness caused him by those younger officers. He himself, he added, was brought up to believe in "honor" but that recent events—referring to the Japanese military—have made him "very pessimistic".

Respectfully yours,

NELSON TRUSLER JOHNSON

861.77 Chinese Eastern/1287

*The Consul General at Harbin (Hanson) to the Minister in China
(Johnson)*⁶

No. 2757

HARBIN, January 18, 1934.

SIR: I have the honor to report that the Japanese Consul General, Mr. Morishima, informed me yesterday that he had been conducting

⁶ Copy transmitted to the Department by the Consul General at Harbin in his despatch No. 5946, January 18; received February 10.

negotiations with the Soviet Consul General, Mr. Slavoutsky, in regard to the release of the Chinese Eastern Railway officials arrested last September. It is believed that the prospect for their release is good. One report has it that they will be given their old positions temporarily, but the Japanese owned Russian *Harbin Times* stated that if released they will be sent into Russia. It is believed that the Soviet Government insists upon their release as a condition for reopening the "Manchukuo"—Soviet negotiations regarding the sale of the railway in Tokyo. Mr. Morishima hastened to assure me that he was merely acting in the capacity of a go-between desirous of bringing the "Manchukuo" and Soviet sides together. He also stated that he had written a lengthy letter to the "Manchukuo" delegate in Tokyo, Mr. Ohashi, formerly Consul General here and a very good friend of Mr. Morishima. Mr. Ohashi has constantly reiterated that he would not offer more than fifty million yen for the railway, but Mr. Morishima believed that Mr. Ohashi will change his mind in this respect.

Respectfully yours,

G. C. HANSON

893.01 Manchuria/988 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, January 22, 1934—11 a. m.
[Received January 22—7:05 a. m.⁷]

12. Publicity has been given here to Dr. Hornbeck's speech on January 18⁸ in which he is reported to have said that "the nonrecognition of government made by swords" is still the policy of the United States. In view of the Far Eastern context of the speech the Japanese interpret Dr. Hornbeck's remarks as referring to Manchukuo. The spokesman of the Foreign Office⁹ has issued the following statement to the press:

"It is most regrettable that the Chief of the Far Eastern Bureau of United States State Department should at this particular moment, when the Japanese authorities are exerting their utmost efforts for the promotion of friendship between Japan and America, deliver a speech in which he reviews the argument of the much-contested Stimson doctrine, and further suggests the application to East Asia of America's traditional policy toward the Latin American countries. His utterances convey an impression of wilfully ignoring the existence of a great power bearing the responsibilities for the maintenance of

⁷ Telegram in two sections.

⁸ Address delivered by Stanley K. Hornbeck, Chief of the Division of Far Eastern Affairs, Department of State, on "Principles of American Policy in Relation to the Far East," before the Ninth Conference on the Cause and Cure of War, Washington, D. C. For text, see Department of State publication No. 567 (Washington, Government Printing Office, 1934).

⁹ Eiiji Amau.

peace in East Asia. It should not be forgotten that the Empire of Japan exists in the Far East as much as does the United States on the Continent of America.”

It is still too early to foresee the extent of the repercussion from this publicity although it is certain to have a temporarily disturbing effect on Japanese-American relations.

I appreciate of course that the Department had good and sufficient reasons for the delivery of Dr. Hornbeck's speech. The following points are therefore respectfully submitted without any thought of caviling at a step which might have been given mature consideration but rather in the hope that they may be weighed in determining future procedure.

(1) So far as we can maintain unimpaired, but without public reiteration, the position of our Government regarding the nonrecognition of the fruits of armed aggression, published and compiled at the commencement of the present administration,¹⁰ just so far shall we avoid inflaming public opinion in Japan at a time of acute sensitiveness.

(2) The controversies which are certain to arise in the Naval Conference of 1935,¹¹ if it takes place, will inevitably subject Japanese-American relations to a strain in which we shall need every asset of which we can avail ourselves.

(3) If we can even partially overcome the antagonistic attitude prevailing in Japan towards the United States, or at least avoid rendering it more acute, the dangers of that coming strain will be correspondingly lessened and we shall be in a better position to work out our policies effectively. I have, therefore, been working steadily, and not without some favorable result in spite of many local handicaps and setbacks, to improve that attitude.

(4) Public reiteration of our determination not to recognize Manchukuo will inevitably tend to undo that work and will render it more difficult for Hirota¹² to carry out his prime policy of improving Japanese-American relations, a policy which I believe to be genuine and which in the long run may prove to be decidedly helpful to American interests if allowed to bear fruit.

(5) If and when further reiteration of our policy concerning Manchukuo is considered necessary, less disturbance of our relations with Japan will be caused by doing so in diplomatic conversations than in public speeches.

Please let me make it perfectly clear that I staunchly support the Far Eastern policy of our Government and that the foregoing considerations have to do purely with matters of procedure and not of principle.

GREW

¹⁰ *Conditions in Manchuria*, Senate Document No. 55, 72d Cong., 1st sess. (Washington, Government Printing Office, 1932).

¹¹ See *Foreign Relations, Japan, 1931-1941*, vol. I, pp. 277 ff.

¹² Koki Hirota, Japanese Minister for Foreign Affairs.

893.01 Manchuria/987 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, January 22, 1934—4 p. m.
[Received January 22—5 : 53 a. m.]

13. The German Commercial Secretary, Dr. Knoll, has been sent by his Government to study economic conditions in Manchukuo. Before departing from Tokyo he said to a diplomatic colleague that now that Germany has left the League of Nations Germany no longer feels obliged to maintain her former attitude of nonrecognition of Manchukuo. It is generally believed here that Germany may extend recognition before the end of the year.

Repeated to Peiping.

GREW

893.01 Manchuria/988 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, January 22, 1934—6 p. m.

7. Your 12, January 22, 11 a. m. Hornbeck spoke on the subject "Principles of American Policy in Relation to the Far East." He made no such statement as is attributed to him in quotation in first paragraph of your telegram and in news despatches from Tokyo. Nor did he do what is alleged in the first sentence of Amau's statement as quoted in your telegram and in press despatches. Text is being sent you.

Department notes that Amau is also criticizing speeches made by Ambassador Bullitt¹³ and Mr. Herriot.¹⁴

Various conjectures may be drawn.

Department appreciates having your comments and suggestions and, sharing completely the views expressed in your numbered paragraphs, has had and will have in mind the points which you suggest, but neither action nor utterances can be formulated with a view exclusively to ensuring none but pleasant reactions in Japan.

You may in your discretion inform Hirota that the spirit and the letter of Hornbeck's statements have evidently been subjected to distortion either in the process of their being brought to the attention of or in the consideration of them in the Foreign Office.

HULL

¹³ William C. Bullitt, Ambassador to the Soviet Union, temporarily in Washington.

¹⁴ Edouard Herriot, former President of the French Council of Ministers.

894.032/127

*Address by the Japanese Minister for Foreign Affairs (Hirota) Before the Japanese Diet on January 23, 1934*¹⁵

The Japanese Government was obliged to serve notice of withdrawal from the League of Nations on March 27 last year because the Manchurian incident and questions regarding the State of Manchoukuo showed that there was no agreement between Japan and the League on fundamental principles of preserving the peace in East Asia.

At the time when the decisive step was taken, His Majesty the Emperor graciously issued a Rescript pointing out clearly and precisely the path this nation should henceforth pursue. It reads:

“Now that Manchoukuo has been founded, our Empire deems it essential to respect the independence of the new State and to encourage its healthy development in order that sources of evil in the Far East may be eradicated and enduring peace thereby established.”

Further it reads:

“However, the advancement of international peace is what, as ever more, we desire, and our attitude toward the enterprises of peace shall sustain no change. By quitting the League and embarking on a course of its own our Empire does not mean that it will stand aloof in the extreme Orient, nor that it will isolate itself thereby from the fraternity of nations.

“It is our desire to promote mutual confidence between our Empire and all other Powers, and to make known the justice of its cause throughout the world.”

I am convinced that if we all unite in our endeavors to act in accordance with the wishes of our August Sovereign the world will surely come to realize the fairness and justice of Japan's position, and bright will be the future of our Empire.

Personally speaking, in obedience to the Imperial message, I am determined to use every ounce of my energy to “carry out our national policy by diplomatic means in interest of world peace.”

Fortunately today, after our withdrawal from the League, commercial as well as diplomatic relations between Japan and friendly Powers in general have become even closer and more cordial than before. I wish to avail myself of this occasion to dwell somewhat on recent phases of our relations with those countries which are situated in our immediate neighborhood.

Manchoukuo, thanks to the tireless labors of His Excellency the Regent, and of Government authorities, and also to the wholehearted assistance and collaboration extended to her by this country, true to

¹⁵ Copy transmitted to the Chief of the Division of Far Eastern Affairs on January 22 by the Japanese Chargé.

the spirit of the Japan-Manchoukuo protocol,¹⁶ has been making steady progress along all lines of her constructive work.

In ordering various governmental institutions, especially in the maintenance of law and order, in developments of industry and communication, in consolidation of the national finance and in the advancement of education and culture, signal success has been achieved.

Moreover a decision is about to be made on the establishment of a monarchical regime which has been so eagerly awaited by all her people, and which will go far to solidify the foundations of Manchoukuo as a young independent nation.

This is a matter of congratulation not from [*for*] Manchoukuo alone, but for the peace of the Orient and the peace of the world. I think it behooves our Government and people, always mindful of the Imperial Rescript to exert their efforts unremittingly in assisting the healthy growth of the new State.

The Japanese Government has serious responsibilities for the maintenance of peace in East Asia and has a firm resolve in that regard. But what is more essential in the matter is the stabilization of China herself.

Our Government sincerely hopes for the political and economic rehabilitation of China. It hopes that she will be enabled to unite with Japan in performing the obvious mission of both Japan and China—to contribute through mutual aid and cooperation to peaceful development of their part of the globe.

Unfortunately the actual situation of present-day China belies all such hopes. It has been reported that of late the Chinese Government, realizing the mistake of persisting in its anti-Japanese attitude has decided to take steps looking toward rectifications of Sino-Japanese relations, but so far no concrete evidence has come to our notice to confirm the truth of the report.

Should China appreciate our true motives and give tangible signs of sincerity on her part, Japan would be glad to reciprocate and meet her more than half way in a spirit of good will. It is gratifying to note that North China, under control of the Peiping political committee, remains comparatively quiet.

In view of the important rights and interests of Japan in that region and of its territorial contiguity with Manchoukuo, and also from the standpoint of the Tangku truce agreement,¹⁷ the question of maintenance of peace and order in North China is of special concern to Japan. She expects China to see to it that nothing will happen that may bring chaos to that area.

¹⁶ Signed September 15, 1932, *Foreign Relations*, 1932, vol. iv, p. 253.

¹⁷ Signed May 31, 1933, *Foreign Relations*, Japan, 1931-1941, vol. i, p. 120.

Meanwhile we are watching, not without grave misgivings, the activities of the Communist Party and the increasing rampancy of "Red" armies in China.

Regarding Japan's relations with the Soviet Union it may be recalled that subsequently to the conclusion of the Peking basic treaty in 1925,¹⁸ normal contact was maintained between the two countries, and that even after the Manchurian incident there was thorough mutual understanding between the two Powers of their respective positions so that no difficult question was encountered.

However more recently the attitude of the Soviet Union toward Japan seems to have undergone a change of some sort. It is most surprising and regrettable that the Soviet Union should now take to broadcasting at home and abroad, through the press and other channels, unwarranted criticisms directed against Japan, and circulate exaggerated stories about aggravations of this or that situation evidently for political and diplomatic purposes which such rumors are calculated to serve.

Japan has consistently preserved her fair and equitable attitude toward the Soviet Union throughout the years past, before and after the Manchurian incident. Despite the fundamental differences in both the theory and constitution of the state that divide the two countries, we have always endeavored to keep on good neighborly terms with Soviet Russia and sought the solution of all questions by pacific means.

Especially since the establishment of Manchoukuo, the Japanese Government has been acting solely upon its conviction that a proper adjustment of the tri-partite relationship between Japan, Manchoukuo and the Soviet Union was of paramount importance for the tranquility of East Asia. Japan certainly is setting up no new military establishments along the Manchoukuo-Soviet frontiers, Moscow propaganda notwithstanding.

Indeed, it is only as a part of the above mentioned friendly policy that Japan has undertaken since last June to act as an intermediary between Manchoukuo and the Soviet Union in their negotiations on the proposed transfer of the North Manchuria Railway. Such being the case, I am sure that before long the Soviet Union must come to appreciate fully the true intentions of Japan.

It is earnestly hoped that the North Manchuria Railway negotiations, which have unfortunately been at a standstill for some time past, will soon be resumed.

It may be definitely stated that between Japan and the United States of America there exists no question that is intrinsically difficult

¹⁸ Signed January 20, 1925, League of Nations Treaty Series, vol. xxxiv, p. 31.

of solution. Far from having any thought of picking a quarrel with America, Japan fervently desires American friendship. At the same time I am confident that the United States will not fail to appraise correctly Japan's position in East Asia.

Only for a time following the outbreak of the Manchurian incident, public opinion in America was aroused against Japan, bringing about something like temporary estrangement of the two peoples. It is hardly necessary to reiterate that Japan is actuated by no other motive than her desire to establish enduring peace in East Asia.

Therefore if only America will clearly perceive the actual condition of the Orient and realize Japan's role as a stabilizing force in East Asia, whatever emotional tension may yet linger between the two peoples is bound to disappear.

I sincerely hope that the two great nations across the Pacific will, in view of their important relations, commercial and otherwise, continue to join forces in cultivating their historical friendship and good understanding so as to keep the ocean forever true to its name.

Japan's traditional amity with the British Empire remains unshaken, even to these times. I believe the two sea powers occupying geographically similar key positions, one in the East and the other in the West, can effectively serve the cause of universal peace through sympathetic appreciation of their respective stands and wholehearted collaboration in all quarters of the world.

It is in this sense that our Government is seeking to readjust whatever conflict of interests relating to questions of trade there may be and to strengthen further the ties of friendship that bind our Empires. That our negotiations with India, an important member of the British Empire, over knotty problems of commerce have now been substantially concluded is a source of gratification on both sides.

Now a survey of the world as a whole reveals a sorry situation in which economic disorder, political unrest and confusion and conflict of ideas threaten to destroy international equilibrium at any moment, while the mutual confidence of nations in one another appears to have wilted not a little.

I consider that no insuperable difficulties need be anticipated in settling any question if the nations manifest their sincerity, and with true comprehension of one another's position meet in a genuine and generous spirit of universal brotherhood.

What is wanted is the abandonment of bootless jealousy and antagonism, and reinforcement of the sense of unity and mutual interdependence. However, international trade barriers, instead of decreasing are fast multiplying. The World Economic Conference was forced to adjourn without having achieved desired results.

Of late our industries have taken marked strides with corresponding expansion in our oversea trade, while owing to the prevailing economic nationalism one country after another has begun to set up fresh obstacles against the advance of our export industries. Our Government is making earnest efforts to deal effectively with the situation.

Since mutual understanding of one another's unique national culture is of no small value in fostering good will between nations our Government is planning to take suitable measures in concert with private institutions for facilitating the cultural intercourse of our nation with the outside world.

In the light of what I have already stated it is impossible for me to deny that our foreign relations are now, and will be in future, beset with many serious problems. However the path of a rising nation is always strewn with problems.

As long as our people are united and well prepared to face courageously whatever difficulties may arise, and as long as we retain our composure and sobriety and "stray not from the path of rectitude and in action always embrace the golden mean", I am confident that Japan has nothing to fear and her future will be full of hope. We should not forget that Japan, serving as only the cornerstone for the edifice of peace of East Asia, bears the entire burden of responsibilities.

It is this important position and these vast responsibilities in which Japan's diplomacy and national defence are rooted. Our national defence is organized in its very nature for defensive and self-protective purposes. At the same time our diplomacy has no claims to put forth save what is legitimate and rational and consonant with our national mission.

That eventually this position in which Japan naturally and actually finds herself will be rightly understood by other powers is, I believe, a foregone conclusion.

893.00 Shantung/1

*Memorandum by the Consul and Vice Consul at Tsinan (Stevens and Ludden) of a Conversation With the Chairman of the Shantung Provincial Government (Han) on January 22, 1934*¹⁹

[Extract]

General Han expressed a conviction that Japan would indulge in further acts of aggression in North China and that it was only a matter of months before Shantung would be invaded by a Japanese army.

¹⁹ General Han was attended by Messrs. Liu Shih-chun and Philip Fugh. Copy of memorandum transmitted to the Department by the Minister in China in his despatch No. 2490, January 30; received February 24.

To meet such a situation when it arises, General Han stated that he sought tangible assistance from the United States in the form of munitions of war. Fighting planes, heavy artillery, harbor mines, arsenal machinery, gas equipment, motor trucks, and a suitable number of American technicians to train his men were mentioned in particular. He desires these materials at as early a date as possible before hostilities commence.

General Han prefers to obtain them from the United States because he believes that the United States will become involved in the conflict eventually on the side of China and because the American Government and people have demonstrated that they have no territorial ambitions in China. If he cannot receive such "cooperation" from the United States he will try to obtain it from some European power that is not so territorially ambitious in China as Japan.

General Han has little or no money to pay for these war materials. If they are furnished by the United States he is prepared to offer as security concessions in Shantung mines and industries and to afford bases for American submarines and other warcraft along the Shantung coast; also, landing fields for American aircraft. He hopes that the American Government will realize the advantage to its own armed forces in the event of war with Japan in being able to use the territory and facilities of Shantung as a base of operations and expressed belief that if America did not take advantage of the opportunity the province would be lost to the Japanese.

General Han expressed a belief that with American cooperation he could raise and equip an army of 8,000,000 to fight the Japanese in Shantung. He repeatedly emphasized his determination to fight in a determined manner. In reply to my inquiry as to what assurance there would be that he would not use such military power in civil strife rather than against a foreign foe, he admitted that he knew what was in my mind; that he did not like General Chiang Kai-shek personally, but that he favored and would continue to support China's struggle to establish and maintain a central government. He would not attack the Nanking Government because of General Chiang.

Answering further questions, General Han said that he believed the Central Government was neither disposed nor able to render much assistance in defending Shantung against a Japanese attack. The defense of this area was a problem that he must solve as best he could. The Central Government has already made this clear to him.

Replying to a question on the military equipment already in his possession, General Han said that the Tsinan Arsenal could supply him with sufficient small arms ammunition and grenades. He also stated that he had ordered six aeroplanes from a British source; that

these planes were due to arrive at a Shantung port within a few weeks; that he had not obtained a permit from Nanking for their importation and use; that the British manufacturer would attend to that for him; and that he would notify the Central Government after the planes arrived.

General Han gave several concrete instances of Japanese intrigue at Tsinan. One was a recent visit of a Japanese high official, member of the Japanese royal family,—name not given—who offered General Han money and military supplies and promised to retain him in control in Shantung if he would cooperate with Japan and Manchukuo in establishing a new state in North China. According to General Han, he politely refused the offer. "Many times," said General Han, "the Japanese officials have sounded me out on this subject, but all I promised them was to keep peace and order here and to protect Japanese life and property." Other instances mentioned related to the activities of thirty Japanese "police" attached to the local Japanese Consulate General, the importation of Japanese artificial silk goods through Shantung ports without the payment of customs duty, and the sale of narcotic drugs by Japanese hospitals and drug stores in Shantung.²⁰

H. E. STEVENS
R. P. LUDDEN

894.00/502 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, January 23, 1934—5 p. m.
[Received January 23—9:40 a. m.]

15. Several radically different hypotheses are advanced in various quarters to account for the resignation yesterday of General Araki as Minister of War, none of which can yet be confirmed as accurate. His present illness has furnished the ostensible reason, and it is quite possible that this is also the actual reason because his illness deprives the Army of a representative in the coming debates in the Diet and there are doubts as to his physical ability to carry on his work for some time to come. The following factors and conjectures are, however, being advanced in various quarters.

1. There are those who hold that the saner elements in the Government, realizing the dangerous position into which Japan is drifting, have taken advantage of Araki's illness to insist on his removal

²⁰The Minister in China telegraphed Consul Stevens on January 29, 1934, to inform General Han "that the American Government is not interested in the proposals which he has made to you."

as the symbol of a policy of military aggression and that as a result we may expect to see an important reorientation of policy. These elements believe that Araki was not popular with the Emperor and that with Hirota's growing strength Araki's position in the Cabinet had become more or less isolated. There has also been increasingly wide-spread indignation at the size of the military budget. It is said that Wakatsuki²¹ and Suzuki²² recently threatened embarrassing interpellations in the Diet which would have placed the Army in an unfavorable light before the public and that they agreed to refrain only on the basis of Araki's retirement.

2. There has been dissatisfaction among the younger officers in the Army at being hindered from promotion owing to Araki's tendency to retain the older generals. General Hayashi, the new Minister of War, is a leader of troops rather than a staff officer and is more likely to retire the older generals and advance the younger men with whom he is popular.

3. Hayashi is said to be of a silent disposition and is reported to have stated that Army officers should abstain from politics. It is therefore held that he is not likely to indulge in Araki's inflammatory writings and speeches. This gives rise to a belief that his appointment represents a victory for the liberal elements in the Government and a rising influence of the political parties and that the change of ministers will have a stabilizing effect in the country.

4. On the other hand Hayashi is said to be self-willed, impetuous and capable of rapid decisions as when he moved the troops from Korea to Manchuria on his own responsibility in 1931, in spite of Baron Shidehara's²³ protests. He is not conciliatory and is less likely than Araki to compromise. There are, therefore, those who believe that political unrest will increase and who see in his appointment a step to prepare for possible war.

My present belief is that paragraphs numbered 1, 2 and 3 probably have bearing upon the actual situation. The coming debates in the Diet may afford enlightenment.

Repeated to Peiping.

GREW

893.01 Manchuria/989 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, January 24, 1934—11 a. m.
[Received January 23—11:38 p. m.]

16. Department's 7, January 22, 6 p. m. I have conveyed to Hirota the facts as stated by the Department in paragraph 1. Amau has proposed to make rectification to the press today. The Tokyo correspondent of the Associated Press informed me that the report of Hornbeck's speech came from the Associated Press in the United States

²¹ Reijiro Wakatsuki, former Japanese Prime Minister and Minseito president.

²² Dr. Hideo Suzuki, Seiyukai president.

²³ Kijuro Shidehara, Japanese Minister for Foreign Affairs in the Wakatsuki Cabinet.

to Rengo precisely as published here. The distortion, therefore, does not appear to have occurred in Japan.

GREW

893.01 Manchuria/990 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, January 25, 1934—11 a. m.

[Received January 24—11 p. m.]

17. My 16, January 24, 11 a. m. Amau's rectification of the report [of] Hornbeck's speech is published prominently in all the important Japanese newspapers today.

GREW

893.0146/421 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, January 25, 1934—3 p. m.

[Received January 25—7 a. m.]

65. Following message dated January 19 was received from commander-in-chief United States Asiatic Fleet:

"Following received: 'In view of unsatisfactory exchange situation, after consultation with American Minister, make recommendations as to withdrawing or reducing Fourth Regiment Marines now stationed at Shanghai.' Request your views. My view is that Marine regiment in Shanghai should be retained at present full strength as essential to American participation in assisting in the protection to our nationals and to China trade of which Shanghai is the focus. Rate of exchange is not involved in the military requirements."

I have today replied as follows:

"Your message of January 19 has been considered in the light of the general political situation in China and conditions in the Shanghai area. I have also consulted the Consul General at Shanghai. I concur with your view that the Marine force at Shanghai should not be withdrawn or reduced."²⁴

JOHNSON

893.01 Manchuria/991 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, January 26, 1934—3 p. m.

[Received January 26—5:58 a. m.]

19. In reply to an interpellation in the Lower House of his views yesterday concerning Hornbeck's speech Hirota stated that the speech

²⁴ In December 1934, however, owing to expiring enlistments, the Marine garrison at Shanghai was reduced from 1,721 officers and men to 1,117 officers and men (893.00 P. R. Shanghai/74).

was not delivered in Hornbeck's official capacity as the speaker had stressed the point to his audience that he was expressing his private opinion and was not [speaking] for the administration or for the State Department. Furthermore, the version of the speech published in Japan had been distorted and the American Ambassador had corrected the mistake. He wished the members to understand the true situation.

Copy by mail.²⁵

GREW

894.00/505

The Ambassador in Japan (Grew) to the Secretary of State

No. 656

TOKYO, January 26, 1934.

[Received February 10.]

SIR: On passing through Tokyo today en route from his post at Seoul to Vancouver, Consul General Davis told me that in his farewell interview with Lieutenant General Kawashima, in command of the troops in Chosen, the General spoke with enthusiasm of the great progress and development in the arts of civilization which had taken place in Japan and added his hope that the oppressed and suffering people of Manchuria, China and Siberia would soon be enabled to share these Heaven-sent gifts. The foregoing is not a precise quotation but conveys the sense of the General's remarks as repeated to me by Mr. Davis. They represent, perhaps, the thoughts of a certain type of Japanese military mind.

Respectfully yours,

JOSEPH C. GREW

761.94/693

The Ambassador in Japan (Grew) to the Secretary of State

No. 659

TOKYO, January 26, 1934.

[Received February 10.]

SIR: While recent weeks have seen little change in relations between Japan and the Soviet Union, efforts to reach an amicable settlement of the issues at stake seem to be crystallizing under the energetic leadership of the Minister for Foreign Affairs. Evidence in this regard falls naturally into two categories, the first having to do with the Chinese Eastern Railway sale controversy and the second referring to more general aspects of Soviet-Japanese relations.

CHINESE EASTERN RAILWAY

The plight of this railroad becomes daily more desperate. Its economic value is rapidly becoming negligible with the steady com-

²⁵ Not printed.

pletion of competing lines such as the Harbin-Lafa line connecting with the Hsingking-Tunhua line to North Korean ports, the Harbin-Koshan-Tsitsihar loop, the Tsitsihar-Ssuningkai line connecting to Dairen, and the projected Taonan-Manchuli road. It is already possible for Japanese-"Manchukuo" interests to deprive the Chinese Eastern Railway of substantially all the long-haul traffic originating within Manchuria. Furthermore, if reports reaching Tokyo are to be credited, the operation of the Road is rendered increasingly difficult by an intensification of the local friction between Soviet officials of the line and officials of the government through whose territory the railroad has the misfortune to run. Reports have already reached the Department indicating the manner in which the administration of the railroad has been deliberately hampered at every turn, and I have indicated in a previous despatch* that the "Manchukuo" Minister of Communications admitted the possibility of the adoption of a policy of virtual sabotage by his government. The development of mutual suspicion and antagonism is indicated by the fact that after the serious train wrecks on the western line of the railway on December 14 and January 17 both sides immediately accused the other of deliberately causing the accident. Recently in Harbin a curious series of agitations for lower freight rates has developed. Beginning with the distribution of posters, following with a mass meeting before the offices of Mr. Rudy, the General Manager, the most serious agitation to date occurred on January 23 when some 2,000 men transported in a hundred trucks are reported to have visited the office of the railway directors and the Control Office and demanded a lower rate schedule. Needless to say such an affair seems no more the spontaneous action of the citizens of Harbin (which depends greatly on the railway) than the petitions for the coronation of Pu Yi represent the spontaneous wishes of his 30,000,000 "Manchu" subjects.

Concurrently with the destructive activity along the railroad the Japanese Minister for Foreign Affairs is endeavoring to bring the delegates of Soviet Russia and "Manchukuo" once more to the conference table. It will be remembered † that the "Manchukuo" side had decided to allow negotiations to lapse until Soviet Russia initiated them once more with a new proposal and that the Soviet side had absolutely refused ‡ to renew negotiations until Soviet officials of the road who had been detained by "Manchukuo" were released. On January 8 and 15 conversations between the Soviet Ambassador in Tokyo and Mr. Hirota apparently solved this deadlock because on

*Embassy's despatch No. 573, of November 2, 1933. [Footnote in the original; despatch not printed.]

† Embassy's despatch No. 573, November 2, 1933. [Footnote in the original.]

‡ Embassy's despatch No. 610, December 14, 1933. [Footnote in the original; for despatch, see *Foreign Relations*, 1933, vol. III, p. 483.]

January 22 the Vice-Minister for Foreign Affairs described the present situation to the Counselor of this Embassy as follows. According to Mr. Shigemitsu the Foreign Minister succeeded in obtaining the release of the Soviet officials on the understanding that they would leave Manchuria. The Russians, however, had insisted that they be reinstated in their former positions. Furthermore, this had created a troublesome situation because on the one hand the "Manchukuo" authorities were adamant and "very proud of themselves", and on the other hand the Russian authorities in Moscow had seen fit to thunder against Japan, thereby placing Mr. Hirota in an embarrassing position. However, Mr. Shigemitsu said, the Foreign Office was marking time and would resume its efforts to get the Soviets and "Manchukuo" together on the railway question as well as the boundary problem and a few other minor matters.

A resumption of negotiations, however, will not in itself be reasonable cause for optimism as to their success. The disparity between the Soviet offering price and the "Manchukuo" bid will be so large as to greatly lessen the possibility of reconciliation. Nevertheless, those who hold that the original Soviet offer to sell the road was merely a convenient method of staving off the incidence of a crisis with Japan, declare that the position of the Soviet Union has been so strengthened within recent months that the Soviets would re-enter the conference with the sole aim of obtaining the optimum salvage price and withdraw from the untenable position in which they find themselves as co-owners of a railroad beyond their borders. It will be noted that this theory conflicts with the statement of the Soviet Ambassador to me,§ that his government had definitely determined not to yield an inch in the negotiations for sale of the road. In concluding this subject I may remark that the Foreign Minister is probably actuated in his efforts at settlement not only by the desire to remove the most critical Soviet-Japanese issue from the slate but also by the political aspects, involving *de jure* recognition of "Manchukuo", which a formal sale would carry with it.

GENERAL SITUATION

In recent days a formidable list of statesmen in Europe and America have been prominently quoted in the Japanese press as referring publicly to the possibility of war between Soviet Russia and Japan. Coming at a time when the Japanese public is debating the seriousness of this danger, the effect has been disquieting. Editorial comment in favor of a non-aggression pact with the Soviets has been stimulated by the public uneasiness as well as by the recent concili-

§ Embassy's despatch No. 606, of December 14, 1933. [Footnote in the original; despatch not printed.]

atory conversations between Ambassador Yureneff and Mr. Hirota which were mentioned above. The *Osaka Asahi*, the *Miyako*, and the *Tokyo Asahi* have all voiced strong pleas for a settlement of this kind. The editorial of the *Tokyo Asahi* is worthy of quotation in part because the author seems to have grasped the fundamental conflict of interests which will some day necessitate a major settlement between Soviet Russia and Japan:

“Japan needs an understanding with the Soviet Union for successful prosecution of its continental policy. Fundamentally speaking the question of the sale of the Chinese Eastern Railway is secondary. The authorities are willing to consider a pact of non-aggression with the USSR when all pending problems are out of the way. This is like hoping for the impossible. Suppose that the questions separating Japan and the USSR are settled today. Who dares say that fresh questions will not arise tomorrow? We want the authorities to take a far-sighted view in deciding their attitude toward a Soviet non-aggression pact.”

With the concern of the public over foreign affairs it was only natural that the formal address of the Foreign Minister to the Diet on January 23 should have been awaited with the keenest anticipation. Parenthetically it may be of interest to remark that a member of my staff was told several days ago by a member of the Foreign Office staff that Mr. Hirota's popularity in the Foreign Office was outstanding and that he personally considered him the strongest Foreign Minister Japan had had since Kato²⁶ and Komura.²⁷ The speech, in reference to Soviet-Japanese relations, was marked by a tone of restraint, an attitude of common sense which was in vivid contrast to the recent outbursts of such Soviet officials as Litvinov,²⁸ Molotov,²⁹ and Kaganovitch.³⁰ The core of this section of Mr. Hirota's speech is as follows:

“Despite the fundamental differences in both theory and constitution of the state that divides the two countries, we have always endeavored to keep on good neighborly terms with Soviet Russia and sought the solution of all questions by pacific means. Especially since the establishment of Manchukuo the Japanese Government has been acting solely upon their conviction that the proper adjustment of the tripartite relationship between Japan, Manchukuo, and the Soviet Union was of paramount importance for the tranquility of East Asia.”

It of course is obvious that the “proper adjustment” referred to above is designed entirely to eliminate Soviet Russia from her in-

²⁶ Baron Takaaki Kato.

²⁷ Marquis Jutaro Komura.

²⁸ Soviet Commissar for Foreign Affairs.

²⁹ President of the Soviet Council of Commissars (Premier).

³⁰ Prominent Soviet leader.

herited sphere of interest in North Manchuria, if indeed a more extended interpretation cannot now fairly be given to it.

While the attitude of Japan remains outwardly conciliatory toward Soviet Russia, the latter continues to strive for maximum preparedness in the areas contiguous to "Manchukuo". Mr. Shigemitsu, the Vice-Minister for Foreign Affairs, in conversation with the Counselor of the Embassy stated that Russian troops along the border were far greater than the Japanese who had only about three divisions scattered all over Manchuria while the Russians had probably twice that number besides a large number of airplanes and even submarines which had been brought out by rail and assembled at Vladivostok. (The Military Attaché estimates the Japanese troops in Manchuria at something over 70,000. The Russian troops have been estimated to amount to anything from 80,000 to 200,000, depending on the area covered). It is only recently that the Soviets decreed important changes in the economy of Eastern Siberia with a view to improving the morale of the population, increasing agricultural production, and attracting new settlers.||

In conclusion it may be said that we seem at present to be witnessing the most able efforts for a restoration of amicable relations that Japan is capable of mustering. It is encouraging to receive such assurances as Mr. Shigemitsu's that Mr. Hirota is determined to settle matters peaceably if possible and hopes to do so in a relatively short time if matters beyond his control do not prevent. It is perhaps significant that Mr. Hirota's efforts do not at present seem to be hampered by the military. In due respect for the sincerity of Mr. Hirota's endeavors and with my present belief that neither Japan nor Soviet Russia wishes war at this juncture I now feel more optimistic that at least a temporary settlement of pending problems may be found by peaceful means. Whether a permanent solution of the fundamental opposition of interests will be found in the same manner is at this writing impossible to predict.

Respectfully yours,

JOSEPH C. GREW

893.01 Manchuria/999

The Ambassador in Germany (Dodd) to the Secretary of State

No. 483

BERLIN, January 30, 1934.

[Received February 9.]

SIR: I have the honor to report that in a recent number of the London *Times*, reference was made to an address in Paris by Mr.

|| Harbin's despatch No. 2747. [Footnote in the original; despatch not printed.]

Wellington Koo,³¹ in which he intimated that Germany might be considering the recognition of Manchukuo.

In the course of a visit on another matter to Mr. Meyer, the head of the Eastern Division of the German Foreign Office, his attention was called to this statement, and inquiry made as to whether it contained any truth. Mr. Meyer replied that he had received many telegrams from the Far East on this same point. He considered that the story originated in a trip made by a Third Secretary of the German Embassy in Tokyo through Manchukuo mainly for the purpose of commercial reporting. He denied that there was any present intention of recognizing the regime now in power there. In this connection he suggested that if Pu Yi played his cards properly there might eventually be a considerable likelihood of his annexing a large portion of Northern China.

As to the danger of warfare in the Far East, he did not consider that the retirement of General Araki was of any special importance as Count [*General*] Hayashi shares his views exactly though he would perhaps be more discreet in expressing them. He considered that should the Japanese endeavor to seize Vladivostok the chances would be "fifty-fifty" as to their success. He thought that the Russian air-force would be a match for the Japanese and that Vladivostok was an extremely difficult place to seize. He seemed to be of the opinion that if the Japanese were to effect anything worth while in a military way, they would have to advance almost to Lake Baikal, and that in that region the winter would work much to their detriment.

Respectfully yours,

WILLIAM E. DODD

500.A15a5/21 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, February 1, 1934—5 p. m.
[Received February 1—6:24 a. m.]

21. Yesterday in the Diet Foreign Minister Hirota stated in effect:

"Japan's policy toward the second Washington conference³² has not yet been decided but in regard to the naval ratio question I doubt whether it is rational to limit naval strength by ratios. It is also very doubtful whether a disarmament agreement based on ratios will contribute to world peace.

As regards Manchuria I believe that question is a closed issue and truly cannot imagine that it would become a source of controversy at the conference.

³¹ Chinese Minister in France.

³² The first Washington Conference, from November 1921 to February 1922, dealt with naval armaments and with Far Eastern questions; for correspondence, see *Foreign Relations, 1922*, vol. I, pp. 1 ff.

The mandate islands which should naturally have become Japanese territory were obtained under mandate because of the circumstances at Versailles. That Japan should lose her rights because of withdrawal from the League is untenable."

GREW

893.01 Manchuria/1029

*The Consul General at Mukden (Myers) to the Minister in China (Johnson)*³³

No. 892

MUKDEN, February 3, 1934.

SIR: As of possible interest, I have the honor to report on the gradual change in the sentiment of the people toward the new regime. Although no extensive survey of this matter has been attempted, the information on which these observations are based was obtained from competent and presumably unbiased observers, both Chinese and foreign. The situation described herein pertains primarily to this province.

Generally speaking, it may be safely said that the sentiment of the people living in cities has become noticeably more favorable to the new regime than a year or more ago. The increasing stability of the new order and the progress made in bandit suppression during the past year have resulted in the practical disappearance of the feeling of uncertainty which prevailed for at least one and one-half years following the "incident" of September 18, 1931. Business, especially in the interior, has greatly improved. Although it may be said that the above generalization is true, it does not mean that the intelligent people of "Manchukuo" do not realize that their country is dominated by Japan nor indicate that they welcome or like this alien domination; rather it seems that this sentiment denotes a philosophical acceptance of an altered status which is bringing in its wake many material benefits and which there appears to be little or no prospect of changing. An unbiased Chinese briefly summarized the situation as follows: No one believes that any change in the existing situation can be effected internally by force; no one has faith in China doing anything; no one desires a return of the former regime; there is a growing appreciation of what the present regime is doing for the people. A foreigner in close touch with the Chinese expressed the opinion that they are beginning to realize that they are better off than under the old regime. Among the reforms which are widely understood and appreciated may be mentioned the stabilization and unif-

³³ Copy transmitted to the Department by the Consul General at Mukden in his unnumbered despatch of February 3; received March 9.

cation of the currency, increased official probity and public works, extensive road building being possibly the best known.

Among the country folk there has been little or no change of feeling according to available information. Chinese propaganda and fear of Japanese troops, instilled by insurgents and bandits in the minds of the country people who are subconsciously hostile to anything foreign, have undoubtedly been factors in keeping alive an anti-"Manchukuo" feeling. Ignorance—a farmer replied to a query of a missionary that his thoughts did not go beyond his two acres—and low grain prices must have a similar effect. Observers believe, however, that increasing security and good roads are beginning to be appreciated. But it is the establishment of the monarchy with P'u Yi as Emperor which is being widely heralded throughout the country that seems likely to influence opinion of the country folk in favor of the new regime more than anything else. (Reference my confidential despatch No. 888 of January 24, 1934,³⁴ entitled "P'u Yi to be Enthroned as Emperor of 'Manchukuo' on March 1, 1934.")

A few instances indicating this changing sentiment may be of interest. From a reliable source it has been learned that the graduates of mission schools who for at least one year after September 18, 1931, planned only on going to China in search of employment are now seeking and accepting positions in the new government. At the outset public opinion would have condemned this step but now it is accepted as a matter of course. A well-educated Chinese professional man who has no Japanese associations and who is looked upon as having good judgment and much common sense returned some time ago from a visit to his home in the interior of Shantung. He stated that Manchuria is a tabooed subject in Shantung by official order and expressed the opinion that as far as China is concerned it is a closed issue and that Chinese residing in Manchuria should govern themselves accordingly.

In the opinion of a well-informed observer there is a fairly large body of educated Chinese in Manchuria who are extremely critical of the new regime's policy regarding opium³⁵ and education. They are said to condemn the opium monopoly which has greatly increased opium smoking and regard with serious misgivings the small amount of money devoted to education and the failure to reopen the higher middle schools and other higher schools of learning. It has been learned that with the exception of the First Higher Middle School at Mukden (it has only one class with 58 students), the higher technical middle schools and normal schools no schools above the lower middle schools have been reopened in Fengtien Province. The total

³⁴ Not printed.

³⁵ See also pp. 349 ff.

attendance at the 41 provincial schools in Mukden was recently reported in the press as 20,231—the city's population is approximately 400,000. That the Japanese have not overlooked the important part played by schools in moulding public opinion is indicated by the promptness with which text books were revised and by the sending of selected youths from time to time to Japan—about 300 Manchurians are reported to be studying in Japan—for further training. According to a recent "Manchoukuo News Service" report a new educational program will be inaugurated at the time of the establishment of the monarchy which "will lay emphasis on the exaltation and propagation of the spirit of national founding among the younger generation." My informant expressed the view that the reactions of this body of Chinese are of some potential importance especially as they have close connections in China.

Respectfully yours,

M. S. MYERS

790.94/59

The Ambassador in Japan (Grew) to the Secretary of State

No. 668

TOKYO, February 8, 1934.

[Received February 24.]

SIR: In despatch No. 284 of February 9, 1933,³⁶ I had the honor to report the holding of a "preliminary conference for the establishment of a League of Asiatic Peoples" in Tokyo on January 26 of last year. This report was supplemented by two reports, No. 311 of March 7 and No. 468 of July 13, 1933.³⁷ The former dealt with the inauguration, on March 1, last, of the "Great Asia Association" and the latter with the reported organization of a Great Asia Federation at Canton.

I have now the honor to enclose, in a translation supplied by a colleague, a prospectus of the "Pan Asiatic League".³⁶ This document makes much of the supposed exploitation of Asiatic peoples by the Western nations, and pictures Japan in the rôle of a defender of Asia against White domination. It defends the establishment of "Manchukuo" on the grounds that its separation from China was not an indication of disintegration, but the rescue of Manchuria from the domination of Western nations who have hitherto controlled China. The paper dwells at some length on the mutuality of interest of the peoples of Asia and their need to defend themselves against the imperialistic West, including Soviet Russia. The peoples in dan-

³⁶ Not printed.

³⁷ Neither printed.

ger include, apparently, not only the Asiatic countries under Western political domination, but Persia, and semi-European countries such as Turkey, Hungary and North Africa. The down-trodden condition of these peoples is supposed to provide an additional opening for the dollar imperialism of the United States to add to their difficulties. The paper then takes up the thesis that Japan needs to free herself also from slavish acquiescence to the practices of the west. It advocates the need for Japan to place herself at the head of a league of independent Asiatic nations and liberate them all from European and American bondage, using as a model the example of Japan's relations to "Manchukuo". This League would ultimately include all the Asiatic territory now under European and American control and even the peoples of the Near East. The obstacles to this project are said to be the Anglo-Saxons and Soviet Russia, the former because of economic interests and the latter because of its policy of revolutionizing the world. Another hampering factor is seen in the inability of the Chinese to understand the need for cooperation with Japan in the noble aim of freeing Asia, because the Chinese are apparently duped by the malign influence of Great Britain and Soviet Russia. This must be changed, it is stated, if necessary by force. The paper then devotes some space to the need for moral leadership, which has been lacking in the West's contact with Asia. Japan must stand for race equality, placing moral values above economic motives; Japan should forge ahead with an Asiatic League to counteract the European controlled League of Nations, using her culture and her economic and political and even military power if necessary to accomplish it.

It would be easy to exaggerate the importance of this document. The Japanese Government undoubtedly has no such widespread projects in view. At the same time it should be remembered that chauvinistic utterances of this character have frequently characterized political thought in Japan especially during periods of political tension such as the country is experiencing at present. It is, however, only one of many such effusions, and when considered in connection with the many essays and novels of super-patriotic and war-like tone that are published in Japan today, indicates a popular turn of thought something like that of pre-Meiji days when the country was first opened to Western intercourse. During that period, covering the years between Perry's visits and the accession of Meiji Tenno, there were many picturesque advocates of reform and expansion. Perhaps the best known of these exhorters was one Yoshida Shoin, a man who exerted a profound influence upon Kido, Ito and others who subsequently became leaders in the Revolution which abolished the Shogunate and created modern Japan. One of Yoshida's obsessions was the

necessity for Japanese expansion on the Continent of Asia. He felt that Japan could never be safe until she had control of the mainland as far west as the Baikal region. This aspiration has been voiced at different times since his day. While no Government has seriously considered a project of such proportions, it is interesting to note that Japan has ever since consistently followed a policy of Asiatic expansion, dictated, to the mind of the Japanese people, by the need for self-protection. Even today, as the Department is well aware, the "defense" theme is constantly used as a cloak to cover Japanese aggression. In a recent article in *Yorodzu*, Major General Eiki Tojo, Chief of the Military Investigation Commission of the War Office, is quoted as saying: "Japan's desire for expansion on the Continent of East Asia as manifest in Japan's Manchuria policy has been an unalterable policy of Japan ever since its foundation . . .³⁹ The choice is whether Japan will be on a fair road to promising development or whether Japan will be shut up in small islands. . . .³⁹ We mean that the Japanese nation must be united in augmenting the country's national defense."

It is evident that the present "Pan Asia" movement is not a new one. It is something with which the Japanese public is familiar enough. The society or association whose prospectus is enclosed is therefore merely the embodiment in new guise of an idea that in one form or another has been current in Japan for many years. Its promoters include a respectable body of men, both civilian and military. The idea seems to have spread all over the Japanese Empire, and to Manchuria and even Canton, presumably at the instance of Japanese. The Consul at Taihoku reports (Political Events in Taiwan during 1933, Page 9) the organization of a branch of this society in Formosa in January of this year. The leading figure in the formation of the Formosa branch seems to have been General Matsui, Commander-in-Chief of the Army in Taiwan. He is listed as one of the Advisers of the parent organization in Tokyo.

I have already reported in a confidential despatch (No. 608 of December 12, 1933⁴⁰) the uneasiness with which my Dutch colleague views this movement. According to private advices the British also are somewhat apprehensive of Japanese expansion, although their concern seems to be more economic than political, for the time being at least. The Dutch Minister's feeling is quite understandable in the light of the report of the American Consul General at Batavia, which was enclosed in the Department's instruction No. 432 of January 15, 1934.⁴¹ The British situation apparently is not so simple. The recent

³⁹ Omission indicated in the original despatch.

⁴⁰ *Foreign Relations*, 1933, vol. III, p. 479.

⁴¹ Not printed.

difficulties between the Japanese and Indians over cotton have caused much irritation, and little is now seen in the press to indicate that the Japanese have much desire to "liberate" the Indian Empire from its "yoke". Besides, the British are much stronger than the Dutch and probably feel fairly confident of their ability to defend their colonies in case of need. In conversation with a member of my staff, one of the secretaries in the British Embassy, who is in a position to know, stated that the British did not regard the present Pan Asia movement in Japan as having political importance.

In conclusion, it is only fair to refer to an article which appeared in the *Kaibo Jidai* or Naval Defence Era, a political and economic review of recent origin, which is supposed to be an organ of the Japanese counterpart of our Navy League. In the February issue of this periodical one Mr. Nashimoto goes into the history of various Pan Asiatic movements in Japan, beginning with Saigo Takamori, who started a rebellion in Kyushu in 1877, one of his reasons being that the Government had refused to send an expedition to Korea. The writer then refers to Sun Yat Sen, commonly considered the father of the Chinese Republic, who is said to have been an advocate of Greater Asianism and close cooperation between Japan and China to oppose the dominance of the Western nations, particularly the "Anglo-Saxon group". The article then reviews in some detail the various Pan Asia societies that have been organized, including the present one. The writer shows much sympathy with the idea but comes to the conclusion that while the movement is a worthy one, it cannot achieve much because Japan herself is imperialistic, and consequently cannot lead other Asiatic nations in opposition to the Whites.

Respectfully yours,

JOSEPH C. GREW

893.01 Manchuria/1013

The Ambassador in Japan (Grew) to the Secretary of State

No. 669

TOKYO, February 8, 1934.

[Received February 24.]

SIR: As presaged in the second paragraph of my telegram No. 193 of December 23, noon,⁴² public announcement was made on January 20 that Mr. Pu Yi, as ordained by Heaven, would ascend the throne of the "Great Manchukuo Empire" on March 1, next, in accordance with the unanimous desire of the thirty million people of Manchuria who had already come to appreciate his wise and benevolent administration of the affairs of that country. In a statement enclosed here-

⁴² Not printed.

with,⁴³ the spokesman of the Foreign Office in Tokyo observed that the "Manchukuo" authorities had made it clear that the accession of the Chief Executive to the throne does not mean the restoration of the Manchu dynasty of the former Chinese Empire, and he emphasized the fact, mentioned to me by Mr. Hirota on December 23, that there will be no change in the frontiers of the country, so that North China will in no way be affected.

Passing over the careful stage management of the contemplated step, it is well to examine the various implications of the move and the possible future developments to which it may lead, whether or not these developments already form part of a definite Japanese program.

It is all very well to announce that there will be no changes in the frontiers of "Manchukuo", but as a matter of fact those frontiers have never been precisely laid down and at present are in parts more or less undefined. In speaking recently to one of my diplomatic colleagues, Mr. Hirota assured him that North China need have no fear of encroachments as a result of the establishment of the Empire, but when my colleague inquired as to the frontier bordering on Outer Mongolia, which has never been clearly demarked, the Minister replied that this would be a matter for future negotiation. The Chahar salient, as I have already pointed out, constitutes a more or less literal thorn in the flesh, pointing towards the heart of "Manchukuo", and it seems unlikely that the Japanese military authorities at least, who are responsible for the safety of that country, will be content to accept it as a permanent feature of the frontier.

In considering possible revisions of frontiers in other quarters it is well to remember that the concept of "Manifest Destiny" has become so well-rooted in Japan as to be a widely-accepted axiom. The so-called "expansionists" are merely the exponents of a relatively violent and immediate extension of Japanese control whereas many of those credited with liberal tendencies accept with equal conviction the same axiom and differ only in favoring more circumspect, less hasty or violent means of carrying it into effect. In this program of expansion it is quite certain that the eventual absorption of Mongolia within the sphere of direct Japanese influence plays an important role for political, strategic and possibly potential economic reasons. Pu Yi's enthronement as Emperor may well be calculated to appeal to the racial sentiments of the Mongols with a view to their eventual inclusion within the new Empire.

So far as China is concerned, it should not be forgotten that Pu Yi is still the sole legitimate heir of the former sovereign line of rulers.

⁴³ Not printed.

The inhabitants of Manchuria have apparently accepted the "new deal" philosophically and with resignation if not with a considerable degree of contentment at their present comparatively well ordered existence. If, in future, disturbances should break out in North China through competing and conflicting factions, or for other reasons, it seems not beyond reason that incorporation within the protecting fold of the new Empire might eventually be brought about without force of arms. If such a step should ever materialize, it is not difficult to let one's imagination run still farther afield. This phase of the problem, however, could perhaps be discussed more effectively by the Legation in China.

It seems probable that what the Japanese have in mind more immediately than the new "State's" relation to China is its relation to the Soviets who are predominant in Outer Mongolia. Up to the present the Japanese have been unable to obtain a satisfactory acknowledgment of the *status quo* of Manchuria. Before taking up the specific issues between the two countries, the Soviet authorities apparently desired and have endeavored to conclude with Japan a non-aggression pact of the type which they have made with contiguous countries on their western borders, but the Japanese seem not to wish an arrangement of that kind. They seem to feel that this is putting the cart before the horse and what the Japanese Government really desires at this moment appears to be a definite settlement of outstanding questions, including a more or less formal acceptance of the present situation in Manchuria. It is possible that the Japanese would be willing to make concessions to obtain it. Such an arrangement would, of course, so far as the Soviet Government is concerned, be a return to the policy which the old Czarist Government pursued—coming to terms with Japan over Manchuria. Apparently the present authorities in Russia are loath to do this, possibly because it would be notice that a socialist state is unable to stand firm and combat the imperialistic designs of a capitalistic nation.

Until Japan and Russia come to some arrangement, however, the situation in Manchuria will continue to be dangerous. Such a settlement would facilitate a solution of the boundary problems previously referred to as well as the question of political and economic penetration into Mongolia. It is, in fact, the key to peace in those regions, as it has been in the past. Nevertheless, due to the apparent unwillingness of Japan to make any general engagement which might limit its future course of action and to the equally apparent unwillingness of Russia to settle outstanding questions upon strictly Japanese terms, there seems little common ground at the present time for negotiations leading to an effective settlement. It is not clear, however, how or to what extent the assumption of the Imperial dignity by Pu Yi will

contribute to a Russo-Japanese *rapprochement*. The Japanese appear to think that it will have little or no effect so far as immediate problems are concerned, and that meanwhile the coronation of an Emperor in Manchuria is notice to the world that Chinese sovereignty of any sort whatever in that area is definitely a thing of the past.

Respectfully yours,

JOSEPH C. GREW

761.94/700

The Ambassador in Japan (Grew) to the Secretary of State

No. 670

TOKYO, February 8, 1934.

[Received February 24.]

SIR: In the last several months the Embassy has endeavored to keep the Department currently apprised of developments in the strained relations between Japan and the Soviet Union, without material modification of the views expressed in my letter of October 6, 1933, to the Under Secretary of State,⁴⁴ to the effect that war between the two countries was not unlikely, and that a logical moment for such a conflict, barring provocative incidents of a serious nature, might occur in 1935. I am not now prepared to alter those views. Few if any careful foreign observers in Japan today would maintain that the risk of war had been eliminated by the recent developments and indications which I shall discuss in this despatch. Many such observers, however, feel that the possibility of avoiding such a conflict is greater than it was six months ago, and to substantiate this opinion the following factors are adduced.

(1) There has been in recent months a noticeable reaction against the military and especially against the vast military expenditures and demands in the budget. This reaction has manifested itself in the Cabinet, in the press and especially in the Diet. I have already reported the schism in the Cabinet which resulted in a compromise.* The recent attacks on the Army and Navy through interpellations in the Diet have been the most direct and forcible anti-military manifestations that have occurred in Japan since the Manchurian adventure began in 1931.

(2) The forcible nature of these interpellations in the Diet indicate a growing strength and confidence of the political leaders. The military have overplayed their hand. It now remains to be seen whether these political elements, with their increasing confidence, will in turn overplay their hand. If they do so, there will be a risk of further terroristic activities. Angry reverberations have already been heard from the Navy.† Once the Diet is adjourned, however,

⁴⁴ *Foreign Relations*, 1933, vol. III, p. 421.

*Embassy's despatch No. 566 of October 31, 1933. [Footnote in the original; despatch not printed.]

†Embassy's despatch No. 664 of February 6, 1934. [Footnote in the original; despatch not printed.]

there will be less opportunity for the politicians to express their views in public, although they will have had full opportunity to register their concern at the dangerous situation into which military aggressiveness has been leading the country.

(3) Public feeling against the Army has been accentuated by the light sentences given to the officers concerned in the assassination of Premier Inukai on May 15, 1932, compared to the heavy sentences meted out to the civilians, although the latter were involved to a lesser degree. General Araki, it has been reliably reported to me, remarked not long ago that the military Court Martial, in determining the military sentences made a serious mistake, having totally misjudged the force of public opinion. He added that if the officers who assassinated Premier Inukai had committed *hara-kiri* on his door-step instead, there would have been an immediate revolution, but they adopted the wrong method of gaining their ends.

(4) It is generally felt that General Araki's resignation, actually due to his illness—which many feel to have been providential dispensation—has relieved the situation of an inflammatory element. While his successor's attitude towards a Soviet-Japanese war is not known, it can at least be said that there will now be less public rattling of the sabre and fewer provocative utterances from the military. This should exert a calming influence.

(5) The middle classes, including the liberal professions, merchants, industrialists, landlords, have changed their mentality during the past year, and in the face of the economic prosperity caused by increasing exports, they desire a continuation of the *status quo* and dread the upsets which a war would bring. The rural population has not shared fully in the prosperity which has fallen to the industrial and merchant classes. In the face of constantly rising living costs, the farmer's income has remained stationary, or nearly so. In addition, the modern urge for improved living conditions has affected rural areas, and the people there are no longer content with the simple hard life of their ancestors. These factors, added to the heavy taxation which rural communities have to bear, have caused a great deal of unrest in the country districts. They naturally desire relief, and are showing more interest in, and opposition to, heavy military expenditures than they have ever done before.

(6) The highest influences in the country are pacific. The Emperor is a man of mild and peaceful character. The era of his reign is characterized by the word "showa" which he himself chose and which means "enlightened peace". There is no reason to believe that he approved of the Manchurian adventure, for the matter did not lie in his decision. Prince Saionji, the Genro, and Count Makino are profoundly imbued with the horrors of war. Since 1931 they have not been able to make their views publicly felt, but they are constantly working behind the scenes and it is believed that their influence is gradually increasing. The Prime Minister is personally an influence more peaceful than bellicose. Hirota, the Minister for Foreign Affairs, has displayed unexpected strength and is personally largely responsible for the comparatively milder tone of the press since he took office and for a new orientation in endeavoring to develop better relations with foreign countries. A strong group of liberals in the

country have been steadily working behind the scenes and are, it is believed, developing more strength than they formerly possessed. At a recent dinner at the Tokyo Club in honor of Sir Francis Lindley, the British Ambassador, and Ambassador Debuchi, Baron Hayashi, the chairman, in introducing the speakers, said slowly and with firmness, in a tone nearly menacing and emphasizing his remark with a bang of his fist on the table: "We want peace!". This is a small detail, but Baron Hayashi is Grand Master of Ceremonies of the Imperial Court and one of the Emperor's favorites.

(7) From the point of view of the Army itself—for in the last analysis the Army is likely to have the last word as to whether it shall be peace or war—new factors may exert a restraining influence. Even in the Army itself there are not lacking sane elements who are aware of the seriousness of a Japanese-Soviet conflict and who question whether the end to be attained would justify the risks run—whether the game would be worth the candle. Undoubtedly the Army has complete confidence as to its ability to take Vladivostok and the Maritime Provinces and probably all of the territory up to Lake Baikal, for the Russians, separated by several thousand kilometers from their home base of supplies, will always be in a strategically hazardous position. But their defenses in the East have been materially strengthened, and their air forces in Vladivostok and elsewhere along the frontier constitute a serious threat to Tokyo and other important Japanese cities. Furthermore, American recognition of Soviet Russia has injected an important psychological element into the situation and gives pause to those in authority in Japan, for regardless of the pacific policy of the United States, American action in the event of a Japanese-Soviet conflict would be to the Japanese an unknown and disturbing factor, necessarily to be taken into consideration. Military plans may be regarded as infallible; but the attitude and possible action of the United States constitutes an element of uncertainty and therefore an unknown hazard. American recognition has increased self-confidence and bluster in Moscow, but no one believes that the Soviet Union will commence hostilities. I therefore believe that our recognition of the Soviet Union has injected into the situation a restraining influence, probably of greater effect than any other single integral.

(8) The opinion among the military attachés in Tokyo, and one which I set forth in my letter of October 7 [6?], 1933, to the Under Secretary of State,⁴⁵ is that the Japanese Army will reach the zenith of combat efficiency in 1935, and that after that period, time will tell in favor of Soviet Russia in point of lines of communication, organized man power, fortification and equipment. The hypothesis was advanced, and is firmly held by the majority of foreign observers, that in the general scheme of Japanese expansionist ambitions the Maritime Provinces and Eastern Siberia occupy an important position, and that in those ambitions the Soviet Union constitutes an obstacle which must be removed at a favorable moment. Granting that this is true, I nevertheless believe that an increasingly influential body of opinion in Japan recognizes the importance of consolidating gains already made before embarking on further military adventures. The creation of the "Manchukuo Empire" is a step towards that consolidation. This school of thought feels that "Manchukuo" must first

⁴⁵ *Foreign Relations*, 1933, vol. III, p. 421.

justify itself before the world as a stable and progressive political unit before further expansionist plans should be put into operation. There seems at present to be greater hope that the influence of this saner element in the country may predominate over those who are less amenable to reason.

In spite of the foregoing tendencies and considerations, the course of future events is subject to incidents and uncertainties which no one can predict. The foreign Military Attachés are, I believe, unanimously pessimistic. It is certain that an important faction of the armed forces of the Empire, especially the younger elements, earnestly desire a conflict with the Soviet Union, for the primary purpose of which all the energies of the Army and Navy are united in an intense and unanimous effort of preparation. I have once before drawn the parallel of the intensively-trained football team which, being convinced of its superiority and dissatisfied with mere practise, desires a game. This is precisely the attitude of a considerable element of the Army, just as it was the attitude of the German Army in 1914. If this element has its way, there will be war, and there will always exist the hazard that this element will work to create a situation where war will be unavoidable. As an illustration of this hazard I have been told the following incident by Mr. J. B. Powell, editor of the *China Weekly Review*. He was dining with a young Japanese officer in Mukden who pointed out a small table in his apartment which he said was historical. "On that table" he remarked, "were worked out the plans for bombing Chingchow. There was a difference of opinion, and I myself voted against it, but the majority of my friends voted in the affirmative and the bombing was therefore carried out as planned". The implication was that the step was taken without higher instructions. I cannot of course guarantee the accuracy of the story, but Mr. Powell was convinced of its truth. It is in line with other incidents of the 1931 campaign in Manchuria. We must not close our eyes to the fact that similar incidents may occur in future, regardless of the views and policies of those in authority either in Tokyo or at the front, and that any one serious incident might create a situation where war with Soviet Russia would become unavoidable.

To sum up, the pacifist tendencies latent in Japan have in the past few months been able to make themselves felt and heard to a greater degree than at any time since September 18, 1931. If the proponents of these tendencies do not overplay their hand, they may be expected to gather strength and influence, and they may, in the long run, effectively guide the country into saner and less aggressively militaristic channels. The possibility of avoiding a conflict with the Soviet Union depends to some degree upon the continued strengthening of these

newly manifested tendencies, for which, at the present moment, there appear to be reasonable grounds for optimism.

Respectfully yours,

JOSEPH C. GREW

761.94/750

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*

[WASHINGTON,] February 13, 1934.

In the course of an informal conversation casually begun during a small reception at the residence of Mr. Bullitt,⁴⁶ yesterday, the Soviet Ambassador told me that he had received a personal letter from former Japanese Minister for Foreign Affairs, Baron Shidehara, in which Shidehara told him that a war between Japan and the Soviet Union would be a "tragic crime". The Ambassador went on to say that he had now reached the point where he was convinced that the Japanese do not at present intend to attack the Soviet Union this spring. He said that the Japanese had come to a realization that the Soviet Union is fully prepared to give a good account of herself in the event of war and that for that reason the Japanese do not wish to put the matter to a test.

S[TANLEY] K. H[ORNBECK]

893.01 Manchuria/1032

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*

[WASHINGTON,] February 15, 1934.

I have had information from two or three sources which indicates that there is being carried on quietly in some quarters what appears to be a campaign of under-cover propaganda directed toward influencing the Administration with a view to effecting a change of position with regard to the declaration made by the previous Administration that the United States did "not intend to recognize" in connection with various steps taken and situations created contrary to treaties, etc., in Manchuria.

There is perceived no good reason why American citizens should be taken in by or lend themselves to propaganda, if it be such, the success of which, if it took the form of action by the American Government, would be to the advantage of Japan (and the Japanese program in relation to Manchuria) only, and in no way to the advantage of the United States.

⁴⁶ William C. Bullitt, Ambassador to the Soviet Union, on leave in the United States.

Much may be said, pro and contra, with regard to the merits of the non-recognition doctrine and the use of it in prosecution of policy. The subject is one well worth the consideration of and discussion by students of international law and diplomacy. But, from point of view of practical and actual international relations, the simple facts are: the American Government announced in 1932 that it "did not intend to recognize"; maintenance by it of that position calls for no new action and no new affirmation; recognition of the "State of Manchukuo" and the "Government of Manchukuo" are being sought only by the Japanese (and their protégés in the present administration of Manchuria) and only for purposes of Japanese policy; the question of recognition or non-recognition by this country of "Manchukuo" is not at present an "issue" between Japan and the United States; our persistence in withholding recognition is not substantially interfering with Japan's program for the development of Manchuria and is not depriving the people of Manchuria of any right or any substantial benefit; and the so-called "State of Manchukuo" has not yet shown itself to be possessed of all the characteristics of statehood (one of the most important of which is ability to stand alone). In connection with any affirmation that the American Government should reverse itself and proceed to take the positive step (in place of a negative attitude) of recognizing "Manchukuo" the affirmation should be subjected to the rule that the burden of proof rests upon him who affirms. Any proposal that this Government should recognize "Manchukuo" constitutes a proposal for action involving not alone our relations with Japan but our relations with China and our relations with the League of Nations. When we took our stand in declaration of an intention not to recognize, we set an example which became the basis on which the League of Nations subsequently took its stand in a similar sense and which also considerably influenced the course subsequently pursued by the Chinese Government. If and when we choose to reconsider our position we should give due consideration to those facts and to the responsibility which is ours by virtue of them.

Altogether undue weight is attached currently to the impression that there is a terrific state of tension between Japan and the United States. Starting with and motivated by that thought, a great many well intentioned people are casting about for ways and means for the relief of this supposed-to-exist tension. In nearly every instance the suggestions which these people evolve are suggestions the adoption of which would involve concessions or free grant of favors to Japan by the United States. Now as a matter of fact the tension is not extraordinary. In so far as it has existed, it has been in process of constant diminution over a period of several months past, and it has been substantially diminished within the past three days by the fact that the extraordinary budget, with its enormous appropriations for

the army and navy, in Japan, has now passed the Diet. No small part of the great hullabaloo in Japan in discussion of possible war with the United States and/or with Russia and/or with both has been artificially induced by interested parties in Japan for the purpose of insuring the passage of that budget. Recently the tendency in circles in authority in Japan has been to clamp down on the chauvinistic talk of certain outstanding figures among their militarists and at the same time to play up the subject of friendly relations with the United States. It is true that the Japanese would like to have us recognize "Manchukuo" and that they would like to have us amend our Immigration Act⁴⁷ and that they would like to have us indicate that we will be agreeable when the times comes to an alteration favorable to them of the existing naval ratios. But none of these things are real "vital" issues and there is nothing in the situation as between the United States and Japan which makes it in any way imperative that the American Government go out of its way or indulge in the free giving of gifts in order to placate Japan and insure against hostile acts on Japan's part against this country.

There may come a time when it will be advisable for us to consider on its intrinsic merits the question whether a certain political entity called "Manchukuo" is entitled to and should be accorded recognition by the United States. That time has not yet come and it probably lies a considerable distance in the future.

For the present, the simplest and the wisest course for this Government to pursue is to stand pat upon and refrain from discussion of the position taken by the previous Administration in 1932 and reaffirmed by the present Administration (in a communication to the League of Nations, in September, 1933⁴⁸) of intention not to recognize.

And the simplest way in which to deal with suggestions for reconsideration would be to listen to whatever the proponents of that idea may have to say but to respond with silence or with the simple affirmation that no useful purpose can be served by raising this question at this time.

S[TANLEY] K. H[ORNBECK]

761.94/707

The Minister in China (Johnson) to the Secretary of State

No. 2542

PEIPING, February 16, 1934.

[Received March 12.]

SIR: In a conversation which I had on February 8, 1934, with General Ho Ying-ch'in, Minister of War and Chairman of the Peiping

⁴⁷ Approved May 26, 1924; 43 Stat. 153.

⁴⁸ Dated September 20, 1933, *Foreign Relations*, Japan, 1931-1941, vol. I, p. 122.

Branch Military Council, and General Huang Fu, Chairman of the Peiping Political Affairs Readjustment Council, the former stated—and the latter apparently concurred—that, although he does not regard immediate war between Russia and Japan as likely, he does believe that Japan intends to attack Russia and that, prior to that attack, Japan will occupy the northern Chinese provinces of Chahar, Hopei, and Shantung as a base against Russia and as a preventive against Chinese assistance to Russia.

I enclose a memorandum of the conversation.⁴⁹

Respectfully yours,

NELSON TRUSLER JOHNSON

793.94/6567

The Counselor of Legation in China (Peck) to the Secretary of State

NANKING, February 16, 1934.

[Received March 12.]

SIR: I have the honor to refer to my despatch of November 15, 1933,⁵⁰ entitled "Sino-Japanese Relations; Interviews with Tang Yu-jen, Administrative Vice Minister for Foreign Affairs" with which despatch I enclosed accounts of conversations with Mr. Tang held by the American Minister and by me.

I chanced to meet the Administrative Vice Minister at a social function held at the Japanese Consulate General recently and he told me that he wished to have another private conversation with me within the next few days. This conversation, at Mr. Tang's request, took place in the reception building of the Ministry of Foreign Affairs on February 14, 1934. There is enclosed herewith a memorandum of that conversation which I dictated immediately on my return.

On one or two previous occasions Dr. Wang Ching-wei, President of the Executive Yuan and Acting Minister for Foreign Affairs, has told me that Mr. Tang, the Vice Minister, has held these conversations with me at his, Dr. Wang's, instruction. There is, therefore, reason to think that Dr. Wang was responsible for the confidential conference which I now have the honor to report and that Dr. Wang's motive in arranging it was to maintain active and intimate contact with the American Legation.

As the Department is aware, Vice Minister Tang is popularly regarded as "pro-Japanese". Nevertheless, the tone of his conversation gave me the impression that he is pro-Japanese only to the extent of recognizing the unavoidable importance of Japan's attitude toward

⁴⁹ Not printed.

⁵⁰ Despatch not printed; for its enclosure, see memorandum dated November 14, 1933, *Foreign Relations*, 1933, vol. III, p. 452.

China and Japan's ability to carry out its policies. I did not receive the impression that Mr. Tang is any the less patriotic because of these convictions.

Very respectfully yours,

WILLYS R. PECK

[Enclosure—Extract]

Memorandum by the Counselor of Legation in China (Peck)

[NANKING,] February 14, 1934.

The mention of North China led Mr. Tang to speak of China's relations with Japan. He observed that to understand Japan's attitude toward China, one must take into account two or three facts. One of these facts is that subordinate military officers in the field often take the initiative and sometimes do not carry out faithfully the orders they receive from their superiors. Moreover, there are many disorderly Japanese characters, "Ronins", smugglers, etc. These military subordinates and adventurers sometimes lead Japan further than the Japanese Government has determined in advance to go.

A more important fact, however, is that the Japanese activities in Manchuria were, in effect, a manifestation of a peaceful revolution in Japan. The Japanese Army felt that Japan was being menaced by financial exploiters and by other economic and political factors. The Army wished to eradicate these dangers, but if it attempted to do so within Japan itself, it might be necessary to remove the Emperor. This the Army did not desire to do. The exploits of the Army in Manchuria were deliberately entered into as a means of increasing the prestige of the Army and obtaining popular leadership, without resorting to an actual revolution in Japan itself.

It is not necessary to suppose that Japan has hostile intentions toward China, since, as has been seen, the Japanese Army has its own internal ends in view in taking the steps which it has taken in Chinese territory.

The circumstance that Japan's aggressive acts toward China have an internal objective does not, of course, make the situation any easier for China. Mr. Tang said that Japanese friends had pleaded with him for friendly sentiments on the part of China toward Japan. Mr. Tang remarked to them that it would be impossible for China to entertain a friendly sentiment toward Japan, so long as Japan remained in occupation of Chinese territory. If Japan really desired China's friendship, it should remove the factor which rendered such friendship impossible.

Mr. Tang said that he had pointed out to these same Japanese that it would be quite useless from Japan's standpoint, for China to "recognize" Manchukuo, as the Japanese desired. The creation of Manchukuo had placed Japan in a dangerous position, internationally, but this danger would not be obviated by China's recognition of Manchukuo. Japan's real danger, arising from the creation of the new state, is caused by the fear and misgivings aroused in the United States, in Soviet Russia, in Great Britain and other countries by Japan's action. This fear would in no way be allayed if China were to recognize Manchukuo.

Mr. Tang invited Mr. Peck's attention to the fact that China had never conceded any legality to Japan's aggressive actions. The National Government is determined, he said, never to take any such action and even to enter into discussions with Japan, in view of Japan's objectives, is an impossibility.

With specific reference to the anti-Japanese boycott, Mr. Tang said that in point of fact this boycott had practically ceased, although not in theory. The increase in the import tariff which went into effect in May, 1933, was aimed particularly at Japan. Mr. Tang returned a non-committal reply when Mr. Peck asked whether another early increase in the import tariff was contemplated. He said merely that further increase of the import tariff would be of doubtful advantage, since it had been found that China's industries did not respond to such protective measures, smuggling increased, and a greater burden was placed on the consuming public, while even the anticipated increase in revenue often failed to materialize.

Commercial relations between Japan and China are, moreover, not a matter of indifference to China, since China would be very unwilling to lose the market in Japan for various Chinese exports which are important in amount.

Mr. Tang said that China would be very glad to be freed from such degree of economic dependence on Japan as arose from its present relations with that country. This could come about only if other countries were able and willing to absorb the Chinese exports which are now sold in Japan. He pointed out that the balance of trade and commerce with Japan is now in favor of China. In the matter of commerce with the United States, on the other hand, the balance of trade is greatly in favor of the United States and he particularly wondered whether anything could be done to alter that situation, since it now seems to be generally recognized that profitable commercial relations between two countries are predicated upon an exchange of approximate equality between the exports of one country to the other and its imports from the same country.

Mr. Tang said that the Chinese Government is very anxious to increase the strength of China's relations with European and American countries and at the present time such relations are generally much more important in their economic aspects, rather than in their political aspects. The strengthening of economic relations which he mentioned would, he pointed out, free China from a great deal of its present dependence on Japan. He observed that in the negotiation of a new commercial treaty with the United States, these subjects would doubtless receive particular attention.

Mr. Peck agreed with this supposition, and inquired whether the Chinese Government regarded the negotiation of a new commercial treaty with the United States as a very pressing matter.⁵¹ Mr. Peck said that in his opinion there were reasons for not undertaking this task at the present moment but for deferring it to a more suitable time. Mr. Tang said that the Chinese Government did not consider it urgently necessary to negotiate a new treaty at an early date, but the Government felt that there were certainly aspects of the existing treaty which should be modified, such as extraterritoriality, etc.

There ensued some discussion of the matter of Chinese exports to the United States, such as silk, tea, wood oil, hides, bristles, etc., and Mr. Tang expressed regret that Japan seemed to have captured the market in the United States for Chinese silk and tea. Mr. Peck referred to the attempts of the Silk Association of America for some years to improve the methods of Chinese silk production, in order to make Chinese raw silk more suitable for America's needs. Mr. Tang said that matters of that sort, i. e. improving and maintaining quality of Chinese exports, such as silk, could certainly be attended to by the Government, especially if it solicited the assistance of Chinese financiers.

Mr. Peck suggested that Mr. Tang converse on these subjects with Mr. Julean Arnold, American Commercial Attaché at Shanghai.

851.503193 Manchuria/23

The Ambassador in Japan (Grew) to the Secretary of State

No. 680

Tokyo, February 21, 1934.

[Received March 12.]

SIR: I have the honor to refer to my telegram No. 25, of February 12, 1934,⁵² in regard to French investment in Manchuria and to my confidential telegram No. 29, of February 26 [16], last,⁵² on the same

⁵¹ See pp. 523 ff.

⁵² Not printed.

subject, which indicate renewed interest on the part of Western financial groups in that region.

The Department will recall that at different times ever since the Russo-Japanese war there have been syndicates or other organizations formed for the purpose of exploiting Manchuria, whose potential wealth and purchasing power have been widely heralded. Perhaps the best known American venture, aside from the proposed Chinchow-Aigun Railway,⁵³ which never was built, was the project to develop scientific agriculture on a large scale. This seems to have been a joint venture on the part of a number of young men from the Chinese Customs service. They enlisted the backing of the Governor of Kirin Province, who arranged for them to obtain the land, and the International Harvester Company, who furnished the agricultural machinery. This project came to nothing, owing to banditry, poor transportation and other political and social difficulties beyond the control of the promoters. At other times there have been mining ventures and innumerable attempts on the part of individual merchants to found stable concerns. For the most part they have not succeeded.

The reasons for failure appear to have been largely political. Manchuria has never hitherto had an effective government, and the conflicting national ambitions which have been the dominant feature of life in that region have militated against sound business growth. Except for the export of beans and its products and perhaps a few other items, business has been largely dependent upon the political projects of those who happened to be in power.

The situation is not essentially different at this time. It looks somewhat different because the Japanese are in control, for all practical purposes. The South Manchuria Railway is a prosperous enterprise because it has had the political backing of Japan, and there is every evidence that it will continue to have this backing. Accordingly the French group of financiers and industrialists desire to deal with it. The French interests apparently believe that the South Manchuria Railway is the only concern with which it will be safe to deal on a large scale.

The German interests are in a different position. For many years Germany has been a large purchaser of soya beans from Manchuria. Germans have been selling merchandise and machinery there for an equal period. Germans were large creditors of Chang Hsueh-liang before the present regime came into control, and they have been doing business with the new Government as well. Owing to their large purchases in Manchuria they have been regarded with favor. Besides, it is obvious that Germany has, and can have, no political

⁵³ See *Foreign Relations*, 1910, pp. 231 ff.

projects in the Far East. German interests are purely commercial, but they are substantial, and German goods are regarded highly, in Japan at least.

In these circumstances, the Germans have begun an intensive study of the Manchurian situation from the standpoint of commercial development. There have been rumors to the effect that Germany was about to recognize "Manchukuo" in return for commercial favors. Discussion with the staff of the German Embassy here does not give that impression. The Germans intend to obtain all the commercial advantages they can, but apparently the recognition of "Manchukuo" is too high a price to pay for what may not turn out to be much. One member of the German Embassy stated that the determining factor in the situation was the relationship between Japan and Russia; that "Manchukuo" was not master in its own house; that until there was some measure of acceptance of the new state by China and/or Russia, he could not recommend his Government to do anything drastic; that Germany had been compelled to give up extra-territorial rights in China, and that consequently the Germans there were defenceless against Chinese resentment; that if Germany were suddenly to recognize "Manchukuo" without some degree of understanding with the Chinese, it might go hard with German individuals and commercial enterprises in China proper; that while the potential value of trade in Manchuria might be enormous, its immediate value was not sufficient, in his judgment, to warrant any great risks.

It seems probable, therefore, that the *de jure* recognition of "Manchukuo" at this time is not imminent, although the Germans and perhaps others may find it convenient to deal directly with "Manchukuo" officials through their consular officers in Manchuria, without raising the question of recognition.

Respectfully yours,

JOSEPH C. GREW

893.20/477

The Ambassador in Japan (Grew) to the Secretary of State

No. 682

TOKYO, February 21, 1934.

[Received March 12.]

SIR: From time to time a bogey of American intrigues in Fukien provinces, usually linked with American aid to Chinese aviation, has caused agitation in Japan.

The Japanese people are extraordinarily apprehensive of attack from the air, realizing probably that their country fears little from attack from the sea, while sensing that the unusual concentration of population and wealth in the few major Japanese cities renders the

country particularly vulnerable to attacks from the air. For this reason the Japanese are very much concerned over the growth of the Soviet air forces; over the building of American airplane carriers, and recently over rumors of American aid to Chinese aviation.

Rumors of such aid first appeared in the press last July and August*. One paper published an elaborate contract alleged to have been signed between the Chinese Minister in Washington and the Department relative to aviation. Since that time little has been heard of this matter until the present session of the Diet. Several speakers, during the past few weeks, have touched on the matter of American aid to Chinese aviation. The following extract from an interpellation by Mr. Saburo Yasumi, a Seiyukai member, made in the Lower House on January 25th is typical:

“As you all know, rumors have been persistently circulated since the Spring of 1932 that the United States has sent many aviators to China as instructors and that a loan contract is to be signed between China and the United States with the object of enlarging Chinese air forces. However, these rumors remain to be confirmed.

“By virtue of Article 19 of the Washington Treaty⁵⁴ it is agreed that the signatories shall maintain the *status quo* in defensive equipment in their respective territories and possessions. . . .⁵⁵ However, a certain Power which is a signatory to the Treaty and which has immense capital, is about to build up a powerful air force in Canton and Fukien which are contiguous to Japan's possessions. Such operations are contrary to the spirit of the *status quo* agreement (applause)”.

The Foreign Minister, Mr. Hirota, replied to this interpellation as follows:

“If the government of a State signatory to this Treaty launches any enterprise recognizable as a violation of this Treaty, as described by Mr. Yasumi, the Japanese Government would not by any means remain passive. As to whether such violation is a fact or not, I am keeping close watch in concert with the appropriate authorities”.

On the same day Mr. Seigo Makano, a member of the Kokumin Domei and parliamentary Vice Minister of Communications stated:

“In China, the United States is now establishing aerial routes from Fukien, which is just opposite Japan's possession Taiwan, to Canton, Shanghai and other places. This activity of the United States is evidence of her plan to create a monopoly in China”.

The Tokyo *Nichi Nichi* of February 19th carried the following report:

* Embassy's despatch No. 495, August 14, 1933. [Footnote in the original; despatch printed in *Foreign Relations*, 1933, vol. III, p. 387.]

⁵⁴ Signed February 6, 1922, *ibid.*, 1922, vol. I, p. 247.

⁵⁵ Omission indicated in the original despatch.

"On February 18th the Foreign Office received a report from the Japanese authorities in South China, the gist of which is as follows:

"1. There is much suspicion that the funds for the construction of two aerodromes in Fukien were obtained from the Soong⁵⁶ cotton-wheat loans.

"2. Officers of a United States warship now moored off Amoy have frequently inspected the sites for the new aerodromes.

"3. Construction of these aerodromes may prove to be a violation of the Fukien Province Non-Concession Agreement signed between Japan and China in April 1898."⁵⁷

The *Japan Advertiser* of February 21, commenting on the same subject stated:

"The (Foreign Office) spokesman indicated that Japan's diplomatic and consular officials in China were investigating the reports, which in itself was taken as evidence that some credence is placed in them by the Japanese authorities".

In my opinion this constant predilection toward uncovering American intrigues is simply further evidence of the agitated state of mind in Japan, and the suspicion with which any extension of influence in Eastern Asia by another power is regarded by Japanese at present.

Respectfully yours,

JOSEPH C. GREW

793.94/6573

The Minister in China (Johnson) to the Secretary of State

No. 2557

PEIPING, February 22, 1934.

[Received March 24.]

SIR: I have the honor to report that the Japanese appear to be striving to persuade the Chinese authorities to support a policy of Sino-Japanese "friendship", a policy which would clarify and stabilize, at least for the time being, Sino-Japanese relations, which would increase Japanese authority in North China without resort to subversive or militant activities, and which would relieve Japan of danger from North China in case Japan were to become seriously engaged elsewhere.

The Legation has been reliably informed of statements made recently by a close friend of General Huang Fu, General Chiang Kai-shek's representative nominally in control of North China. This man was sent to Japan as General Huang Fu's "personal representative" and, while there, conferred with leading military and civilian authorities. (Although the Legation's informant felt constrained

⁵⁶ T. V. Soong, Chinese Minister of Finance in 1933.

⁵⁷ See Chinese declaration of April 26, 1898, John V. A. MacMurray (ed.), *Treaties and Agreements With and Concerning China, 1894-1919* (New York, Oxford University Press, 1921), vol. I, p. 126.

to withhold the name of the "personal representative", it is probable that he is Mr. Li Cheh-li who was educated in the Japanese military academy and who was reported in the press as having visited Japan last November, allegedly unofficially.) To a few Chinese friends, one of whom retailed the conversation to a member of the Legation staff, this "personal representative" made certain statements early in the present month which are of interest, especially as there is no reason to believe that they have been reported inaccurately and as their general tenor is in harmony with information reaching the Legation from other sources.

According to this "personal representative", the Japanese authorities whom he met are now agreed in desiring the "friendship" of China—under certain conditions. One proposal and two threats were made to him. The proposal was that Japan would support Generals Chiang Kai-shek and Huang Fu in all necessary ways in return for certain concessions, which may be supposed to include a settlement favorable to Japanese interests of such questions as Sino-"Manchukuo" customs, post, telegraph, telephone, railway traffic, and air lines and which definitely included the removal from North China of General Yu Hsueh-chung, Chairman of the Hopei Provincial Government, and General Sung Che-yuan, Chairman of the Chahar Provincial Government, together with their troops, the Japanese apparently viewing these two generals as the most probable source in North China of action detrimental to Japanese interest. (It may be pertinent to recall in this regard that General Sung's troops were among those few which offered any genuine resistance to the Japanese in their occupation of Jehol Province last spring, that Japanese officials have recently made statements indicating dissatisfaction with General Yu Hsueh-chung and his subordinates, and to note that in to-day's press appears for the first time a statement that reports are current that the removal of General Yu Hsueh-chung from Hopei to Chekiang Province is under consideration.)

It was the opinion of the "personal representative" that the Japanese hope to obtain through Chinese compliance with this proposal a North China under General Huang Fu practically independent of Nanking and practically dependent on Japanese direction; in effect, a buffer state subservient to Japan. (The desire of the Japanese to have General Huang Fu in charge, notwithstanding his lack of financial and military backing, is probably due to the fact that he is respected as a man of integrity who is anxious to improve the Sino-Japanese situation and that he is satisfactory to deal with because, having been educated in the Japanese military academy, he understands the Japanese.) The Legation's informant understood that a time limit for agreement, probably the end of next month (March),

had been set by the Japanese. Failure to agree, the Japanese informed the "personal representative", would make it necessary for them to attempt to follow a second course; namely, the putting of North China under the nominal control of either General Han Fuchu, Chairman of the Shantung Provincial Government, or General Yen Hsi-shan, Pacification Commissioner for Shansi Province, if either of these generals could be induced to submit to the Japanese yoke. The "personal representative" was then informed that, if this alternative plan failed, more strenuous action would be undertaken, it being at least inferred that such action might include the transporting of Mr. Pu Yi from Hsinking to Peiping.

The foregoing statements are supported to some extent by other information reaching the Legation. In January there was held in Shanghai a conference of important Japanese military officers. Although their decisions have been carefully guarded, the Legation has learned from unofficial Japanese and Korean sources that the Japanese military are believed to have approved a policy of support of Generals Chiang Kai-shek and Huang Fu in return for an approximately free hand in North China and that, following this decision, a considerable number of so-called Japanese *ronin* and civilian-clothed Japanese military left China, apparently because with the establishment of such a policy subversive activities which have heretofore been in progress for the purpose of diminishing the authority of the present government would be unnecessary. What the attitude of General Chiang and other officials with regard to this policy may be is not yet known. It is reliably reported, however, that General Huang Fu's "personal representative" has been urging General Huang not to accede to the Japanese proposal but to resign in order to escape a debacle in North China and the ruin of his career. It may be added that a secretary of the Japanese Legation recently stated that, although the Japanese military have not told him what took place at the Shanghai conference, he believes the foregoing account of it to be accurate.

There is other supporting, though inconclusive, evidence of Japan's efforts toward "friendship". Both the Chinese press and Japanese officers state that General Huang Fu will shortly visit General Chiang Kai-shek, and, according to the former, the Japanese Minister is now on a visit to Nanking, following the conclusion of which he will proceed to Tokyo. Shanhaikwan was nominally returned to China on February 10, "nominally" because the Japanese still control it militarily through their soldiers stationed within the railway zone and north of the Great Wall just outside Shanhaikwan. (According to an officer of the Japanese Legation, practically all public offices at Shanhaikwan have been restored to the Chinese but misunderstanding

on the part of the public has arisen because of the fact that a number of "Manchukuo" offices are still retained in Shanhaikwan awaiting completion of new quarters north of the Wall.) Japanese officials have been very busy making public statements with regard to improved relations between China and Japan and with regard to the importance of further improvement. Within the past few days the Japanese Minister at Nanking and Colonel Nemoto, reputedly Japanese "adviser" to General Huang Fu, have, according to the press, made such statements. It is known also that Japanese officials have been talking along similar lines when in conversation with Chinese officials.

Whether or not Japan is overtly attempting to convince Nanking of the wisdom of adoption of a policy of "friendship", there have been recent occurrences which might well remind the Central Government of its continuing impotence vis-à-vis Japan. Japanese troops invaded Chahar Province in December and again in January without meeting effective resistance; a few thousand bandit troops of General Liu Kuei-t'ang revolted in December in Chahar Province and proceeded southward through North China pillaging as they went without being effectively checked; in January the Japanese military "advised" the Kuomintang organizations in North China to end their activities detrimental to Japanese interests; and Japanese agents have been at work among North China militarists restive under Nanking's nominal control.

It may be conjectured that the desire of the Japanese for the establishment of such a policy of "friendship" with China is based on such factors as: (1) Japan's apprehension that within the near future it may become involved seriously with a third power, in which case a friendly North China, to all intents a tributary state, would add to Japan's security; (2) the advantage of being on stable terms with China before the convening of the approaching naval conference; (3) the apparently increasing appreciation, even on the part of over-zealous Japanese military officers, of the dangers and costliness of aggression by arms; (4) realization that peaceful penetration of North China would be more economical and less offensive to the Chinese than armed penetration; (5) probable growth of Sino-Japanese trade; (6) financial and economic benefit to "Manchukuo" of resumption of intercourse between it and China; (7) nominal preservation of the unity of China would be advantageous in that there would continue to be a Central Government with which Japan could deal; (8) Japanese control of North China would place Japan in a position of being able to prevent the Nanking Government, in case it might become strong, from injuring Japanese interests;

and (9) Japan would be in a position to extend its control further south in China at such time as it might deem desirable.

It would not be surprising were the Central Government to agree to the policy Japan is said to have proposed. Since the beginning of Japan's military occupation of Manchuria General Chiang Kai-shek has shown no inclination to employ his troops against the invaders, not even after the fall of Jehol Province and the advance of Japanese forces south of the Great Wall. There were unsubstantiated reports last May when the Sino-Japanese truce at Tangku was made that General Chiang's representative had promised considerably more to Japan than appeared in the agreement as published.⁵⁸ General Chiang, together with the second most powerful figure in the Nanking Government, Dr. Wang Ching-wei, has stated again and again that the internal recovery of China is of primary importance, not war against an aggressor. It is known that at the conference of Chinese leaders last summer at Kuling General Chiang was in favor of a policy of conciliation of Japan, his position in this regard being strengthened by the resignation last October of Mr. T. V. Soong as Minister of Finance who was the chief opponent to such a policy.

To-day, as a result of his successful quelling of the rebellion in Fukien Province last month, General Chiang can more easily impose his will on other members of the Government than has been possible for some time. If he desires to subscribe to a policy of "friendship" with Japan, he may therefore be met with little opposition. This subservience of Nanking's officials was illustrated by the lack of opposition during the Fourth Plenary Session of the Central Executive Committee of the Kuomintang held last month.

General Chiang is aware, as is the vast majority of thinking Chinese, that China cannot effectively resist Japan. This realization is indicated by the decline of the movement for the boycott of Japanese goods even in South China. The decline of the boycott also shows the short memory Chinese have for wrongs suffered. General Chiang is confronted with such internal problems as the subjection of communist forces, the extension of his control over Kwangtung and Kwangsi provinces, the pacification of the Northwest. It is not unlikely that he would rather see the Japanese obtain what they want in North China peacefully, leaving it under his nominal control and giving him time to consolidate his strength in the rest of China than to invite Japan, by a policy of resistance, to sever North China completely from Nanking and to follow a policy even more inimical to his interests.

Respectfully yours,

NELSON TRUSLER JOHNSON

⁵⁸ Signed May 31, 1933, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 120.

893.01 Manchuria/1006 : Telegram

*The Secretary of State to the Ambassador in Japan (Grew)*⁵⁹

WASHINGTON, February 23, 1934—2 p. m.

21. *New York Times* February 22 carries a story dated Washington February 21 imputing an inclination on the part of the American Government to change its position with regard to recognition of "Manchukuo".

This story is evidently a synthetic newspaper fabrication.

You may state to any inquirers that this question is not under consideration here and this Government's position on this matter is in no way changed.

HULL

761.94/709

The Ambassador in Japan (Grew) to the Secretary of State

No. 691

TOKYO, February 23, 1934.

[Received March 12.]

SIR: Subsequent to the drafting of my despatch No. 690 of February 22⁶⁰ the Foreign Minister had an important conversation with the Soviet Ambassador on that day and was able to report to the Diet in the afternoon that concrete progress had been made towards settlement of the fisheries dispute and that prospects for the sale of the Chinese Eastern Railway were definitely brighter. Today, February 23, the Foreign Office has just announced that the following points were agreed upon at the conversation. It will be seen that these points apparently break the deadlock which has so long prevented a resumption of negotiations for the sale of the Chinese Eastern Railway. They seem to imply a definite improvement in the Soviet-Japanese situation and are as follows:

1. The Soviet Government has agreed to reconsider its actions with regard to the yen-rouble exchange rate.

2. The Soviet Ambassador expressed the desire of Moscow to resume negotiations for the sale of the North Manchuria Railway, and to compute the value of the line in yen rather than in roubles as heretofore.

3. The Soviet Ambassador submitted certain terms for the release of the Russian prisoners being held by Manchukuo. These terms are acceptable to Japan and, on their approval by Manchukuo, the prisoners will be released. What the terms are has not been made public.

⁵⁹ American missions in Great Britain, China, Switzerland, France, Germany, Italy, and Portugal were similarly informed.

⁶⁰ Not printed.

In commenting on this sudden favorable turn of events, it may be remarked that the manner in which the fisheries question arose suggests the possibility that the Soviet Government deliberately acted with the intention of securing a concession from the Japanese on the question of the sale of the Chinese Eastern Railway. The manoeuvre, if such it was, has apparently been successful, and, while it is perhaps premature to be confident that an early solution of these two problems is probable, nevertheless active negotiations are apparently in the offing. However, in the case of the Chinese Eastern Railway, it will be remembered that resumption of the negotiations will not in itself be reasonable cause for optimism as to their success.* . . .

Respectfully yours,

JOSEPH C. GREW

893.00/12706

The Counselor of Legation in China (Peck) to the Secretary of State

NANKING, February 23, 1934.

[Received March 24.]

SIR: I have the honor to report that taking advantage of the presence in Nanking of Marshal Chang Hsueh-liang, who was appointed on February 7, 1934, Vice Bandit Suppression Commissioner for the Provinces of Honan, Hupeh and Anhwei, I asked Marshal Chang for an appointment and called on him on February 22 at 11 a. m. Marshal Chang is living in the modern-style residence built by ex-Minister of Finance Mr. T. V. Soong on a commanding hill in the center of Nanking, called Peichiko.

I had met Marshal Chang several times before I left the American Legation in 1926 and had seen him again here in Nanking following my arrival at this post in 1931. I had heard that his health was greatly improved by his breaking off certain drug addictions and by his recent tour in Europe, but was agreeably surprised by his physical fitness, mental alertness and personal charm.

There has been made in China a considerable effort to discredit Marshal Chang Hsueh-liang, because of his alleged lack of patriotism in failing to defend Manchuria against Japanese invasion. His defence of his action is said to be that he merely followed instructions received from General Chiang Kai-shek. I have heard arguments from Chinese officials both for and against Marshal Chang's actions on and following September 18, 1931, when the Mukden Incident

* See Despatch No. 659 of January 26, 1934. [Footnote in the original.]

occurred, but apparently the main factor in keeping Marshal Chang in the good graces of the National Government has been the esteem and friendship felt for him by Mr. T. V. Soong. However this may be, Marshal Chang and General Chiang Kai-shek had many conferences recently at Hangchow and, as already indicated, Marshal Chang has been given an appointment which constitutes him, in point of fact, one of the principal props of General Chiang Kai-shek in Central China. Many prophecies and conjectures have been based on this appointment as, for instance, that it was done for the purpose of removing the "Northeast Troops", formerly under Marshal Chang's command, from the Peiping area to Central China, with the secondary object of enabling General Chiang Kai-shek to remove his own troops from Hupeh and Kiangsi for use against Canton.

On meeting Marshal Chang I was able to believe that General Chiang was influenced in giving Marshal Chang his present appointment only by a feeling that Marshal Chang has qualities which will make him a valuable support of the National Government and that no consideration of troop disposition necessarily entered into the decision. While the "Young Marshal" formerly derived his claim for consideration solely from the fact that he is the son of Marshal Chang Tso-lin, he impressed me as being able now to stand on his own feet as an intelligent and patriotic leader.

My conversation with Marshal Chang Hsueh-liang naturally turned on his recent European tour. Prompted partly by observations and questions from me, Marshal Chang made in regard to his trip comments which indicated that he had benefited very much from his experience.

Marshal Chang said that it had been his desire, after returning to the Orient, to visit Japan, but he had been deterred by fear of the inferences which the Chinese public might draw from such a visit. He said that he had wished very much to go to Japan to try to find out for himself the political trend which the Japanese Government is following. He observed that the Japanese army is under the control of the younger class of officers. These young officers are full of daring ideas, but they have no outstanding leader, and consequently will be unable to carry out any consistent policy, although they will be able to influence strongly the conduct of internal and international policies. The result is that no one can foresee what policy the Japanese Government will follow, either internally or internationally.

The late Japanese Minister of War, General Araki, was to a great extent an exponent of the views of the younger Japanese officers, but they strongly condemn him for opposing the proposal to seize Eastern Siberia soon after the Mukden Incident, at a time when

Soviet military preparations for defence were inadequate. On this account, Araki became so unpopular that when he resigned from his post of Minister of War and wished to remain in his official residence a few days, because of his bad health, the younger officers sent him an insolent demand that he and his family vacate the official residence immediately.

Marshal Chang said that Japan presented some insolvable problems, e. g. how is Japan able to export its manufactures and sell them in almost every country in the world at prices lower than the cost of the raw materials of the same articles in those countries; how long will Japan be able to continue its efforts to create a fleet equal to that of the United States and an army equal to that of the Soviet Union?

Marshal Chang said that he had met Mussolini twice and was greatly impressed by him. He had met Hitler once,⁶¹ and received the impression that Hitler, while an outstanding revolutionist, totally lacked the constructive and administrative ability of Mussolini. I mentioned the observation that has been made that Lenin, Mussolini and Hitler owe the success of the political movements which they have conducted to the fact that in each case a nation apparently at the end of its resources has been shown a "way of salvation" and restoration to former greatness and I inquired whether Marshal Chang did not think that the military party in Japan was holding up a policy of military and continental expansion as the means of saving Japan, and whether that was not the source of the popular leadership which the military party in Japan seems to exercise. Marshal Chang said that the European leaders whom I had mentioned and also the political programs which they sponsored had risen from the people and culminated in governments; in Japan, on the other hand, political measures are sponsored by the Government, which seeks to impress such policies and measures on the people. In Japan, therefore, political policies have much less chance of receiving popular support.

Judging from the number and type of persons waiting to see Marshal Chang at the time of my call, I should say that he is enjoying great popularity in the National capital. I was interested to see that his demeanor was courteous and democratic to everyone.

I spoke to Marshal Chang about my colleague, Mr. Adams, American Consul General at Hankow, and expressed the hope that Marshal Chang and Mr. Adams would become well acquainted. Marshal Chang reciprocated this hope.

Very respectfully yours,

WILLYS R. PECK

⁶¹ This seems to have been an error, according to the Consul General at Hankow (despatch No. 423, March 8, filed under 893.00/12720).

111.22/72

*Memorandum by the Assistant Chief of the Division of Far Eastern Affairs (Hamilton) of a Conversation With the British Deputy Under Secretary of State for Foreign Affairs (Wellesley)*⁶²

[LONDON, February 26, 1934.]

I referred to the fact that when I was in Japan last October and early in February the question of Russo-Japanese relations had been very much to the fore. Sir Victor inquired whether I thought that an armed conflict between Soviet Russia and Japan was likely. I replied that, in my opinion, there existed fundamental differences between Soviet Russia and Japan which made it possible, if not probable, that an armed conflict might break out at any time, but that I estimated that the chances of a war breaking out in the immediate or the near future were not more than thirty-five out of a hundred. Sir Victor referred to the fact that one could never tell what the Japanese military might do. He said that in the event of a war between Soviet Russia and Japan, he thought that Japan would be victorious.

Sir Victor brought up the question of the recognition by the Powers of "Manchukuo". He said that it seemed likely that Japan would proceed with the development of "Manchukuo"; that in the process of that development business and commercial opportunities would naturally be opened; and that it was almost inevitable that some Government would recognize "Manchukuo" in order that its nationals might be given the opportunity to participate in these commercial possibilities. He wondered whether it was practicable or desirable that Governments continue to estop their nationals from participating in the commercial development of "Manchukuo" by continuing to decline to accord recognition to "Manchukuo". I said that, speaking entirely personally, I was ready to admit that, if "Manchukuo" continued to exist as a fact for an indefinite number of years, recognition by the Powers of "Manchukuo" probably could not be held off forever. I added, however, that in my opinion the weight of evidence was strongly against the present recognition by the Powers of "Manchukuo". I referred to the interest of the American and British peoples in the peace movement and to the adoption by the League of Nations and by the American Government of a policy of non-recognition of "Manchukuo". I mentioned also the uncertainties connected with "Manchukuo", including the question of the form of government of "Manchukuo", the ultimate attitude that China might take toward "Manchukuo", the possibility that Japan might annex "Man-

⁶² Transmitted to the Department by Mr. Hamilton, upon his return to Washington from London and the Far East, as an enclosure to his covering letter of March 10, 1934.

chukuo", and the critical situation existing between Japan and Soviet Russia, which, if it developed to the point of a war, might change the whole face of northeastern Asia. I said that I also did not believe that any practical advantages of consequence would flow to the nationals of any country which might accord recognition to "Manchukuo."

I said that it seemed to me that Japan was determined to limit foreign participation in the trade and commercial development of "Manchukuo" to commodities and lines of business that Japan itself could not supply or take care of. Sir Victor said that of course neither the American nor the British Government could recognize "Manchukuo" for at least a number of years. He referred to the fact that recognition of "Manchukuo" by the American or by the British Government would probably result in an anti-British or anti-American boycott in China.

Sir Victor inquired whether I had heard of any possible alignment between Germany and Japan. I said that I had not. We agreed that the fact that both countries wanted allies and that they both were somewhat isolated internationally at the present time might afford a basis for some sort of an alliance between them.

I inquired whether the British Government had given any thought to the question of there being held a new conference to discuss the Washington Conference Nine Power Treaty in regard to China,⁶³ and the whole question of the Far East. Sir Victor said that the idea of such a conference filled him with horror; that he did not see that anything could be discussed to advantage at this time; and that he was strongly opposed to conferences unless there had been preliminary work sufficient to insure the success of the conference.

Sir Victor inquired whether I thought that Japan had it in mind to expand to the south to the Philippine Islands and to the Straits. I replied that it was very difficult to say what Japan had in mind but that I personally believed that, under present conditions in Japan and in the light of the present attitude and mind of the Japanese military, Japan would, in case the United States should now withdraw definitely from the Philippine Islands, take over possession of those islands within five or ten years.

Sir Victor mentioned the serious nature of the competition that British interests were facing from Japanese products.

Sir Victor inquired whether I thought that Communism in China represented a real menace. I replied that it seemed to me that it was entirely possible that the so-called Communistic movement might develop to the point where it would take over control of the Government.

Sir Victor referred to general conditions in China and said that it seemed to him that amid the continuing civil wars and disorders

⁶³ Signed February 6, 1922, *Foreign Relations*, 1922, vol. 1, p. 276.

China was making some actual progress. In this connection I mentioned a statement made to me by a Chinese professor to the effect that the present officials of China were probably just as grasping and unprincipled as their predecessors but that the impact of the West forced the present officials to inaugurate and carry out definite improvements such as the building of new roads and highways, the installation of sewerage and lighting systems, and harbor development.

In closing the conversation, I referred to the fact that in connection with Far Eastern problems of mutual interest we found it helpful to confer with the British Foreign Office. I expressed the hope that the British Foreign Office would continue to discuss such matters with American representatives. Sir Victor said that he entirely agreed that such consultation was helpful, and that in his opinion it was very important. He said that he was very much in favor of personal conversations, which, in his view, were much more likely to be productive of good results than attempting to discuss questions entirely by means of telegraphic or written communications. He said that unless there were in the British Embassy at Washington and in the American Embassy at London officers familiar with the complicated and difficult questions arising in the Far East, it was very difficult for those officers to present matters adequately to the respective Foreign Offices.

Sir Victor asked that I convey his regards to Mr. Hornbeck.

861.77 Chinese Eastern/1297 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, February 27, 1934—noon.
[Received February 27—2:22 a. m.]

101. The following telegram has been received from the Consul General at Harbin.

"February 26, 4 p. m. Engineer Kalina and other five railway prisoners released on February 24th, and expected soon to go to Russia. Their places on railway has been taken by other Soviet Russians. Presumed that Tokyo conference will be resumed and that Soviet Russia will sell railway thereby commencing end of Russian influence in North Manchuria.["]

JOHNSON

893.01 Manchuria/1014 : Telegram

The Secretary of State to the Chargé in Great Britain (Atherton)

WASHINGTON, February 27, 1934—2 p. m.

67. Department notes that in House of Commons on January 31, in reply to a question whether there has been any change in the atti-

tude of the British Government towards the new state of Manchukuo, Sir John Simon ⁶⁴ replied "No".

In view of current newspaper stories misrepresenting the attitude of the American Government with regard to the question of non-recognition, you should inform the Foreign Office that the American Government's position in regard to that matter is in no way changed and that the Secretary of State has so replied to questions put in press conferences.⁶⁵

HULL

851.503193 Manchuria/22

The Ambassador in France (Straus) to the Secretary of State

No. 665

PARIS, February 27, 1934.

[Received March 7.]

SIR: I have the honor to refer to the Embassy's despatch No. 635 of February 15, 1934,⁶⁶ and to report that the French Minister for Foreign Affairs recently replied to a written question of a deputy inquiring if measures had been taken by the French Government to insure the respect of the rights of French shareholders of the "Banque Russo-Asiatique" in the Chinese Eastern Railway. The following is a translation of the reply of the Minister, which is published on page 665 of the *Journal Officiel* of February 23, 1934:

"As soon as it had been made aware of the conversations between the authorities of Manchuria and the Government of the U. S. S. R., the Minister for Foreign Affairs took steps with a view to safeguarding the French interests affected. Our Ambassadors in Moscow and in Tokyo were invited to recall to the Governments of Japan and the Soviets that French interests of a private character were concerned in the question. Our Minister in China communicated with the Nanking Government with respect to these *démarches*. Finally, our representatives accredited to the six signatory powers, with France and with Japan, of the resolution No. 13 of the Washington Conference, dated February 14 [4], 1922,⁶⁷ and relative to the protection of the foreign claimants of the Chinese Eastern Railway, have received instructions to make known to the Governments to which they are respectively accredited the attitude adopted in this matter by the Government of the Republic."

Respectfully yours,

For the Ambassador:
THEODORE MARRINER
Counselor of Embassy

⁶⁴ British Secretary of State for Foreign Affairs.

⁶⁵ The Department in its telegram No. 70, February 28, 1934, 5 p. m. (893.01 Manchuria/1016) instructed the Chargé in Great Britain to link the first and second paragraphs of this instruction and to state "that you are doing so under express instruction."

⁶⁶ Not printed.

⁶⁷ *Foreign Relations*, 1922, vol. I, p. 208.

893.01 Manchuria/1040

The Ambassador in Germany (Dodd) to the Secretary of State

No. 564

BERLIN, February 28, 1934.

[Received March 17.]

SIR: I have the honor to enclose herewith a translation⁶⁸ of a brief notice which appeared in the *Deutsches Nachrichtenbüro* of February 21, 1934, to the effect that the Washington administration was considering recognition of "Manchukuo".

In this connection I received a visit this morning from Mr. Daitz, the head of the Foreign Political Office of the Nazi Party, who came to see me expressly for the purpose of urging that course of action. Mr. Daitz based his argument on the necessity for developing German exports, a process which he considered would be greatly facilitated, as far as "Manchukuo" was concerned, by recognition on the part of Germany.

It so happened that a member of the Embassy staff had occasion, shortly afterwards, casually to meet Mr. Meyer, Head of the Oriental Division of the German Foreign Office. The views of this official on the subject of "Manchukuo" were conveyed in the Embassy's confidential despatch No. 483 of January 30, 1934. The question was, however, again broached to him with a view to ascertaining whether any change of attitude in the Foreign Office had since occurred. Mr. Meyer replied that though he supposed that recognition of "Manchukuo" by Germany might in the course of time well come about, especially in view of the friendly sentiments entertained in his country for Japan, yet he expressed no concern whatsoever in regard thereto. The information contained in despatch No. 483 is, therefore, apparently not modified by Mr. Daitz' visit. Perhaps his views may be personal ones looking towards the possibilities of special business; possibly the Party organs are more exercised over the "Manchukuo" question than the Foreign Office. It may also well be that the Japanese considered that their persuasive powers would be better spent on the Nazi Party organs than on the Foreign Office.

Respectfully yours,

WILLIAM E. DODD

893.01 Manchuria/1017: Telegram

Mr. Hsieh Chieh-shih to the Secretary of State

HSINKING, March 1, 1934.

[Received 2:20 a. m.]

SIR: I have honour to inform you hereby that in this State Manchoukuo His Excellency Mister Pu Yi, Chief Executive, has on

⁶⁸ Not printed.

this date, namely, first date of March, first year of Kangte or 1934, acceded to Throne as Emperor of Manchoutikuo, Manchou Empire, and that monarchical regime has been established. I avail myself of this occasion to declare that this Government earnestly desires relations between Your Excellency's nation and this nation to develop most favourably in future.

Respectfully yours,

HSIEH CHIEH-SHIH
Minister for Foreign Affairs,
Manchoutikuo

893.01 Manchuria/1033

Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)

[WASHINGTON,] March 3, 1934.

After discussion of the question of Chinese Legations and Embassies (see separate memorandum of today's date ⁶⁹), the Italian Ambassador inquired whether he might ask an "indiscreet question": he said that it was well known that his Government has in no way deviated from its earlier position with regard to Manchuria, that of "non-recognition"; he would like to know what the American Government thinks about this question in connection with recent developments in the Far East.

I replied that we had noted that a question was raised in Rome recently and that the Italian Foreign Office had stated that there was no change in its position; and that we had also noted that the question had been raised in the British House of Commons and the Secretary of State for Foreign Affairs, Sir John Simon, had replied there was no change in the British Government's position. I continued to the effect that the Ambassador had doubtless noticed the statements made in the press here during the past few days, especially the statements that there has been no change in this Government's position—which statement is a correct one. The Ambassador said that he understood perfectly that there was no change in our position. He wondered, however, whether the coronation of the new emperor in any way alters the general situation. There followed some discussion in the course of which I took occasion to remark that the question of recognition can be considered from two different angles of approach: on the one hand there are the non-recognition declarations and resolutions; on the other hand there are, irrespective of these, those considerations which are usually taken into account when a new political entity appears in quest of recognition. I raised the question whether

⁶⁹ *Post*, p. 535.

“Manchoutikuo” can really be regarded as *de facto* a “sovereign and independent state”.

There ensued some discussion of the general problem of coordination of policy and cooperation in courses of action in reference to common interests, rights, obligations and objectives.

S[TANLEY] K. H[ORNBECK]

893.01 Manchuria/1019 : Telegram

The Secretary of State to the Chargé in Guatemala (Lawton) ⁷⁰

WASHINGTON, March 5, 1934—5 p. m.

16. Your telegram No. 20, March 2, 4 p. m.⁷¹ You may inform the Minister for Foreign Affairs orally that the Department has received a similar telegram, that the American Government's policy of non-recognition of Manchukuo remains unchanged and that all messages received here from that source are filed without acknowledgment.

HULL

893.01 Manchuria/1027

The Chinese Chargé (Yung Kwai) to the Secretary of State

WASHINGTON, March 6, 1934.

SIR: I have the honor to inform you that I am instructed by my Government to deliver to your an official translation of a statement issued by the Minister of Foreign Affairs at Nanking on Pu Yi's enthronement, which is herewith enclosed.

Accept [etc.]

YUNG KWAI

[Enclosure]

Official Translation of a Statement Issued by the Minister of Foreign Affairs at Nanking Dated March 5, 1934

The assumption of imperial title by Pu Yi another act of high treason against the Chinese Republic has long been heralded and is arousing nation-wide indignation in this country.

However as we look at the situation the status of the Three Eastern Provinces and Jehol is no other than that of illegal military occupation while Pu Yi and other members of his theatrical troupe are mere puppets controlled by their masters and have no independent personality. Whether Pu Yi's name be “Chief Executive” or “Emperor”

⁷⁰ Similar telegrams were sent to the American missions in Ecuador, Nicaragua, and Honduras.

⁷¹ Not printed.

or whether his illegal regime be "republican" or "monarchical" does not affect in the least the inherent nature of the puppet the changes being mere shifts in the role the puppet plays. Looking from this angle one need not be greatly surprised at all at the farcical comedy that is being enacted in Changchun.

China's attitude towards the puppet regime has always been the same and shall remain so notwithstanding any change in the appearance of the puppet. The same may be said of European and American powers with whom the principle of non-recognition of "Manchukuo" has become an ironclad law of international morality any deviation from or violation of which will surely reflect on the international personality of the State concerned.

By this latest act in Changchun the gravity of the Far Eastern problem will undoubtedly be further heightened while international rivalries and complications in the Far East will be further increased all pointing to one condition namely increasing insecurity in world peace. This is most deplorable but the world will know where the responsibility lies.

151.096/265 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, March 6, 1934—4 p. m.
[Received March 6—4: 14 a. m.]

42. The Third Secretary of the "Manchukuo" Legation in Tokyo, Mr. Pei-Heng, who also calls himself Frank Ma, called this morning to request a visa to permit him to travel to the Philippines on a nonpolitical mission. He explained that he wishes to accompany some Japanese to Manila where they will meet certain Chinese whom they wish to persuade to refrain from opposing the entry of "Manchukuo" athletes in the Far Eastern Olympic games. The Embassy referred him to the Consulate General which will communicate with the Department regarding the visa.

Mr. Ma has also applied to the Dutch Legation for a visa to permit his entry into the Dutch East Indies and the Legation has cabled Holland for instructions.

GREW

8621.01/286

The Ambassador in Japan (Grew) to the Secretary of State

No. 698

TOKYO, March 7, 1934.
[Received March 24.]

SIR: I have the honor to quote here below statements made in the present session of the Diet in regard to the Japanese Mandate Islands.

Since Japan's notice of intention to withdraw from the League of Nations was made, no little perturbation has been evidenced in various Japanese quarters over the possibility that a demand might be made by the League for a relinquishment of the mandate. This possibility seems to be one of the factors in the much discussed "crisis of 1935-36", at which time Japan's withdrawal from the League will become effective.

The statements quoted are comprehensive and categorical. They require no comment. The first quotation is from an interpellation by Mr. Yoshizawa, former Foreign Minister, in the House of Peers on January 31st:

"I may be permitted to express my firm conviction that even after March 27, 1935, the day on which Japan's withdrawal from the League of Nations becomes effective, no change whatever will take place in regard to Japan's administration over the Mandate Islands. But what attitude the Powers will take and what they will say cannot be taken for granted. But in the remote event that the Powers should question Japan's status in the Mandate Islands, Japan, standing on a solid legal basis, would refuse to accede to any demand."

Answering this interpellation Mr. Hirota, the Foreign Minister, stated:

"The Mandate Islands which should naturally have become Japanese territory were obtained under mandate because of the circumstances at Versailles. That Japan should lose her rights because of withdrawal from the League is untenable."

On February 6, Mr. Mamoru Kishi, a Minseito member from Shizuoka Prefecture, stated in the House of Representatives:

"There is not the slightest doubt but that the sovereignty of these Mandate Islands rests with Japan. (applause). Japan has faithfully carried out its mandatory responsibilities up to the present. Rumors are current that Japan is secretly constructing military bases in these islands, but these stories are absolutely without foundation. . . .⁷² In view of the fact that the sovereignty of these islands rests with Japan, there is no reason why Japan should abandon its mandatory administration even though she resigns from the League. Nor is there legal, moral or political reason why the League or any other country should deprive Japan of these islands. In the remote event that Japan should be confronted by a demand for the return of the islands, the demand should be flatly rejected. What is the Government's opinion concerning this matter?"

In the absence of the Foreign Minister, Mr. Taki, Parliamentary Vice-Minister for Foreign Affairs, stated:

"As regards the question of Japanese administration over the Mandate Islands, the Government has already formulated its basic policies

⁷² Omission indicated in the original despatch.

and is firmly resolved to carry them out. I am rather surprised that Mr. Kishi has brought up this question at the present time. (applause)."

On February 21, Baron Takehiko Sonoda stated in the House of Peers:

"As regards the question of administration of the Mandate Islands, the Minister for Foreign Affairs has simply and clearly stated that the matter is not one with which foreign countries may interfere. But I would state that the matter is not so simple as that. At the time the Japanese Government decided to withdraw from the League of Nations, the Japanese navy issued a statement, in the form of an interview, announcing that Japan would resort to arms before relinquishing the Mandate Islands. Why did not the Minister for Foreign Affairs publish a statement before the world declaring that the Mandate Islands are Japanese possessions viewed from any standpoint? From a common-sense viewpoint, the word "mandate" is interpretable as "intrusted". Consequently the impression may be gained that such "mandate" may be cancelled. Is it possible to say that this question will not be referred to the International Court of Justice? And is there not therefore danger that the years 1935-36 may witness the issue of a grave situation?"

The Foreign Minister, Mr. Hirota, stated in reply:

"I have already made a definite statement before this House in regard to the matter of the Japanese Mandate Islands. The views of the Japanese Government are according to my statement on that occasion. Therefore I am convinced that this matter will not create a problem in the future. Baron Sonoda asked why the Japanese Government has not made it clear that the Islands are Japanese territory. In regard to this point the views of the Government differ considerably from those of Baron Sonoda.

"The views of the Japanese Government are as follows: With regard to the mandatory administration over the South Seas Islands, Japan, in accordance with a resolution adopted by the Allied Powers and by the principal Central Powers, obtained the status of mandatory administrator over these islands.⁷³ Even though Japan withdraws from the League of Nations, she will still maintain the status of mandatory administrator. This in no way means that these islands are Japanese territory. The mandate which Japan holds merely means that (these islands) are treated as a part of Japan. I believe that it is impossible for me to declare that these islands are Japan's territories and therefore different from what is regarded as mandated territories. Consequently, I am of the opinion that even after Japan's withdrawal from the League, the Japanese Government should continue to carry out, as heretofore, various measures relating to mandatory administration and should, as heretofore, send reports on its mandatory administration to the Mandate Administration Committee of the League of Nations.

"As regards the anxiety that a problem may arise over the Japanese mandatory administration in the future, I am certain that no such

⁷³ Decision of the Council of Four at Paris, May 7, 1919, 4: 15 p. m. (IC-181G), *Foreign Relations*, Paris Peace Conference, vol. v, pp. 506, 508.

problem will arise as far as Japan is concerned. However, inasmuch as foreign countries exist, I cannot say definitely that other countries will not make a problem of the Japanese mandatory administration. But I hold that no matter what situation may arise and no matter what the circumstances, the capacity of Japan as mandatory administrator over the South Seas Islands remains unshakable.

"Regarding the fear that the Japanese mandatory administration question may be referred to the International Court of Justice, I would point out that even if such a situation does arise the status of Japan as mandatory administrator is not a matter to be dealt with from a legal and judicial viewpoint. As I have stated definitely in this House on a previous occasion, Japan's status as mandate administrator is the result of discussions among the Allied Powers and the principal Central Powers, and is not the result of the provisions in regard to mandatory administration of the League of Nations. In the strength of this conviction, Japan is ready to reject flatly any proposal to refer the question of Japanese mandates to the International Court of Justice. As for the fear that this problem may assume serious dimensions in the future, I think it quite sufficient for me to announce that this Government's view is that no such situation will arise".

Further interpellations may be made in regard to the Mandate Islands during the present session of the Diet, but it does not appear that Japan's attitude toward these islands can be set forth more definitely than has been done by the Foreign Minister as quoted above.

Respectfully yours,

JOSEPH C. GREW

151.096/265 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, March 8, 1934—5 p. m.

27. Your telegram No. 42, March 6, 4 p. m.; also the Consulate General's March 6, 4 p. m.⁷⁴

1. In view of the fact that Mr. Pei Heng alias Frank Ma resides in Japan as an official of the Manchukuo régime and as the purpose of his visit to the Philippine Islands in company with certain Japanese would be to discuss with aliens resident in the Philippine Islands a matter which would involve discussion of a controversial political question, the Department does not desire that a visa be granted to him. If you feel that any explanation of refusal of visa in this case is required, you may make use of the above and may in addition refer to the fact that the Manchukuo authorities have refused entry into Manchuria of at least two American citizens, Mr. John B. Powell⁷⁵ and Mr. Upton Close.⁷⁶

⁷⁴ Latter not printed.

⁷⁵ Managing editor, *China Weekly Review* at Shanghai; special correspondent, *Chicago Tribune*.

⁷⁶ Pen name of Josef Washington Hall, author, lecturer, and traveler.

2. For your own information it may be stated that the Department, in a previous case which arose in October last year, outlined to the Consul General at Mukden the procedure which should be followed by a person of the Chinese race in Manchuria who wishes to visit American territory. The procedure authorized was that established by Note 18, Section 361 of the Consular Regulations provided the applicant presents a Section 6 certificate issued by the "Chief of the Bureau of Public Safety of Mukden" referred to in Note 11, Section 368 of the Consular Regulations. This procedure was not however to be regarded as a precedent, and the Department instructed that each similar future case be referred to it for instruction.

3. Inform Garrels⁷⁷ for his guidance.

4. Send to Peiping and Mukden by safe means copies of the telegrams under reference and of this reply.

HULL

761.94/714

The Ambassador in Japan (Grew) to the Secretary of State

No. 700

TOkyo, March 8, 1934.

[Received March 24.]

SIR: A renewed* source of friction between Japan and the Soviet Union has recently come to light with the publication of reports that Japanese planes have illegally flown over Siberian territory and that Soviet planes have similarly crossed the Korean and "Manchukuo" border on several occasions. A brief account of this development was included in the Embassy's Monthly Political Report for February.⁷⁸ There is nothing further to report on the matter to date save that the Assistant Military Attaché of the Embassy conversed with one of the secretaries of the Minister of War and with the Soviet Military Attaché in an effort to ascertain the facts behind the newspaper reports. While both officials confirmed that Japanese aeroplanes had been fired at along the Kirin-Siberian border, the Soviet Military Attaché implied that reports of trespassing on the part of Soviet planes were merely propaganda in reply to Soviet charges of trespassing against Japan. It may be noted that the Secretary to the Minister of War ventured the opinion that these recent incidents would not be likely to increase the tension between the two countries and that the Soviet Military Attaché seemed inclined to believe that

⁷⁷ Arthur Garrels, Consul General at Tokyo.

* Embassy's despatch No. 593, November 18, 1933 and telegram No. 175 of November 12, 6 p. m., 1933. [Footnote in the original. For despatch No. 593, see *Foreign Relations*, 1933, vol. III, p. 458; telegram No. 175 not printed.]

⁷⁸ Not printed.

war between Japan and Soviet Russia would not break out in the coming spring or summer. There seems no reason to regard these statements as other than sincere expressions of opinion on the part of officials who should be well-informed by virtue of their positions.

Another minor irritant in the making is seen in the filing of a suit by the Nippon Can Manufacturing Company against the Soviet Trade Representation in the Tokyo Local Court. The suit is filed, according to the *Japan Advertiser*, because the Soviet body refused to take delivery of 25,000 cases of cans shipped about the end of last year. It is said that the Company has prevailed on its two chief competitors, Hokkai Can and Toyo Can, to join a boycott against the Soviet Union which customarily imports over 100,000 cases of cans each year for canneries which are in competition apparently with the Japanese fishing and canning interests.

The controversy over the auction † of fishing lots has apparently entered a phase of somewhat dilatory negotiations. After several delays another auction was held on March 5 for additional lots but since there has as yet been no agreement as to the exchange rate for Japanese bidders, there were no Japanese bids and the auction was a farce. If a report from Vladivostok may be credited, the Soviets are not eager to dispense with Japanese rental payments for it was announced that the bids obtained from Soviet sources would be sealed and retained until still another auction has been arranged. The Japanese insistence on the exchange rate of the Shidehara-Troyanowsky agreement (32.5 sen per ruble) remains unmodified while the Soviets still hold out for an upward revision of the rate.

The question of the sale of the Chinese Eastern Railway is the subject of considerable speculation at the present time since the release on February 24 of the detained Soviet officials has made possible the resumption of negotiations. It is probable that negotiations are already under way between the Soviet Ambassador and the Foreign Minister, but the Embassy is not yet in a position to report the facts of the matter. On March 7 the Foreign Office spokesman stated that strict secrecy would be maintained during the negotiations and intimated that progress had already been made. On the preceding day at a reception at the Soviet Embassy the Soviet Ambassador volunteered that he would soon get in touch with me to apprise me of the latest developments. It may be remarked that the Foreign Minister has, in practice, apparently dispensed entirely with the fiction that the railway question was purely a matter for negotiation between Soviet Russia and "Manchukuo".

It may perhaps be of interest to the Department to hear an hypothesis advanced to me by the Turkish Chargé d'Affaires on February

† Embassy's despatch No. 691 of February 23, 1934. [Footnote in the original.]

26 during the course of a conversation on the general situation. Nebil Bey asserted that he knows the Minister of War, General Hayashi, well, that the latter told him that Japan could never feel at ease so long as there were Russian troops and aeroplanes in Eastern Siberia and that this threat would have to be definitely eliminated. Nebil Bey thinks that the danger of a war with Soviet Russia was much less under Araki who is more a theorist and a dreamer than a man of action, but that Hayashi is distinctly a man of action and that only the restraining influence of Hirota and other pacifist influences prevent an early attack. The American recognition of Soviet Russia he considers a restraining factor because the Japanese do not know what America would do in case of war and a neutrality benevolent to the Soviets might be serious to Japan.

It is apparent that only close personal association could substantiate or invalidate the above estimate of General Hayashi together with its implications, and the Embassy is thus far unable to evaluate authoritatively Nebil Bey's opinion although the Military Attaché is making every effort to obtain information on this precise matter. It will be remembered, however, that at the time of the Mukden Incident of September 18, 1931, General Hayashi, then commander of the Korean Garrison, did not await orders from headquarters but immediately and on his own initiative despatched troops across the border. To comment further on the hypothesis that an attack on Soviet Russia might be possible during General Hayashi's tenure of office, I have reported several times that the Japanese are genuinely alarmed at the strength of the Soviet air base at Vladivostok and I have also noted on several occasions the Japanese tendency to adopt the method of attack as the best defence. It would not be at variance with the present day Japanese concept of "self-defence" for a Japanese force to attempt the removal of this menace.

In comment on the above statements I feel obliged to point out that the hypothesis advanced by the Turkish Chargé d'Affaires stands or falls on his understanding of General Hayashi and that the ordinary fallibility of personal judgments is in this case heightened by differences of race and psychology. I am more inclined, in fact, to concur with the view recently expressed by the Counselor of the German Embassy to a member of my staff to the effect that there would be no clash this spring, although the Japanese and the Soviets would ultimately, of course, have to come to terms and agree definitely on the basis on which they would live as neighbors. It is, moreover, interesting to note that this official, who has a background of many years experience in Japan, views the future of "Manchukuo" largely as a function of Soviet-Japanese relations. In other words, while he recognizes that China has been eliminated from the Manchurian

problem, he seems to feel that no such settlement has been reached with regard to Soviet Russia over Manchuria and that the determining factor for the future of the new "Manchukuo" Empire is the relationship between Japan and Soviet Russia. Proceeding further, he stated that the Soviets always had the idea of world revolution in mind, that they were constantly getting stronger from a technical viewpoint at least, and, propaganda having failed, they would try to foment difficulties for capitalistic nations through economic, political, and even military action. For this reason it seemed almost impossible to him for the Communists to come to any honest working agreement of a permanent nature with Japan as to policies in the Far East.

In summing up the situation as it now appears, I believe that certain pacific influences which I outlined in my despatch No. 670 of February 8 are still operative, that they have enhanced the possibility of avoiding war with the Soviets, and that tension has decreased perceptibly in the last several weeks. I nevertheless feel that the concrete achievements to date in adjusting Soviet-Japanese controversies have been largely the work of one man, the Foreign Minister, and that further successful steps may possibly depend on his continuance in office. At the same time I do not believe that his efforts have thus far affected the underlying and deep-rooted difficulties and that consequently, with regard to the long term outlook, I am not yet inclined to modify my view that the possibility of an eventual war between the two countries still exists.

Respectfully yours,

JOSEPH C. GREW

Postscript

March 9, 1934.

Late this morning, after the foregoing despatch had been typed for forwarding to the Department in the pouch which leaves tomorrow morning, the Soviet Ambassador came to call on me. We talked for over an hour and since I believe that the substance of his remarks should be submitted to the Department at the earliest moment, I have the honor to transmit a necessarily hurried memorandum of the conversation as an enclosure to this despatch.

[Enclosure]

Memorandum by the Ambassador in Japan (Grew)

[Tokyo,] March 9, 1934.

During a long conversation today with the Soviet Ambassador, Mr. Youreneff, he first told me the present status of the negotiations for the sale of the Chinese Eastern Railway: these negotiations are still confined to *pourparlers* between the Minister for Foreign Affairs and

himself, the general conference not having yet reconvened. These *pourparlers* have taken the form of bargaining pure and simple, each side naturally wishing to win a success—especially Mr. Hirota, who will have difficulty in satisfying Japanese public opinion. In brief the situation is as follows:

The Soviet Government places the negotiations in two categories, the first comprising (1) liquidation of the Russian personnel of the railway and (2) "Manchukuo" assumption of the railway's debt, and the second category comprising the actual sale of the railway itself. For the liquidation of the personnel the Soviet Government will expect an amount of between nine and ten million yen. The approximate amount of the debt he did not tell me. With regard to the price for the railway, the "Manchukuo" authorities have not moved from their original offer of fifty million yen. The Soviet demand which was originally placed at two hundred and fifty million rubles was later reduced to two hundred million rubles. In order to convenience the Japanese, the Soviet Government had subsequently agreed to receive 50% of the total amount in merchandise and of the other 50%, 15% would be paid immediately on signature in yen and the remaining 35% would be paid within three years by the "Manchukuo" Government. The final figure to be agreed upon would be a global amount. Bargaining with regard to the type of merchandise to be received is now going on, the Japanese desiring to make as favorable a deal in this respect as possible.

I asked the Ambassador whether he was optimistic as to an eventual favorable outcome of the negotiations. In reply he made the significant remark: "An agreement will be reached if the Japanese wish to avoid war with Soviet Russia". I said to him: "That remark could be interpreted as meaning that if the Japanese do not come to terms the Soviet Union will declare war". He replied that this was not his meaning and that what he wished to convey was that if an agreement for the sale of the railway should not be reached, this fact would be a significant indication that the Japanese intended to bring about a war and would use the failure of the negotiations as an excuse to satisfy public opinion in Japan as to the reasons for such a war. They had already given their hand away in the documents published, to the effect that they would take the railway anyway, whether the negotiations succeeded or not.

I then asked Mr. Youreneff whether he was optimistic that war would be avoided. He said that it was important to be optimistic and implied that he had to be very careful to take such a position because at a given moment the Japanese Government might publish his *pourparlers* with Hirota over the railroad and that his attitude as then revealed might be an important element in the situation. In

spite of this statement he gave me the distinct impression that he was far from optimistic with regard to the future. He said that a meeting of the principal generals of division will take place in Tokyo some time this month* and that the pros and cons of an attack on Soviet Russia will be thoroughly discussed at that time. He alluded to the significant fact that a similar meeting of generals had taken place shortly before the outbreak of the Manchurian adventure in September 1931. He said that Hayashi has constantly worked against Soviet Russia, particularly in Sinkiang, and that while it is very difficult to get a precise line on his present attitude, there seems to be no good reason to credit him with peaceful intentions.

Mr. Youreneff repeated what he has frequently said to me before that the Soviet Union is fully prepared for all eventualities and is strongly fortified both in Vladivostok and along the Siberian border. The double tracking of the trans-Siberian railway has been carried on steadily throughout the winter in spite of the intense cold. If the Japanese should attack, they could of course pour immense forces into Manchuria and might be able to take Vladivostok and the adjacent portion of Eastern Siberia, but further operations would entail extending and weakening their lines of communication, and little by little the Soviets could pour more and more troops into that region. If war should commence, it would not stop until one side or the other was completely exhausted, and it would take a long time to exhaust the almost unlimited power of the Soviets. Japan's navy, he said, is of course incomparably stronger than the Russian navy but the Russian fleet of submarines at Vladivostok is very strong and the sinking of a Japanese battleship or two would have immense significance and would alter the whole situation in the Far East. He said furthermore that while the Soviet measures were now purely defensive in character, if war should break out these measures would immediately become offensive, and unless Japan should quickly win an outstanding victory the Soviets would be able to occupy part or all of Manchuria, especially, he said as at least 100,000 of the present troops of "Manchukuo" would support the Soviet arms and might turn the whole tide of the operations.

I said to the Ambassador that most of the foreign military experts in Tokyo believe that the Japanese army will reach the zenith of its combat efficiency in 1935 and that, if war is intended, the spring of 1935 will be the most likely moment for attack. The Ambassador replied that while nobody could foresee a precise date, he thought it

* This meeting of division commanders is scheduled to meet in Tokyo on March 26 and to last for five days. It is not an annual meeting but is said to be customarily held after the appointment of a new Minister of War. [Footnote in the original.]

more likely that such an attack would occur this spring, at any time after the coming meeting of Japanese generals, because they realize that time is constantly telling in favor of the Russian forces. He seems firmly convinced that the final decision will be taken at this coming meeting of high Japanese military officers. He agreed with me that important pacific influences are at work in Japan, including the Emperor, Prince Saionji, Count Makino, a considerable body of liberal opinion, and especially Hirota, but he added that in the last analysis the decision would lie with the military.

In further conversation Mr. Youreneff spoke of the situation in Sinkiang where the Chinese troops which had been repatriated by Soviet Russia had been victorious over troops backed by the British. He believes that the Japanese are steadily working in China to foment further disruption. He thinks that the Japanese are convinced that the United States is backing China, especially in its aircraft development, and he smiled rather cynically when I stated my belief that war between Japan and the United States is unthinkable. He asked me many questions with regard to our intentions concerning the further fortification of the Philippines, Guam, etc. He also said that according to his information England is showing a distinct pro-Japanese tendency, and he gave me the impression without stating it openly that he believes that England is trying to foment war between Soviet Russia and Japan. On the other hand he said that England is in a very difficult position because she has good reason to be afraid of Japan becoming too strong. On the whole he agreed that the political situation is rather nebulous, although he finds that international intrigue is constantly working throughout the Far East.

J[OSEPH] C. G[REW]

893.01 Manchuria/1066

*The Consul General at Mukden (Myers) to the Minister in China
(Johnson)* ⁷⁹

No. 903

MUKDEN, March 10, 1934.

SIR: Referring to my despatch No. 902, of March 9, 1934 ⁸⁰ in regard to the enthronement of P'u Yi as Emperor of "Manchutikuo", I have the honor to enclose herewith a copy of a letter, dated March 1, 1934 ⁸⁰ (just received), from the Director of the Bureau of Information and Publicity, Department of Foreign Affairs, Hsinking, transmitting a copy of the Foreign Minister's telegraphic communication despatched to all foreign powers on March 1, 1934,⁸¹ and a copy

⁷⁹ Copy transmitted to the Department by the Consul General in his unnumbered despatch of March 10; received April 4.

⁸⁰ Not printed.

⁸¹ *Ante*, p. 59.

of his statement for foreign countries issued on the same day.⁸² In the last paragraph of the statement he asserts that the foreign policy of the Government as outlined in his formal communication of March 12, 1932,⁸³ "will continue to be enforced and faith will remain unbroken". This communication which was telegraphed to all the foreign powers at that time was transmitted to the Legation under covering despatch No. 558, of March 18, 1932. In the communication it was stated, *inter alia*, that the Government recognized all obligations arising out of treaty stipulations between the Republic of China and foreign countries and that it would observe the principle of the "Open Door". In conclusion an invitation was extended to the Governments addressed to enter into formal diplomatic relations with the new state.

A report of the "Manchoukuo News Service", dated Hsinking, March 8, states that nine foreign countries including Norway, Latvia and Lithuania have acknowledged receipt of Foreign Minister Hsieh Chieh-shih's telegram informing them of the establishment of the monarchy on March 1st. This report is interesting if true.

Respectfully yours,

M. S. MYERS

893.01 Manchuria/1069

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

No. 658

MUKDEN, March 13, 1934.

[Received April 9.]

SIR: I have the honor to report that Mayor C. F. Yen, of Mukden, gave an informal dinner at the Yamato Hotel for the Consular Body and representative members of the foreign and Japanese communities on Saturday evening, March 10, 1934. A number of Japanese and Chinese officials of the local Government, provincial and municipal, were also present. The Mayor made a brief speech of welcome, in which he stated that the object of the dinner was to promote friendly relations with the members of the local foreign communities. It was concluded with a toast to the guests. In the capacity of Senior Consul, I made a brief speech in reply, in which he was thanked for his hospitality and for the friendly sentiments which he had expressed. A toast to the host terminated the speech.

It may be mentioned that no distorted report of the dinner has appeared in the local press. It was the first dinner at Mukden given by a "Manchukuo" official which was attended by all the principal consular officers.

⁸² Statement not printed.

⁸³ *Foreign Relations*, 1932, vol. III, p. 579.

Several weeks ago, it may be added, I gave an informal dinner at the consular residence for General Doihara, head of the local Japanese Military Mission, several local officials including Mayor Yen and my Colleagues.

Respectfully yours,

M. S. MYERS

711.6112 (Aggressor)/1 : Telegram

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

Moscow, March 13, 1934—1 p. m.
[Received March 13—10:45 a. m.]

7. Litvinov has been in bed with grippe since our arrival. Have therefore been unable to begin serious discussions.

Divilkovsky⁸⁵ again proposed to me last night bilateral nonaggression pact between Soviet Union and the United States and added that the Soviet Government was now negotiating nonaggression pact with the Chinese Government of Chiang Kai-shek. I referred Divilkovsky to the conversation of the President and Litvinov on this subject and added that I had no instructions which would lead me to believe that our position had changed. I should be obliged for any guidance you may care to give me in regard to this matter.

Several Soviet officials including Divilkovsky have manifested keen curiosity in regard to Child's mission.⁸⁶ What explanation should I make if any?

BULLITT

761.00/239 : Telegram

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

Moscow, March 14, 1934—11 p. m.
[Received March 14—10:47 p. m.]

11. 1. Litvinov who is still ill received me in his bedroom this afternoon. He told me that Chiang Kai-shek had stopped the negotiations with the Soviet Union for a pact of nonaggression because of fear of the Japanese. He asked if the President might be inclined to propose a pact on nonaggression between the United States, the Soviet Union, Japan and China. I replied that I had no intimation that the President had any such intention. Litvinov said that he was

⁸⁵ Secretary General of the Soviet Foreign Office and member of Soviet mission to Washington in November 1933.

⁸⁶ Richard Washburn Child was sent to Europe to survey economic conditions.

less apprehensive of an immediate Japanese attack than he had been in December but that the Japanese Government might be overthrown and replaced by extreme Fascist government which might decide to attack the Soviet Union. He still regards the situation as extremely serious.

2. He asked me whether or not the United States intended to recognize "Manchukuo" and I replied that we had no such intention. He said that negotiations in regard to the sale of the Chinese Eastern Railway between the Soviet Union and the government of "Manchukuo" had been resumed, that the Soviet Union had made a new offer which had been transmitted by the government of "Manchukuo" to the Government of Japan for approval, that he was awaiting a reply. He then said that the conclusion of the sale of the Chinese Eastern Railway to the government of "Manchukuo" by the Government of the Soviet Union would *ipso facto* constitute *de facto* recognition of the government of "Manchukuo" by the Soviet Union and added that many nations especially Germany and Poland were most anxious to be the first to recognize "Manchukuo" *de jure* in the hope of obtaining special favors.

3. Litvinov said he did not believe that the recent draft of Polish agreement contained any written clauses directed against the Soviet Union but that there had been discussions of a joint attack by Germany and Poland on the Soviet Union in case the Soviet Union should be engaged in war with Japan. I asked him what had happened to the French proposal for a military alliance with the Soviet Union to be accompanied by the Soviet Union's entrance into the League of Nations in regard to which he had spoken to me in December. He replied that there had been two French Governments since that time and that both had refrained from continuing the discussions of December.

BULLITT

893.811/915 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, March 15, 1934—4 p. m.
[Received March 15—1:30 p. m.⁸⁷]

122. Reference to Consul General Myers' despatch numbers 836 and 874 of September 19 and December 22, 1933, respectively, and numbers 880 and 893 of January 11 and February 7, 1934,⁸⁸ respectively, covering liquidation of Liao River Conservancy Board. French Chargé d'Affaires in communication dated March 10th informs me

⁸⁷ Telegram in three sections.

⁸⁸ None printed.

that his Government is of the opinion that dissolution of Conservancy Board constitutes violation of the conservancy agreement of July 9, 1914,⁹⁰ and that matter should be submitted for consideration to the interested diplomatic representatives since over the above material interests involved there is a question of principle which should not either in regard to the Manchurian authorities or the Chinese Government be impaired or allowed to lapse. French Government further believes that dissolution of board should be subject of verbal protest filed by consulates concerned with *de facto* authorities of "Manchukuo" and that, in order properly to signify that such protest in no sense constitutes an acknowledgment of the established fact, due advice should be given to the Chinese Government at Nanking.

French Chargé d'Affaires requests my views and asks if this Legation would be willing to consider with French Legation and with the Legations of Great Britain and Germany "the eventual adoption of a concerted stand in the matter."

British Legation received identic communication from French Chargé d'Affaires and has informed me that since pertinent agreement and regulations fail to specify quorum and definitely prohibit voting by proxy at meetings of board the action taken at the meeting of the board on December 12, 1933, at Newchwang cannot now be protested; that had any government desired to protest such action it could have done so at that time; that confidentially the British Consul at Newchwang was, with the approval of British Government, ordered to absent himself from that city in order to avoid attendance at meeting; and that British Legation does not consider that matter calls for any action at this juncture. British Legation is, however, withholding reply to French Chargé pending this Legation's receipt of Department's views.

I am in full accord with British view in the matter and with Department's approval will notify my French colleague that the American Government is not in a position to join in the action which he suggests.

JOHNSON

893.01 Inner Mongolia/23

The Minister in China (Johnson) to the Secretary of State

No. 2591

PEIPING, March 16, 1934.

[Received April 9.]

SIR: I have the honor to refer to despatch No. 611 of March 10, 1934, addressed to the Legation by the Consul General at Tientsin, copies

⁹⁰ MacMurray, *Treaties*, 1894-1919, vol. II, p. 1125.

of which were forwarded to the Department.⁹¹ With this despatch were enclosed copies in translation of "Provisional Regulations Governing the Office of the Director General of the District Autonomous Movement of Mongolia" and "Provisional Regulations Governing the Organization of the District Autonomous Political Council for Mongolia",⁹¹ which were the recent outcome of protracted negotiations between Mongols and officials of the Nanking Government and which are regarded as having solved, at least temporarily, the question of the autonomy of Inner Mongolia and its relation to the Central Government.

Mr. Lo Sang Ch'u Ch'en, a Mongol who is chief of the Peiping Office of the Panchen Lama, gave his views yesterday to a member of my staff with regard to the future of Inner Mongolia. He was pessimistic. He said that the measures recently adopted for the autonomy of Inner Mongolia are satisfactory for the time being, except to those Mongols who do not want autonomy, but that he does not regard them as of much significance in the long run because of Japanese aggression. He stated that many Japanese agents are active, in that part of Inner Mongolia which still remains outside of "Manchukuo", in attempting to persuade the Mongol leaders of the desirability of allegiance to "Emperor Pu Yi"; and Mr. Lo added that the Mongols naturally prefer an emperor to a republican government. Especial efforts are being made by the Japanese to gain the allegiance of Prince Ta,⁹² whom Mr. Lo described as the head of the Silingol League, as the Mongol leader having the most military strength, and as residing in Uchumuchin (Ujumchin) which is in that part of Chahar Province which forms a wedge between Outer Mongolia and "Manchukuo" and which is therefore of especial strategic importance to the Japanese. (The Silingol League occupies all of Chahar Province with the exception of the southern part.) Mr. Lo stated that Japanese officers are in residence near Prince Ta but that he has not yet been persuaded by them. With further encroachment by the Japanese in the Peiping-Tientsin area, which Mr. Lo regards as inevitable, though he believes it will be manipulated by the Japanese so as to appear as much as possible like an invasion by "Manchukuo" and not by Japan, he feels sure that Inner Mongolia must inevitably turn over to "Manchukuo".

With regard to the future movements of the Panchen Lama, Mr. Lo said that the Lama is so fearful of the future of China because of further and further Japanese aggression that he is very anxious to return to the quiet of Tibet. He will first, however, visit Inner Mongolia for a short period.

Respectfully yours,

NELSON TRUSLER JOHNSON

⁹¹ Not printed.

⁹² Usually known as Teh Wang (Prince Teh).

711.6112 (Aggressor)/2 : Telegram

*The Secretary of State to the Ambassador in the Soviet Union
(Bullitt)*

WASHINGTON, March 17, 1934—2 p. m.

12. Your 7, March 13, 1 p. m., second paragraph, and 11, March 14, 11 p. m., first paragraph. President's position with regard to a bilateral non-aggression pact is unchanged. He views with disfavor the idea of any non-aggression pact restricted to less than the whole group of Powers that have interests in the Pacific.

HULL

851.503193 Manchuria/25

The Ambassador in France (Straus) to the Secretary of State

No. 718

PARIS, March 19, 1934.

[Received March 29.]

SIR: I have the honor to report that methods looking to the financing of French activities in Manchuria appear to have taken some form here in the foundation of the "Banque Franco-Mandchoue".

The concern was registered with the authorities as an incorporated joint stock company on January 10, 1934, with a capital of 1,500,000 francs in 3,000 shares of 500 francs each.

The "Chosen and Manchuria Enterprises Company Limited" hold 2,690 of these 3,000 shares. It is understood that the latter is controlled by the French National Association for Economic Expansion, whose representative, it is reported, has recently concluded tentative arrangements which involves the participation of French industry in Manchuria, (see Embassy's despatch No. 698 of March 9⁹³).

The statutes of the bank registered with the authorities here (and to which a member of the Embassy staff has had access) indicate that its purpose is to:

"engage in all forms of commerce, and business generally. It may carry on, notably, in its own name, or in the name of a third party, all financial, commercial, industrial, maritime, real estate and agricultural operations, in France as well as abroad, particularly in Asia and in the Far East; as well as all banking, discounting, credit, stock exchange, brokerage and exchange operations, and subscribe to issues of securities and to purchase *rentes* or other Government securities, notes, bonds, or other investments; it may undertake the service of interest and amortization on all government or other loans; and participate in all business undertakings or enterprises related to the purpose for which company is established. . . ." ⁹⁴

⁹³ Not printed.⁹⁴ Omission indicated in the original despatch.

Apart from the reported connection of the French National Association for Economic Expansion with the new concern, it appears of interest to mention that the Franco-Asiatic Bank is said to have had much to do with the constitution of the "Banque Franco-Mandchoue". In fact, the offices of the latter, as well as the "Chosen and Manchuria Enterprises Company Limited" are situated with the Franco-Asiatic Bank at 9 rue Boudreau, Paris.

Respectfully yours,

JESSE ISIDOR STRAUS

793.94/6593

*Memorandum by the Minister in China (Johnson) of a Conversation
With the Chinese Vice Minister for Foreign Affairs (Tang)*⁹⁵

PEIPING, March 19, 1934.

I asked Mr. T'ang Yu-jen whether he could give me any information as to the present posture of Sino-Japanese relations. Mr. T'ang said that was one of the reasons why he had asked to see me this morning. He wished to tell me of this situation. He began by asking me whether I was not of the opinion that Mr. Huang Fu's presence in North China exercised a stabilizing influence upon the situation here. To this question I replied that it appeared to me that Mr. Huang Fu's presence here was without doubt a stabilizing influence, but that I was somewhat at a loss to explain why this should be the case. Mr. T'ang stated that he thought he could explain to me why this was so, and he proceeded as follows:

He pointed out that the Japanese were constantly making demands, and being here in Peiping it was possible for Mr. Huang Fu at all times to receive the Japanese demands for this and for that and for the other thing, and to discuss these demands with them as they arose. Mr. Huang Fu's attitude in these discussions was invariably one of opposition. When the Japanese presented a demand he would say no, and then they would come back and present their demand again. Mr. Huang Fu by a process of wrangling and whittling would maneuver the Japanese to a point where they would demand less than they had started out with; he would then make a small concession on what originally had been a large request, and the Japanese would go away feeling happy. In other words, Mr. Huang Fu's presence in Peiping assured the Japanese of having some one here representing the Central Government able to negotiate and discuss questions with them and make concessions. Mr. Huang Fu was willing to do this task at the risk of his reputation; he was the only man that was willing

⁹⁵ Copy transmitted to the Department by the Minister in China in his despatch No. 2611, March 27; received April 21.

to do this. The Japanese, knowing this, would refrain from making incursions into the country.

Mr. T'ang then proceeded to suppose that Mr. Huang Fu should be withdrawn from Peiping. Under these circumstances the Japanese would present their demands to the local authorities, and the local authorities would be afraid either to see the Japanese or to enter into any discussions with them or make any concessions, whereupon the Japanese would take action and set up authorities here that would be prepared to negotiate and accept Japanese dictation. The advantage of having Mr. Huang Fu here was that North China remained under the direct control of the Central Government. But if Mr. Huang Fu were to go, although the flag of China might still fly over North China, to all intents and purposes North China would be governed by authorities not amenable to Nanking. For this reason Mr. Huang Fu's presence in Peiping was a stabilizing influence.

Mr. T'ang then proceeded to say that, while Mr. Huang Fu's presence in Peiping was a stabilizing influence and he was able to haggle with the Japanese over the many questions which were constantly arising, this situation could not continue long, for eventually at this rate Mr. Huang Fu would have to concede almost everything which China had in the North, and the Government was faced with the almost immediate necessity of deciding whether it would continue Huang Fu in Peiping or recall him. He said that the Government's decision to retain Huang Fu in Peiping would rest upon the question as to whether within the next two or three years China could expect the direct assistance of friendly foreign nations in this matter. He asked me what my opinion was as to the possibility of China receiving the assistance of friendly nations.

I said to Mr. T'ang that this question put the whole subject in a very serious light; that I was quite certain the Japanese were not prepared to discuss questions with the Chinese in the presence of friendly powers; that they would insist upon carrying on their negotiations directly with the Chinese and without the intervention of any outside power. I said furthermore that it was extremely difficult for one to discover the exact aims of the Japanese in this area, or to know just what assistance the friendly powers could give to China.

Mr. T'ang stated that he realized that Japan would not discuss questions between herself and China in the presence of other powers. As to the question of what Japan wanted, Mr. T'ang stated that he had certain ideas. He expressed it as his opinion that Japan had two objects in view. One, the greater object, was to establish a Japanese hegemony over Asia. The Japanese desired that China have no relations with foreign powers except under the guidance and advice of the Japanese, and that the Chinese market be a Japanese market. This

was Japan's Monroe Doctrine for the Far East. He said that there were thinking men in Japan who believed that the present was not perhaps the time for Japan to accomplish this greater purpose, and that the accomplishment of the secondary purpose would be sufficient at this time.

Japan's secondary purpose, Mr. T'ang explained, was to assure herself of a neutral or friendly rear in the eventuality of a conflict with Russia. He stated that in 1905 when Japan fought Russia, although Japan did not receive the active assistance of the Chinese, China was friendly to Japan, for the Empress Dowager⁹⁶ had ordered Yuan Shih-kai⁹⁷ to assist the Japanese troops to obtain supplies. He said that at that time there was no feeling between China and Japan, but that now all this was different. The soldiers of China had had contact with Japanese soldiers, and there was present throughout the country a feeling of hostility toward Japan. If hostilities should break out between Japan and Russia, the Chinese would wish to assist the Russians. Japan feared this eventuality and would wish to prevent such a situation arising. Mr. T'ang expressed the belief that the assistance which the Chinese would need would have to be active military assistance.

I said to Mr. T'ang that in so far as the United States was concerned there was little likelihood of America willingly becoming involved in any military intervention here in the East in the next two or three or four years. I said that of course this was my personal opinion and that I was not able to forecast what attitude the United States might take in these matters in the future, but that nevertheless this opinion of mine was based upon convictions which I now had, and I thought there was little likelihood that China would receive in the near future any military assistance from the United States in any conflict which she might have with Japan in this field. I asked Mr. T'ang whether it was his belief, or the belief of those at Nanking, that the Japanese would move into North China.

Mr. T'ang stated that he appreciated the situation in the United States, but he said that what the Chinese were interested in was in obtaining the sympathy of the United States, for where the United States had placed its sympathy in world affairs there the victory was to be found. It was very important for a nation to have the sympathy of the United States in any difficulty which it might have with another nation. China had observed that America's sympathy during the Great War had brought victory to the allied cause. Mr. T'ang went on to say that in Nanking it was not believed that Japan would send a military force into North China for the purpose of occupying this

⁹⁶ Tzu-hsi, regent until her death in 1908.

⁹⁷ Director of Chinese army reforms in North China, 1901-1907.

area. This was not necessary; all that Japan had to do was to supply arms to discontented elements in North China and set up a new "Manchukuo" here.

I said to Mr. T'ang that this last statement of his made the whole situation very complicated from the point of view of other powers. I repeated my earlier statement to the effect that there was no sentiment in the United States at the present time which could be relied upon as favoring military intervention in the situation here in the East. I pointed out that the clearest indication of this was to be found in the fact that we were contemplating legislation granting freedom to the Philippines, and while it was true that those favoring such legislation desired to obtain the neutralization of the Philippines, still the fact that we were discussing seriously such a proposal was clear evidence of lack of interest on the part of America in becoming involved in this area. I stated, however, that the whole situation was such a complicated one that I hesitated to say anything which might be considered as final. In the first place, it was by no means certain that the Japanese could afford to continue traveling the road which they had been traveling the last two or three years; their adventures thus far had cost them a considerable sum of money.

Mr. T'ang stated that he thought the Japanese hoped to pay for their adventures with Chinese money. He also pointed out that Japanese industry was enjoying a great boom at the present time; Japanese industry was making great profits; all of which was enabling Japan to pay for her military adventure.

I said that after all this era of prosperity which the Japanese were enjoying at the moment might pass, and it was certain that then it would not be so easy for Japanese industry to pay for these expenses as it was now doing. Mr. T'ang said that he hoped this might be true. Here the conversation ended.

NELSON TRUSLER JOHNSON

711.6112 (Aggressor)/4: Telegram

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

Moscow, March 21, 1934—9 p. m.

[Received 9:30 p. m.]

25. Continuing my 24, March 21, 8 p. m.⁹⁸ We discussed the question of a general nonaggression pact in the Pacific. Litvinov said "There are two ways to approach such a pact (1st) in the hope that such a pact may be concluded (2d) in the hope that such a pact may

⁹⁸ Printed in *Foreign Relations, The Soviet Union, 1933-1939*, section on 1934.

be proposed and rejected by the Japanese. To conclude such a pact it will be necessary to leave out China so that the matter of 'Manchukuo' will not arise." I expressed the personal opinion that the Government of the United States would under no conditions desire to adhere to any pact which did not include China.

Litvinov then said that the Japanese would certainly never agree to sign any pact which included China unless "Manchukuo" should be recognized; that the Soviet Government would be glad to sign a pact involving the recognition of "Manchukuo" as a *quid pro quo* for Japan. I replied that I felt sure the Government of the United States was not prepared to recognize "Manchukuo."

BULLITT

893.00/12735

*Memorandum of Conversation, by the Counselor of Legation in
China (Peck)*⁹⁹

[NANKING,] March 21, 1934.

[Present:]

Dr. Wang Ching-wei, President of the Executive Yuan and Acting Minister for Foreign Affairs.

Mr. Li Sheng-wu, Director of the Department of General Affairs of the Foreign Office.

Mr. Peck.

In the course of a confidential conversation Mr. Peck asked Dr. Wang whether the Chinese Government had received any recent information regarding the reported strained relations between Japan and the Soviet Union and the possible danger of an outbreak of war between them.

Dr. Wang said that the Chinese Government had not received any late information which would indicate that war between these two Powers would break out in the near future. He said that the information supplied to the Chinese Government was to the effect that the Military Party in Japan was anxious to provoke a war, but was restrained by the older and saner elements in the Government, especially by the counsels of Premier Saito and of the Minister of Finance, Mr. Takahashi. He said that the Chinese Government was informed that the Japanese Government was unwilling to initiate hostilities until it could find out what position would be taken by the American and British Governments in relation to the war. He said that it passed without saying that the Soviet Government, for its part, would never take any steps to provoke hostilities. Mr. Peck referred to the leading article in the *North China Daily News* of March 20, 1934, which re-

⁹⁹ Copy transmitted to the Department by the Counselor of Legation in his despatch of March 22; received May 7.

ferred to the rumored possibility that the Japanese Government might take over North China down to the Yellow River and transfer the so-called "Emperor of Manchukuo" to Peiping. Mr. Peck inquired whether Dr. Wang thought this report worth taking into consideration.

Dr. Wang said that he did not think the Japanese Government contemplated taking this step, but if war should break out between Japan and the Soviet Union, Japan would naturally blockade Chinese coastal ports and might seize certain Chinese railways.

Mr. Peck observed that he had heard a rumor to the effect that the interest of the Chinese Government in developing the Northwest, as evidenced by the creation of "The Sinkiang Reconstruction Commission" (*Hsin Chiang Chien She Wei Yuan Hui*) arose from a desire to prepare another exit from China to Europe to be used if the Japanese should effect this blockade of China's coast and to be used, also, to give aid to the Soviet Union in such a conflict.

Dr. Wang derided this rumor. He said that even if Japan partially blockaded China's ports, it would still be possible to maintain contact with the outside world through southern ports. In regard to the supposition that China might side with the Soviet Union in a Soviet-Japan conflict, Dr. Wang said that Dr. W. W. Yen, Chinese Ambassador in Moscow, had reported that the Soviet Government had discussed with him the possibility of a war between the Soviet Union and Japan and had prophesied that if it should take place, the American Government would intervene before the war reached a natural conclusion. The Soviet Government told Dr. Yen that it hoped that China would not show itself friendly to Japan at the time of such intervention. Dr. Wang said that in the event of a war between Japan and Soviet Russia, China must make every effort to be entirely neutral. At this moment Dr. Wang was called to another room, to answer a telephone call, and Mr. Peck observed to Mr. Li Sheng-wu that he, Mr. Peck, could not imagine why the Soviet Government found any reason for anticipating intervention by the American Government in the supposititious case of a war between Japan and the Soviet Union, unless it was thinking back to the Russo-Japanese War of 1905 and the part taken by President Theodore Roosevelt in bringing about the Portsmouth Conference.¹

Dr. Wang pointed out that, in any event, the proposed development of the Northwest, i. e. Sinkiang, would be a matter of many years and bore no relation to the threatened hostilities. The building of a railroad over the immense distance between the present lines and Sinkiang would be a tremendous task and even a motor road could not be constructed in the immediate future. Mr. Peck, as an incidental observation, took exception to the last remark, saying that he

¹ See *Foreign Relations*, 1905, pp. 807 ff.

had been told by a European in the employ of an American firm that the informant had himself travelled by motor car between Suiyuan and Tihua, capital of Sinkiang, and that the construction of a road would be a simple matter, making it possible to cover this distance in 12 days. Dr. Wang agreed that this might be the case, but pointed out that if the road were to be of material importance, there would have to be constructed the necessary appurtenances, such as repair shops, gasolene depots, etc.

893.01 Manchuria/1045

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] March 22, 1934.

The Netherlands Minister informed me that his Government was slightly embarrassed by the reports emanating from Japan that Pu Yi is shortly to be invited by the Japanese Government to make a state visit to Tokyo. In the event of the Diplomatic Corps' being invited to meet him, what should be their attitude? Apparently the Netherlands Minister in Tokyo has asked his government for instructions in such an eventuality. The Minister added that, while he thought his government held the view that the Netherlands Minister to Japan should not accept any invitation to meet Pu Yi, nevertheless his government would be glad to know the attitude of the State Department. I replied that the question has not as yet arisen with us and, therefore, no instructions had been sent to our Ambassador in Japan; but my personal viewpoint was that this was something which the Diplomatic Corps in Japan would naturally act upon with unanimity; that since none of the governments had as yet recognized Pu Yi in Manchuria, it scarcely seemed possible to give any recognition to him merely because he crossed over into Japan. I added that I would gladly keep the Legation here advised of any instructions which we might in due course send to Tokyo.

WILLIAM PHILLIPS

761.94/722

The Ambassador in Japan (Grew) to the Secretary of State

[Extract]

No. 714

TOKYO, March 23, 1934.

[Received April 2.]

SIR:

In appraising, therefore, the likelihood of a Soviet-Japanese war in the near future it becomes necessary to question whether the evi-

dence now available in Japan indicates that an early attack upon Soviet Russia is being considered. There are listed below a number of observations which suggest that Japan has no intention of deliberately provoking a conflict this coming spring or summer.

(1). The Military Attaché of the Embassy has just returned from a twelve day inspection trip of various military establishments and writes concerning the regiments he visited, "No evidence of tenseness or any apprehension of war was noticed, nor was the training being hurried in any way" and further, reviewing his whole trip, "In general, nothing was seen or sensed that would indicate that the Japanese army is engaged in unusual preparations for war or that war during 1934 is anticipated."

(2). The Assistant Naval Attaché of the Embassy reports that the Nakajima Aircraft Factories which manufacture the majority of the most modern Japanese pursuit planes is working upon an eight hour a day schedule, not upon a war-time 24 hour a day schedule although it is in aviation perhaps that Japan has the most to fear from Soviet Russia.

(3). The Chief of Staff of the Kwantung Army, Lieutenant General Koiso, has been transferred to the command of the Fifth Division stationed at Hiroshima in Southern Japan. Since General Koiso is not only one of the most able men in the Japanese army but has an unrivalled knowledge of the situation in Manchuria it is questioned whether this normal step in his career would not be postponed were an early conflict in prospect.

(4). The correspondent of the *Chicago Daily News*, Mr. Reginald Sweetland, has just returned to Toyko from Manchuria and reports that he had a conversation with Major General Doihara, the "Lawrence of Manchuria" and leading Intelligence Officer in the Japanese army. General Doihara stated that it was impossible for Japan to fight Soviet Russia at the present time for three reasons: first, that world opinion was not behind Japan and that she could not afford to further isolate herself internationally; second, that a war would last three years and be too great a strain on the nation's strength; and third, that it would take ten years to consolidate "Manchukuo" and to attempt a war in the face of a potentially unstable condition behind the lines would not be possible.

(5). Ambassador Yourenoff is of the opinion that a meeting of the principal Japanese generals of division, which is scheduled for March 26,* will discuss the pros and cons of an attack upon Soviet Russia and implied that this was an extraordinary meeting, similar to one held shortly before the outbreak of the Manchurian adventure

* It is reported that there is to be a routine meeting of division chiefs of staff in April. [Footnote in the original.]

in September 1931. I am now informed by the Military Attaché that this is a purely routine conference which is held periodically.

(6). There are no reports from Manchuria indicating an unusual concentration of Japanese troops nor any unusual preparations which would substantiate the Soviet fears of an early attack.

(7). It has puzzled foreign observers to note that the Foreign Office continues to oppose the conclusion of a non-aggression pact with Soviet Russia prior to the settlement of specific problems between the two countries. To Occidental observers this has seemed like putting the cart before the horse and has, in certain quarters, cast doubt upon the genuineness of Japan's desire to settle the Russian situation amicably. The matter was explained by a member of the Foreign Office staff to a member of my staff as follows: "There is a strong minority in Japan which believes that war between this country and Russia is inevitable and that the sooner it comes the better. If a non-aggression pact should be negotiated while there were still serious problems pending between the two nations, this minority would probably become very vociferous and might even force a crisis. In Japan minorities are not ignored, they are compromised with. The plan of the Foreign Office is to reach a settlement of the Chinese Eastern Railway and fisheries questions and thus to remove all grounds which the militant minority have for opposing a non-aggression pact". In the light of the above explanation, settlement of the two problems mentioned would seem significant steps towards a restoration of normal relations between the two countries.

(8). Certain conditions for war which were present in 1904 are lacking in 1934. Two major factors in the Japanese decision to attack Russia thirty years ago were the Anglo-Japanese alliance² and a friendly attitude on the part of America which enabled the Japanese leaders to believe that it would be possible to finance the struggle. At the present time Japan is apparently isolated internationally and, in view of the Soviet-American *rapprochement*, there is general uncertainty as to what America's attitude would be in case of war.

In concluding this despatch I refer to a conversation which took place recently between a member of my staff and an official of the Soviet Embassy in Nanking who has just come from Moscow. This official states that in Moscow government leaders do not believe that war with Japan is inevitable but that there is a 50-50 chance of one, that they feel that Japan has learnt a great deal about Russia's power in the last six months, and that she is therefore not so sure of herself. He further remarked that the Soviet preparations for war involve no assumption that they would receive any aid from China in case hostilities with Japan break out. Viewing the situation from Tokyo I

² Signed at London, January 30, 1902, *Foreign Relations*, 1902, p. 514.

am inclined to concur that the Japanese are well aware of the efficacy of Soviet preparations regardless of whether or not the extent of such preparations have impaired the confidence of the Japanese army leaders. It is furthermore idle to believe that these leaders, chauvinists as they may be, will select an unfavorable time to commence operations against the Soviets. They did not do so in 1904, nor in 1931 in Manchuria. The present, moreover, appears to be an unfavorable time. Nevertheless there remains the possibility that a "now-or-never" attitude might lead the Japanese to action and there is still danger that an unforeseen incident might precipitate a clash.

Respectfully yours,

JOSEPH C. GREW

711.94/941

*The Counselor of Legation in China (Peck) to the Minister in China (Johnson)*³

L-240 Diplomatic

NANKING, March 23, 1934.

DEAR MR. MINISTER: I have just received a call from Mr. Li Sheng-wu, Director of the Department of General Affairs of the Foreign Office, who came under instructions from Dr. Wang Ching-wei, Acting Minister for Foreign Affairs. Mr. Li is the officer of the Foreign Office who every afternoon at 6 o'clock goes over with Dr. Wang the day's budget of reports received in the Ministry and he appears to be the man selected for Dr. Wang's confidential work.

Mr. Li said that yesterday afternoon Dr. Wang had discussed with him an article in the *Shanghai Evening Post* of March 22 entitled "Japan and U. S. Move for Peace in Warship Race" and an article in the *China Press* of March 22 entitled "Japan, U. S. Trade Notes of Goodwill". Copies of these articles are enclosed herewith.⁴

In the first article, bearing date line "London, March 22—United Press", it will be noted that there occur the following passages:

"Japan is seeking in these preliminary negotiations the revision of American immigration laws, the abandonment of American naval air bases and the recognition of Manchukuo in exchange for maintenance of the present 5-5-3 naval ratios, it was learned. . . .⁵ In specific return for the proposed American concessions, Japan was believed to be prepared to renounce her insistence on naval parity with the United States and Great Britain at the forthcoming naval conference in 1935."

³ Copy transmitted to the Department by the Minister in China in his despatch No. 2612, March 27; received April 21.

⁴ Not reprinted.

⁵ Omission indicated in the original despatch.

In the second article there is presented a news despatch from London, March 21 (Reuters), which states, *inter alia*:

"In conclusion he says that every effort is being made by the United States to remain friendly with Japan and Japan's rigid adherence to the doctrine of the Open Door would more than compensate for a certain skepticism on her part regarding the practicability of the Stimson Doctrine, whereby the non-recognition of territories acquired by force is upheld."

Mr. Li said that the Chinese newspapers are playing up this news with large headlines. (I have already received visits from two Chinese newspaper representatives this morning on this subject.) He remarked that, as I probably knew, the Chinese people were placing great reliance on the United States for the recovery of Manchuria by China, and it would be a calamity if the Chinese public received the impression that the attitude of the American Government in regard to the Manchurian issue was changing. He emphasized the word "attitude".

Mr. Li said that Dr. Wang's attention was particularly attracted to the statements in the newspaper reports in question, to the effect that "recognition of Manchukuo" by the United States might become a factor in the discussion between the United States and Japan regarding naval ratios, and in the assertion that the American Government might alter its position in reference to the "Stimson Doctrine". He transmitted Dr. Wang's request that I telegraph to you asking that you inquire of the Department of State by telegraph what foundation there was for these reports.

I showed Mr. Li your telegram of February 24, 12 noon, transmitting the Department's telegram No. 50 of February 23, 2 p. m.,⁶ which authorized the denial of a report then current that the American Government was considering a change in its attitude regarding the recognition of "Manchukuo". Mr. Li said that he would inform Dr. Wang of the contents of this message, but he insisted that these later reports were a source of great anxiety to Dr. Wang and the latter would be extremely grateful for such comments as the Department might care to make in regard to them.

I urged that this inquiry be made confidentially through Dr. S. K. Alfred Sze, Chinese Minister in Washington, pointing out that Dr. Sze would be able to obtain much more satisfactory information than could be supplied in a telegram. Mr. Li said that an instruction would be telegraphed to Dr. Sze, but, unfortunately, Dr. Sze is traveling somewhere outside of Washington and can not execute the instruction in the near future.

⁶ See footnote 59, p. 51.

I then invited Mr. Li's attention to the self-evident fact that no government could predict what its attitude would be toward a subject like the "recognition of Manchukuo" over a period of years, in view of the impossibility of foreseeing the nature of the circumstances on which it would, necessarily, base its attitude. As an example of a possible change, I mentioned that the Chinese Government, itself, might recognize "Manchukuo". Mr. Li hastily interjected that this would never happen. I accepted his statement and explained that I had merely used this extreme hypothesis by way of illustration of my meaning. I pointed out that no government could do more than the Department had done in its telegram of February 23, that is, to describe its position at the time an announcement of position is made. Mr. Li concurred in the reasonableness of this position.

Mr. Li wanted to know what I thought of the probability of truth in the press telegrams enclosed herewith. I said that, undoubtedly, there were some outstanding issues between the United States and Japan which, quite conceivably, were being discussed between the Secretary and the Japanese Ambassador. I instanced the immigration question, which I explained to Mr. Li.

I asked Mr. Li, in turn, why China felt that the position of the United States was so important a factor in the "recovery of Manchuria", and I pointed out that China had appealed to the League of Nations in this regard. Mr. Li replied that in his private editorial capacity, before he joined the Foreign Office, namely two days after the Mukden Incident of September 18, 1931, he had published the opinion that the League of Nations would be unable to right China's wrongs or control Japan; this editorial had been widely copied. He remarked that the then Minister for Foreign Affairs, Dr. C. T. Wang, had erroneously regarded the League as an "armed Power" able to enforce its decisions. He expressed the personal opinion that the League would be unable to solve the Sino-Japanese controversy, whereas the whole world was watching and would be greatly influenced by the attitude of the United States toward the Manchurian dispute.

I drew Mr. Li's attention to another aspect of the question, namely, that the intention or ability of the United States to withhold recognition from "Manchukuo" seemed less important than China's situation in this regard. I recalled that the United States had refrained for seventeen years from recognizing the Soviet Government, but Manchuria bordered China and necessarily had constant relations with China, which raised the question how long China could abstain from all connection with Manchuria. I inquired what China was relying on to end the impasse. Mr. Li said there were several things which might happen to bring about a solution, for example, a world

war. He thought China could hold out indefinitely from recognizing "Manchukuo".

After one or two other efforts to dissuade Dr. Wang, through Mr. Li, from asking that you telegraph to the Department for a new statement of the position of the American Government in regard to the Manchurian dispute, I consented to send you a telegram. This telegram you have doubtless received.⁷

Very respectfully yours,

WILLYS R. PECK

893.01 Manchuria/1046 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, March 26, 1934—noon.

38. Press reports from London have stated that the British Government has instructed the British Ambassador that, in case Pu Yi makes an official visit to Tokyo and invitations are issued for attendance at functions in his honor, the Ambassador is not to attend.

In case any such situation develops, please report immediately the facts and add your comments, thus enabling the Department to give you appropriate instruction.

HULL

493.11 Shanghai/61 : Telegram

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

WASHINGTON, March 27, 1934—6 p. m.

67. Your No. 118, March 22, 4 p. m.⁸ This Government cannot, of course, concede that Japanese Government has right to make an ex parte and final determination of its liability toward American citizens in these cases. On the other hand, the Department is desirous of facilitating such settlements as will best serve the interests of the persons concerned. You may therefore receive the check on the understanding that you will endeavor to arrange private settlements with the respective claimants by the payments indicated by Japan, that your receipt of money implies no waiver of rights on the part of either claimants or this Government but that it will be understood

⁷ The Counselor, later on March 23, informed the Chinese Foreign Office of the substance of the Hirota-Hull exchange of views, February 21 and March 3; for texts of informal and personal messages, see *Foreign Relations, Japan, 1931-1941*, vol. I, pp. 127, 128.

⁸ Not printed; it reported details of Japanese offer to settle certain American claims arising from hostilities at Shanghai in 1932.

with claimants that in those cases in which full settlements are accepted by them, such settlements will be considered as final and that this Government will not subsequently present diplomatic claim for the same injuries, but that in those cases in which claimants are unwilling to accept amounts offered by Japanese Government in full settlement, all rights are fully reserved. You may also, if possible, arrange for acceptance by claimants of amounts offered by Japan as partial settlements of respective claims with reservation of rights with respect to balance claimed. In discussing possible settlements with claimants you should point out to them the advantages of even unsatisfactory settlements at present since it is impossible to foresee when any more satisfactory solutions can be effected through diplomatic channels, and that such settlements may be delayed many years and even then be unsatisfactory.

HULL

393.1163/676

The Minister in China (Johnson) to the Secretary of State

No. 2617

PEIPING, March 27, 1934.

[Received April 21.]

SIR: In view of possibly misleading American newspaper reports, I have the honor to submit the following report of the recent activities in Peiping of Mr. C. Araki, Diplomatic Officer attached to the Japanese Kwantung Army Headquarters, who, during the first week in March, called at several of the local American missions and requested that he be supplied with information as to the location of all American mission property in Hopei Province (his inquiries in one case extending to mission property in "North China" which term he failed to define when requested to do so). Mr. Araki stated that while no trouble was expected at the time, it would be well for the Japanese military authorities to have definite knowledge of the location of foreign property in Hopei Province in order that it might be protected from molestation or damage in the event of any future "trouble."

It appears that Mr. Araki, who is known to the office of the Military Attaché of this Legation as an officer connected with the "Diplomatic Bureau" of the Japanese Kwantung Army, called on the British Military Attaché and subsequently was sent in that official's motor-car to call on Bishop Norris of the Anglican Mission. Bishop Norris is reported to have promptly supplied Mr. Araki with a rough list of Anglican Mission property in Hopei and to have supplied him with a complete list on the following day. Mr. Araki, on the "introduction" of Bishop Norris, then proceeded to visit the Secretary

of the American Congregational Mission requesting information as to the location of the Mission's property and stating that he was seeking this information for the Japanese Kwantung Army in order that it might be in a position to protect American Mission property from damage and to prevent its molestation in the event of "trouble" in this area.

In response to inquiries addressed to the American Minister by the Secretary of the Congregational Mission, he was informed that the Mission was of course under no obligation whatever to furnish information of this nature to Mr. Araki and that it would be entirely proper for the Mission to refer him to the American Consulate General at Tientsin but that, as a practical matter, assuming that Mr. Araki was sincere in desiring this information for the use of the Japanese Kwangtung Army in protecting American property in the event that "trouble" occur in this area, it appeared to the Legation that no harm would come from the Mission informally furnishing such information to Mr. Araki; that, in fact, this information would be promptly supplied to the Japanese authorities by the American authorities in the event of any difficulties between the Japanese and Chinese forces in this area.

Similar advices were given by the Legation to the representatives of the Presbyterian and Methodist Missions when they, prior to answering Mr. Araki's questions, asked the Legation's advice in the premises. These mission representatives, on the advice of the Legation, pointed out to Mr. Araki that his method of direct approach was surprising and irregular since the Japanese authorities obviously should seek such information from the American authorities and not directly from American citizens. These remarks apparently occasioned Mr. Araki considerable embarrassment and, in the case of the Presbyterian Mission, he requested that his official visiting card be returned to him whereupon with a pencil he crossed out the following official designation appearing after his name "Diplomatic Officer, Imperial Japanese Army Detachment, Shanhaikwan. Attached to Imperial Japanese Army Headquarters, Tientsin". Having thus sought to divest himself of his official status, Mr. Araki returned the card to the representative of the Mission and assured him that this matter was a purely personal one and was not to be considered as official.

It is understood that each of the Missions approached by Mr. Araki gave him a certain amount of information concerning the location of their mission stations in Hopei Province, one mission, at least, supplying him with a copy of its printed annual report which is public property and lists all of its mission stations.

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It is understood that certain American and other foreign press representatives made brief telegraphic reports to their home offices in regard to the matter which was, all things considered, a tempest in a teapot. Mr. Araki's calls did, however, result in a certain amount of speculation as to the reason for the Japanese Army at just that juncture seeking to obtain information to be used by it in the event of "trouble" in North China. It is not believed that the matter was one of any particularly immediate significance but was, rather, the bungling effort of a subordinate attached to the Kwantung Army Headquarters at Tientsin to obtain routine information during an alleged leave of absence for purposes of sightseeing in Peiping.

In this general regard, the following comments of Lieutenant Colonel W. S. Drysdale, the American Military Attaché, are of interest:

"The Japanese Legation authorities both civil and military have taken a peculiar attitude toward the case. The Japanese Military Attaché's office issued a statement through the Nippon Dempo News Agency to the effect that Mr. Araki was evidently a vagabond or *ronin* without any fixed occupation and had no relation whatsoever with the Japanese military authorities. The spokesman of the Military Attaché further said that proper steps had been taken with regard to Mr. Araki expelling him from China. Mr. Nakayama, the first Secretary of the Japanese Legation, stated that Mr. Araki was to be sent home and when questioned where home might be—Tientsin or Japan—replied 'Japan'.

"Mr. Araki had been known to this office when he was attached to the Japanese Army in Shanhaikwan and also in Tientsin, so when Japanese official sources denied his connection with the Japanese Army, inquiries were made as to his present position. It appears that Mr. Araki is still on duty with the Japanese Army in Tientsin as 'Diplomatic Officer'. When questioned by a reliable source Mr. Araki indicated that there was some difficulty between him and the Japanese Military Attaché in Peiping, Colonel Shibayama, and made the remark that 'The case is not yet finished. We will see in a little while.' It is apparent that Colonel Shibayama considers the activity of Mr. Araki as a trespass on his own particular territory which he does not think comes under the jurisdiction of the Tientsin command."

Respectfully yours,

NELSON TRUSLER JOHNSON

493.11/1865

*The Consul General at Mukden (Myers) to the Minister in China (Johnson)*⁹

No. 911

MUKDEN, March 28, 1934.

SIR: I have the honor to refer to my despatch No. 896 of February 21, 1934,¹⁰ reporting the formal acknowledgment by the Kirin Pro-

⁹ Copy transmitted to the Department by the Minister in China in his despatch No. 2643, April 6; received May 5. The Minister expressed concurrence with the conclusion of the Consul General at Mukden.

¹⁰ Not printed.

vincial Government of the receipt of two claims of the Socony-Vacuum Corporation covering losses by looting which had been transmitted to it by this Consulate General under date of January 8th.

There is enclosed a translation of a communication dated March 22nd from the Kirin Provincial Government¹¹ quoting an instruction received from the Minister of Foreign Affairs to the effect that his Government's responsibility in respect to claims such as those submitted by the Socony-Vacuum Corporation is doubtful and that the matter is one which should be decided in the future by formal negotiation between his Government and that of the United States.

It is quite evident from this communication that nothing further can be done in the matter of the claims in question and the other similar claims transmitted to the authorities concerned as reported in my despatch No. 885 of January 16th¹¹ so long as formal recognition of "Manchukuo" is withheld by the American Government. It is believed, however, that the communication constitutes as satisfactory a reply as could be expected under the circumstances.

Respectfully yours,

M. S. MYERS

493.11 Shanghai/69

*The Japanese Consul General at Shanghai (Ishii) to the American Consul General at Shanghai (Cunningham)*¹²

SHANGHAI, March 28, 1934.

SIR AND DEAR COLLEAGUE: In view of the fact that the military operations which the Japanese forces conducted early in 1932 in and around Shanghai were without doubt caused by the unjustified attack made by the Chinese soldiers on the Japanese naval landing forces at the time the latter were about to be detailed for a duty in the area assigned to them as part of the concerted defensive measures arranged among the foreign forces interested in Shanghai, the Japanese Government, it goes without saying, are under no obligation whatsoever to pay any indemnity for damage sustained by persons belonging to any third country.

However, the Japanese Government, entirely apart from a sense of responsibility, have decided, *ex gratia* and as an exceptional measure, to give solatium to the nineteen sufferers belonging to the United States whose circumstances in respect to their losses are regarded as deserving special consideration in order that their sufferings may be alleviated even in a small degree.

With this view in mind, I have the honour to state that I am prepared to give solatium to the undermentioned American citizens and

¹¹ Not printed.

¹² Copy transmitted to the Department by the Consul General at Shanghai in his despatch No. 9424, April 13; received May 7.

organizations, (a detailed and individually allocated list of which as well as the principle governing distribution of solatium are attached herewith¹³) provided that they will relinquish their total claim.

I have [etc.]

ITARO ISHII

793.94/6594

The Minister in China (Johnson) to the Secretary of State

No. 2622

PEIPING, March 29, 1934.

[Received April 21.]

SIR: I have the honor to forward a copy of a memorandum¹³ of a conversation which I had on March 24, 1934, with General Huang Fu, Chairman of the Peiping Political Affairs Readjustment Committee, on the subjects of Sino-Japanese relations and conditions in China.

General Huang said that the situation in North China was not entirely without danger as the Japanese were continually "pressing for this and that" but that there was evidence of Japanese efforts to assuage the situation, as, for example, the stationing at Dolonor, Chahar Province, of only a Japanese captain and a few men, press reports of large troop concentration notwithstanding, and the decreasing of the number of people active about the Japanese headquarters in Tientsin. He believes that Japan can never succeed in Manchuria and that Manchuria will never really solve Japan's population problem because the increasing Chinese population there will be more than sufficient to consume its resources. General Huang Fu was pessimistic with regard to the possibility of such leaders as Generals Chen Chi-t'ang, Yen Hsi-shan, and Han Fu-chu uniting in active support of the Central Government.

Respectfully yours,

NELSON TRUSLER JOHNSON

761.94/720

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] March 30, 1934.

I asked the Soviet Ambassador this morning whether he had any news from the Far East of interest and if he would care to give me his views concerning the Russian-Japanese relations.

The Ambassador replied that he thought things were going better and he clearly indicated that he did not expect any war in the immediate future; while some of the hot heads in the military party were un-

¹³ Not printed.

doubtedly in favor of early hostilities, the Ambassador felt that the Japanese Government and people as a whole were too sensible to take such a drastic step; he had recently received a letter from a high placed Japanese, an old friend of his, who had made a similar remark to the effect that the nation as a whole was too sensible to risk war at the present time.

Mr. Troyanovsky thought that the Japanese ambitions were directed in a more southerly direction and that the ultimate goal was to put Pu-yi on the throne at Peiping, thus establishing a northern Chinese empire under the domination of Japan; some Japanese, he said, went even further than this and would be satisfied only with the domination of the whole of China. I asked the Ambassador whether, in the event of Pu-yi transferring his residence to Peiping, Manchukuo would retain its present entity or slip back within the Chinese boundary. The Ambassador did not reply directly other than to say that, no matter what happened to Manchukuo, it would always remain Japanese in fact.

I asked the Ambassador whether he thought there was any possibility of Russian recognition of Manchukuo in the event of a successful termination of the railway negotiations. Mr. Troyanovsky's comment was merely that recognition of the independence of Manchukuo was utterly impossible while the Japanese armies remained in supreme control; he intimated that, should the Japanese armies retire from the field, the question might be open for consideration.

WILLIAM PHILLIPS

893.811/915 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, March 31, 1934—4 p. m.

87. Your 122, March 15, 4 p. m.

1. The Department entertains no doubt that the resolution of the Liao River Conservancy Board purporting to dissolve the Board and transfer its functions to the Manchukuo authorities was clearly *ultra vires*, as the agreement establishing the Board and prescribing its functions and authority cannot legally be amended or terminated without the consent of the Chinese Government and the Powers who participated with that Government in the making of the agreement.

2. The Department accordingly concurs in the view of the French Government, as communicated by the French Chargé, that the dissolution of the Board constitutes a violation of the Conservancy Agreement of 1914 and should be objected to by consulates concerned; and considers untenable the view of the British Legation that the parties to the Conservancy Agreement are estopped from making objection.

3. The Department shares the view advanced by the French that objection should be made, but believes that, if and when made, it should be addressed not to the Manchukuo régime but to the Japanese Government. There should be kept in mind the fact that those countries which are members of the League of Nations and also the United States are definitely committed to the principle of non-recognition in reference to the Manchukuo régime and have in practice consistently refrained from any action breaching or implying intention to breach that principle. Recently the British Minister for Foreign Affairs stated in Parliament and the American Secretary of State said to the press that there is no change in the position of their respective Governments in this connection. The Department believes that objection should be registered with the Government of Japan, as the agency primarily responsible for the illegal action toward terminating the Conservancy Agreement, but does not believe that it would be desirable to notify the Chinese Government of such action. Accordingly, you are instructed to inform your interested colleagues of the views above expressed and to obtain their views as to the advisability and practicability of joint action of the type thus indicated, and report.

4. Although the Department does not anticipate that such action would bring about the restoration of the functions of the Conservancy Board, it believes that this clear violation of an international agreement should be formally objected to, on principle, in order to put on record the view of the interested Governments that there is involved a violation of the agreement and that the other powers concerned are not indifferent thereto.

HULL

693.001 Manchuria/21

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

No. 662

MUKDEN, March 31, 1934.

[Received April 26.]

SIR: I have the honor to refer to my confidential despatch No. 463, of April 26, 1932,¹⁵ in regard to the "Open Door" as affected by the Japanese domination of Manchuria and to state that the situation described therein has developed along the lines indicated. As is well known, the Japanese position in Manchuria since the writing of that report has been consolidated and Japan's control now extends throughout the economic structure of the new state as well as the political. Even Chambers of Commerce, it may be mentioned, have

¹⁵ Not printed.

their Japanese advisers. As Japanese industry has made great progress in recent years and has reached a point where it can supply many of the products required by the markets of Eastern Asia at prices considerably below those of producers in occidental countries, thanks to a low wage scale and a depreciated currency, it is not surprising that Japanese manufactures now dominate this market to an extent never before attained. That these conditions have greatly affected the trade of the United States and other foreign countries with Manchuria is not to be wondered at. In view of these realities, a pre-"Incident" (1931) conception of the "Open Door" is misleading and to no purpose. It is the purpose, therefore, of this despatch briefly to point out some of the changes which have taken place more particularly in their relation to the "Open Door" and to show the trend toward Japanese monopolization of the trade of Manchuria. As having a direct bearing on this subject, reference is made to Japan's essentially colonial policy for economic construction in Manchuria consisting of,^a as unofficially defined by the military, (1) "the unification and rationalization of the economic systems" of the two countries, (2) the consolidation of their positions and (3) the "utilization of the economic resources of the two countries for improving their economic positions in the world" (my despatch No. 661, of March 27, 1934,¹⁶ entitled "Economic Construction in Manchuria").

Foreign Firms

As foreign trade activities in South Manchuria have been centered at Mukden, brief reference to the change in the number and condition of foreign firms may be of interest. The following table gives part of the picture:

	1931	1934
American	16	11
British	12	9
French	11	2
German	19*	9†
	<hr/>	<hr/>
Total	58	31—Decrease 46.55%

It may be explained that a number of German firms including contractors were engaged chiefly in supplying equipment to the Arsenal or doing contracting work for it. Several other firms which were in this category, notably Böhler & Company Steel Works (Austrian), and Gran & Company (Norwegian), have also been closed as has been Skoda Works (Czechoslovakian), a large supplier of railway equipment in recent years. In line with the general trend, it may be men-

^a Not printed.

* Includes 2 at Newchwang. [Footnote in the original.]

† Includes 1 at Newchwang. [Footnote in the original.]

tioned that the local business of a large German firm, Siemens China Company, has been taken over by its affiliated company in Japan, the Fusi Denki. It was felt, it is understood, that this market may now be more advantageously reached in cooperation with Japanese interests as is the market in Japan.

The business of the majority of the remaining firms is poor and it is only a matter of time until a number of others will close their branches. At least two American firms—probably a third one—will be closed this year. With a few notable exceptions it may be safely said that except for distributors of highly specialized products, such as petroleum, motor cars, dyes, sewing machines, et cetera, the business of foreign importers is no longer profitable.

Favorable Position of Japanese Firms

From the above it will be seen that Japanese firms are in an extremely favorable position in regard to the trade of Manchuria. Not only are economic factors generally in their favor but Japanese direction of the general economic policy of the state as well as Japanese control of all public utilities including transportation and other means of communication and of the major industries assures the routing of trade in the desired channels. It is stated on good authority that orders have been given, presumably by the military, to at least some controlled enterprises which formerly were purchasers of foreign equipment to buy only Japanese products unless not procurable. As far as is known, no major railway or electrical equipment has been sold by local foreign firms in Manchuria since the "Incident", lines in which they were formerly very active. According to available information, the only contracts of any importance awarded local firms have been the following: (1) a contract in 1933 for the construction of a concrete railway bridge on the Taonan-Tsitsihar Railway to Lothar Mareks, a German contracting firm, which amounted to about Yuan 130,000; (2) a recent contract to a German firm for supplying twenty "Büssing" Diesel motor driven railway trucks for the State Railways for short run passenger traffic—six were sold in 1933.

As showing the marked difference between Japanese and foreign prices of some products, a few competitive prices quoted last year may be of interest. The Swedish Government, presumably through a German firm, offered reconditioned 75 ton locomotives, built in 1910, for Yen 75,000 each to the State Railways. The South Manchuria Railway Company's price for 100 ton second-hand locomotives, built in 1920, was about half that amount. It was learned that new Japanese locomotives, both Mikado and Pacific types, were supplied at Yen 78,000 each. According to reliable information a British firm quoted a price of Yen 0.57 per kilogram for stay bolt iron while the Japanese quotation was Yen 0.15 per kilogram. The Japanese product stood the better test. Present prices of ordinary Japanese roofing paper, it

may be added, are only about half of those of corresponding American brands.

It is alleged that Japanese firms generally operate on a much smaller margin of profit than do foreign firms. As an instance, one firm reported having quoted prices for certain material, for which it holds the agency, to a Japanese firm which in turn submitted quotations based on a gross profit of one and a half per cent. It has also been learned that Japanese firms last autumn were importing loose skinned Japanese oranges on a net profit basis of approximately two sen per box of about 40 oranges.

Some Cases of Discrimination

The principal cases of discrimination affecting American interests, which relate to the preferential duty treatment given Japanese light oil and to the distribution of fire insurance on Government property, have been treated in detail in various despatches from this office, notably my despatch No. 881, of January 12, 1934 to the Legation entitled "Complaints against 'Manchukuo' Customs Policy" and my confidential despatches numbered 841 and 891 of October 6, 1933 and January 31, 1934, to the Legation¹⁷ concerning fire insurance business. These cases are fair examples of the obvious purpose of the authorities to further Japanese interests whenever it is deemed expedient to do so.

It will be realized that under existing conditions in Manchuria discrimination in favor of Japanese trade may be accomplished in many ways which are impossible to detect. When cases of discrimination are discovered, it is frequently impossible to secure proof of them. A few cases in point may be mentioned. Chinese living in the interior have on several occasions made the statement to an American firm that they are unable to buy American motors as the light and power company, Japanese controlled, would refuse to connect them. This, it may be added, has not occurred at Mukden. One merchant made the statement that he imported goods from Japan, valued at over Yen 100 with invoice attached, through a prominent Japanese forwarding agent and that the duty assessed was only Yen 1.50 instead of over Yen 10.00 as provided for in the tariff. The merchant in question made the observation that the Customs staff (at Antung) seems to be more preoccupied with advancing Japanese trade than collecting duty. It is asserted that many Japanese shippers grossly undervalue their imports and that their valuations are accepted by the Customs for duty assessment purposes while valuations of foreign shippers are much more closely scrutinized (my despatch No. 652, of February 21, 1934,¹⁸ regarding alleged duty-free

¹⁷ Despatches not printed.

¹⁸ Not printed.

entry accorded Japanese playing cards by "Manchukuo" Customs).

The opinion prevails that cases of discrimination in respect to the purchase of goods are rare; the ability of the Japanese to underquote all competitors would seem to render discrimination unnecessary. My inquiries have uncovered only one case falling within this category and this occurred in April 1932. It related to the purchase of a circuit breaker for a boring mill by the Huangkutun Workshops. The order was given to a Japanese firm for a Japanese manufactured product although British goods were quoted at a lower figure. In this regard the British firm commented that Japanese merchants can almost always offer quicker delivery than foreign firms and further that as has been a common practice such a short time may be allowed for submitting prices that Japanese firms are almost certain to secure the order.

Trend Toward Japanese Engrossment of Market

As illustrating the marked tendency of the Japanese to give their business to Japanese firms, a foreign firm reported that it went to considerable expense to submit to the Showa Steel Works one bid each for American, British and German ball mill equipment because it had learned on good authority that such equipment was not made in Japan and that although American equipment was admittedly preferred American prices were too high. The tender for British equipment was the lowest of the three but later information was obtained that the order had been given to a Japanese manufacturer at a ridiculously low price, so low, in fact, that it was thought the figure was incorrectly given. At any rate the business went to a Japanese firm. This engineering firm stated that it is not selling any products of the types that are produced in Japan. Last year a Czechoslovakian firm had a similar experience in regard to supplying equipment for the new sulphate of ammonia plant.

Another firm engaged in marketing railway specialties which formerly did considerable business in Manchuria recently made the statement to me that it was given no opportunity of putting in bids for the requirements of the State Railways and that small Japanese firms are treated in a similar manner—as far as is known, no foreign firms are notified of their requirements. It is understood that the Direction General keeps a list of firms which have formally applied for the listing of their names and that when supplies or equipment are to be ordered only the firms that it considers qualified are notified. The manager of this firm expressed the opinion that local foreign companies have no opportunity of selling merchandise which is competitive with Japanese and that goods not procurable in Japan will usually be ordered through Japanese firms. Except railway ties sold through

a large Japanese firm, I know of no American materials supplied in the past two years for the use of the State Railways.

The manager of another foreign firm handling lines of American and British merchandise, chiefly hardware and office supplies and equipment, recently stated that although the firm is doing a good business now, he is convinced that within a few years all their lines will be marketed through agents in Japan, some of whom have already extended their sales operations in this territory. It is only natural that the manufacturer is not particularly interested in this development so long as he receives orders.

In order to obtain a more realistic picture of market conditions, brief reference is made to several other factors. A practice that is not infrequent is to allow only a short period for the filing of tenders, the notice given foreign firms in regard to a recent tender for transformers, for instance, being two weeks. This period is adequate for Japanese merchants as mail matter may be delivered in the principal centers of Japan within four or five days. For the agents of occidental manufacturers it is extremely short as telegraphing is scarcely ever warranted especially under existing conditions. Another factor favoring the purchase of Japanese railway equipment, for instance, is the fact that the personnel of the State Railways, executives, superintendents, foremen, in fact every one in authority, are Japanese, very few of whom have knowledge of any equipment other than Japanese.

It will be recalled that the British-American Tobacco Company on January 30, 1934, opened a small factory—the Keystone Tobacco Company—at Liaoyang, 40 miles south of Mukden, for the purpose of manufacturing cigarettes for sale in the railway zone. This step was found necessary because the output of Japanese factories which are located in the railway zone are assessed the consolidated tobacco tax only on goods shipped out of the zone while the British Cigarette Company, in the Commercial Settlement at Mukden, is obliged to pay this tax on its whole output wherever marketed. Permission to erect the new factory was secured with great difficulty and only after a considerable lapse of time. Subsequently the negotiations for a suitable site were protracted for over six months. In this connection it may be mentioned that the company obtained assurances that although the eventual establishment of a tobacco monopoly is planned its realization in the near future is not contemplated.

Concerning the company's tax arrangements with the "Manchukuo" Government it has been learned that they are being carried out with less friction than under the previous regime.

Conclusions

It will be seen from the above that the business of foreign firms in Manchuria is disappearing in the same way it did in Japan and Korea. Undoubtedly in marketing highly specialized products

foreign firms may profitably continue their Manchurian business but according to all indications those engaged in general business will be obliged to close down in the face of Japanese competition. Japanese goods in so far as they are procurable will supply the market; for the marketing of foreign goods Japanese importers will, in most cases at least, occupy a more favorable position than foreign firms. Furthermore, wherever possible, indications are that large enterprises will endeavor to purchase foreign goods direct from the manufacturer rather than through foreign middlemen. The few foreign interests which may continue to operate successfully in Manchuria will find it profitable either to associate themselves with Japanese as copartners or to secure the services of high-class Japanese employees. This development is already noticeable. Parenthetically, the Manchurian adventure has been expensive for Japan and strenuous efforts will be made to seek compensation in one way or another.

It is probably true, as some business men observe, that many Chinese prefer to do business with foreign firms rather than Japanese and that lines which are marketed mainly among the Chinese will still be advantageously handled by foreign firms but that where the demand emanates from the Government or Government controlled enterprises Japanese firms afford the better representation. However, indications are that the Chinese market is susceptible to influence in so many ways that Chinese merchants will only rarely have an opportunity safely of giving expression to their preferences.

A re-orientation of foreign business in Manchuria is now taking place. Not only have some American products, such as for instance railway and electrical equipment, telephone installation equipment, et cetera, been supplanted by Japanese manufactures but others are being distributed in a gradually increasing degree by Japanese agents. Even such strongholds of American trade as petroleum products and motor vehicles are to be invaded by Japanese concerns now in course of organization under "Manchukuo" charter, e. g., The Manchuria Petroleum Company and the Tungho Motor Company (an assembly plant for heavy duty trucks in which Japanese motor car manufacturers are interested;—it will be reported upon in the near future). It is clear that the Japanese are not only aiming at the engrossment of this market but in so far as possible at the attainment of self-sufficiency, particularly in industries connected with national defence. A trade weapon that seems likely to be used in furthering Japanese—"Manchukuo" economic unity to the detriment of foreign trade is the import tariff, comprehensive studies of which are now being made. Economic progress in Manchuria, however, is bound to occur and it is reasonable to expect that it will bring about increased world trade in which American interests, directly or indirectly, should benefit.

Respectfully yours,

M. S. MYERS

893.811/919 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 4, 1934—5 p. m.

[Received April 4—7 a. m.]

151. Reference the Department's telegram No. 87 of March 31, 4 p. m. Paragraph 1 [2] expresses agreement with French view that objection should be made by consulates concerned. Such protests, however, under French proposal are to be addressed to *de facto* authorities of "Manchukuo". In paragraph 3 Department holds that protest should be made to the Japanese Government. To whom does the Department wish consular protests to be addressed? Legation is refraining from conferring with other legations pending clarification of this matter.

JOHNSON

893.811/919 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, April 4, 1934—5 p. m.

94. Your 151, April 4, 5 p. m. Please disregard in paragraph 2 of the Department's 87, March 31, 4 p. m., the words "by consulates concerned" which Department regards as a minor detail in the French proposal as reported by you, and be guided by the Department's expression of the view that objection should be made, that it should not be made to the Manchukuo authorities, and that it should be made to the Japanese Government. Department is not prescribing either course of action or method, both of which subjects may, in Department's opinion, appropriately be given consideration by you and your colleagues.

HULL

790.94/64

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] April 7, 1934.

During his call this morning I asked the Soviet Ambassador whether he had any further information regarding Far Eastern affairs. I said that I would like to keep in touch with him on all developments in that part of the world and that I welcomed his views.

The Ambassador referred to a recent conference of Japanese and Manchukuo officials at Dairen during which, according to the press, a pan-Asiatic movement with Japan had been very much to the fore.

The Ambassador said that he knew personally most of the Japanese conferees and that in his opinion they were all friendly to the Soviet Union. He felt more than ever that the prospective movement of the Japanese would be towards the west and the south rather than towards Siberia. Indications were that Japan desired to be friendly to the United States and to the Soviet Union, possibly in order to make their progress in China easier.

The Ambassador spoke at some length about conditions in Manchukuo. He admitted that Japan had been pressing his Government for recognition of Manchukuo. The Soviet attitude in this respect was being guided solely by the conditions within Manchukuo itself. While Japanese dominated the country, while large Japanese armies were in occupation, while Chinese residents were unable to speak to foreigners without being imprisoned, the Soviet Government could not accept Manchukuo as an independent state. Although the Ambassador did not say so, it was apparent that the failure of the Soviet to recognize Manchukuo had nothing to do with the infringement by Japan of treaties with other nations.

The Ambassador mentioned that Japanese agents had penetrated far into Mongolia and were in close touch with the Mongolian princes, —in fact, he said, Japanese agents were “everywhere”.

WILLIAM PHILLIPS

793.94/6580 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 11, 1934—6 p. m.
[Received April 12—8:30 a. m.¹⁹]

164. My despatch number 2557, February 22, and 2611, March 21 [27].²⁰ It becomes increasingly evident that the Japanese have conveyed to the Nanking Government the threat that unless the latter reaches a “compromise” with Japan in regard to demand of the North China “Manchukuo” police authorities the Japanese military will in some manner effect the separation of North China from the nominal control of Nanking and obtain its desires with respect to this area without Nanking’s concurrence.

Administrative Vice Minister for Foreign Affairs Tang Yu-*jen* told me on March 19th that the Government could not keep Huang Fu in Peiping indefinitely procrastinating with the Japanese over the question of certain demands concerned with relations between North China and “Manchukuo.”

¹⁹ Telegram in two sections.

²⁰ Latter not printed; for its enclosure, see memorandum by the Minister in China dated March 19, p. 79.

General Huang Fu left Peiping for Central China April 3 having delayed his departure for a number of weeks and is now reported to be conferring with General Chiang Kai-shek presumably urging the wisdom of a policy of "compromise" or "friendship" with Japan. Huang Fu's delay in going south seems to have been due to the fact that he did not wish to make the visit until the differences of opinion existing among officials at Nanking about Sino-Japanese policy had been more or less resolved eventually [*through?*] Tang Yu-jen, visiting Peiping, probably at the instance of Huang Fu and it is presumed that upon his return to the south he reported on the serious situation existing in North China and the dangers involved in continuing to ignore the wishes of the Japanese military. It is supposed that when Huang Fu finally left for the south he had received some assurance that a settlement of China's policy with respect to Japan was nearing accomplishment.

It is not known whether Nanking officials will be able to reach an agreement on policy. If they do not decide upon a policy of "compromise", which means a solution satisfactory to Japan of the question of through traffic on the Peiping-Mukden Railway Line and resumption of postal facilities (and in fact substantial Japanese influence in North China which will be only nominally under Nanking's jurisdiction), it is anticipated that Huang Fu will not return to North China and that the Japanese military will take measures to effect the separation of North China from Nanking's normal control and to obtain from local Chinese militarists those advantages in North China which the Japanese military are determined to have.

It is not believed that the Japanese military will employ Japanese troops in North China to gain their ends; rather it will use persuasion reinforced by money on the local dissatisfied or ambitious militarists. It may be that the Japanese military will attempt to put North China under the control of one complacent Chinese militarist although recent information reaching the Legation indicates that the Japanese may be content to have dealings with the leaders of the various provinces, the provinces no longer having connection with Nanking and no longer having nominal union through the existence of the Peiping Political Affairs Readjustment Committee. If fighting occurs during this readjustment it will be by Chinese troops, not by Japanese troops, if the latter can avoid being driven in as the Japanese military obviously wish to obtain their ends in a manner which they believe [*will?*] appear to foreign government[s] as coming spontaneously from the Chinese themselves and as not being the result of Japanese use of military force.

Considerable speculation is now current with regard to the visit which Colonel Shibayama, Japanese Assistant Military Attaché, is

making General Yen Hsi-shan at Taiyuan. It is believed that Shibayama assured Huang Fu that he would not visit Yen Hsi-shan (to further Japanese policy among local militarists) until it was definitely known that Nanking refused to agree to a policy of "compromise" with Japan. As Shibayama is admitted even by the civilian officials of his Legation who are out of sympathy with the Japanese military to be a man of high character, of comparatively liberal views and opposed in some degree to the headstrong Japanese officers in Tientsin and in the Kwantung army, it seems reasonable to suppose that his visit to Yen is not for the purpose of creating discord in North China at present but is for the purpose of reminding the officials now conferring in the South of what the Japanese military will attempt to do vis-à-vis dissatisfied Chinese military leaders in North China in case Nanking officials fail to agree to a policy of "compromise" or "friendship" with Japan.

It is impossible to forecast what Nanking's decision will be. It is evident that if Nanking agrees it will retain nominal control over a North China where Japanese will obtain all that they desire and that if it does not agree it will lose even nominal control while Japan will obtain all its objectives in North China who will act as the Japanese wish them to act.

Copy to Tokyo by mail.

JOHNSON

793.94/6649

The Minister in China (Johnson) to the Secretary of State

No. 2657

PEIPING, April 11, 1934.

[Received May 5.]

SIR: I have the honor to enclose a copy of a memorandum²¹ of a conversation which I had on April 3 with Sir Alexander Cadogan, British Minister to China, in which, after I had given him certain information already reported to the Department (despatch No. 2611 of March 27, 1934²² with regard to the difficult position of General Huang Fu in North China, Sir Alexander made some comment with regard to the attitude of Great Britain in case a war between Japan and Soviet Russia should break out.

Sir Alexander, while recently in Nanking, was asked by Dr. Wang Ching-wei, President of the Executive Yuan and Acting Minister for Foreign Affairs, what Great Britain would do in case of such a war and Sir Alexander replied that China could not count upon Great

²¹ Not printed.

²² See footnote 95, p. 79.

Britain's becoming involved in any such war. Dr. Wang informed him that in case of a Russo-Japanese war China would remain neutral. Sir Alexander gained the impression that the Chinese were all very desirous of such a war.

Respectfully yours,

NELSON TRUSLER JOHNSON

893.811/924 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, April 16, 1934—4 p. m.

111. Your 168, April 14, noon.²³ Please keep carefully in mind and make it clear to your interested colleagues that in our opinion the initiative in this matter was and is with the French.

HULL

761.94/734

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

No. 24

Moscow, April 16, 1934.

[Received May 2.]

SIR: I have the honor to thank you most gratefully for sending me a copy of Mr. Grew's despatch on Soviet-Japanese relations, No. 670, dated Tokyo, February 8, 1934. This admirable despatch has been of great value to me, and I trust that the Department will continue to forward to me similar documents.

To Mr. Grew's clear estimate of the situation I can add little. The decision as to war or peace in the Far East will be made in Tokyo, not Moscow. It is my belief that only a violation of Soviet territory will drive the Soviet Union to war. I must confine myself, therefore, to reporting the apprehensions of Moscow.

(1) The leaders of the Soviet Government, without exception, believe that Japan eventually will attack the Soviet Union. They believe, moreover, that Japan's objective will be permanent occupation not only of the Maritime Provinces but also of all Soviet territory east of Lake Baikal and the Lena River.

Certain publicists, including Radek and Bukharin, and some minor officials in close touch with the Comintern, are less pessimistic than the Soviet officers and diplomatists. They cling to a tenuous faith in the growth of the communist movement in Japan. Both Radek

²³ The Counselor of the German Legation was reported in this telegram as having stated that his Government "will join but not interested in taking initiative" in objecting to the dissolution of the Liao River Conservancy Board.

and Bukharin have told me that, in addition to communist workers, at least one-half the professors in the Japanese universities and schools are now secret members of the communist party. I cannot, of course, estimate the value of these statements. They were, however, made to me in the course of intimate conversations with every appearance of frankness. Radek and Bukharin believe that if war can be delayed for a few years a social upheaval in Japan may not be out of the question. They pretend to believe that the ultimate solution of the Soviet-Japanese conflict will be a communist Japan and a communist Russia marching hand to hand to communize China.

(2) Although there is little or no divergence of opinion as to the eventual certainty of war, there is considerable divergence of opinion as to the date of Japan's attack. Voroshilov and the Army consider the menace imminent and regard the double-tracking of the Trans-Siberian Railroad as the most urgent task of the Soviet Union.

Litvinov, with whom I have discussed the question many times, believes that Japan will not attack this spring or summer. He hopes to negotiate a peaceful settlement of the Chinese Eastern Railway question. Since he has said to me that the sale of the railroad to Manchukuo would constitute *de facto* recognition of the government of that territory, I should not be surprised if, in order to keep Japan quiet, he should accord full recognition to Manchukuo.

Sokolnikov, who is now in charge of Far Eastern affairs in the Soviet Foreign Office, and Karakhan, the leading Soviet expert on that area, agree that Japan will not attack this spring or summer. They believe that Japan will employ the next six months to extend her influence in North China and Mongolia and to consolidate her position in Manchuria.

(3) Preparations for war in the Far East are being pushed with all possible speed. Work on the double-tracking of the Trans-Siberian Railroad has progressed all winter in spite of physical difficulties. Submarines are now being produced in the Soviet Union in such quantities that Voroshilov has assured me that he is now completely satisfied with his Far Eastern flotilla. The statement has been made to me by two Soviet officials that these submarines are shipped in completed form to the Far East, stretched over three large flat cars. I have been unable to check the truth of this statement.

(4) Everyone in Moscow believes that time is running in favor of the Soviet Union and that within a year and a half the Soviet Union will be impregnable. The Soviet Foreign Office is, therefore, making every effort to postpone the conflict with Japan and to make certain that the Soviet Union will not be attacked by other nations if engaged in war with Japan.

The signing of the non-aggression pacts with the Baltic States was designed not only to reinsure those frontiers but also to compel Poland to enter into a similar extension of her pact with the Soviet Union. Litvinov was triumphant when he told me that Poland would sign the next day and furious when Poland did not sign.

The Polish Ambassador, who conducted the negotiations with Litvinov, told me that Poland's last minute refusal to sign was due to the Soviet Union's unexpected reaffirmation of its position with regard to Vilna. He added that Poland would sign as soon as the Soviet Union would declare an absolute disinterestedness in the frontiers of Poland.

I have investigated with the utmost care the story that Poland and Germany, planning to divide White Russia and the Ukraine between them, had agreed to a joint attack on the Soviet Union in case the Soviet Union should become engaged in a war with Japan. I am convinced that there is no truth in this rumor. Litvinov himself has admitted to me that he no longer believes it.

(5) Litvinov, Voroshilov, and many other Soviet leaders have expressed the opinion to me that the largest single deterrent to an attack by Japan this spring was recognition of the Soviet Government by the United States. They believe that the Japanese Government was uncertain as to the extent to which our relations had become intimate and feared an eventual attack by the United States in case of war. They are aware that if the honeymoon of December and January between the United States and the Soviet Union should now culminate in a rapid divorce an attack by Japan would become more likely. For this reason, but for no other, I am inclined to believe that they will not allow their relations with the United States to become so unpleasant as their relations with Great Britain. But it is not to be forgotten that the leaders of the Soviet Government place all capitalist states in the same unpleasant category and that they feel "it is poor picking between rotten apples".

(6) From Japanese sources I have little to report. The Japanese Ambassador here has gone out of his way to be most polite to me and I have the impression that he has received orders to cultivate the closest possible relations with the American Embassy in Moscow. He startled me, however, a few evenings ago at a party at his Embassy in my honor by saying suddenly, "Well, which war will begin first, Japan and the Soviet Union or Japan and the United States?" Taketomi, Japanese Minister to the Netherlands, when I was on my way to my post, exploded one evening with the following: "The whole trouble is our militarists. Some colonel at any minute may march his men across the Amur River. So long as Hirota remains in office

the Japanese Government will not decide to go to war. But how long will he remain in office? And who can tell what our young officers will do?"

That question cannot be answered in Moscow.

Respectfully yours,

WILLIAM C. BULLITT

CHAPTER II: APRIL 17-JUNE 30, 1934

Eiji Amau's statement of Japan's objection to foreign assistance for China; Hirota's explanation of Japanese policy toward China, April 26; the role of the League of Nations in the Far East, April 28; Foreign Commissar Litvinov's views on the Far East, May 14; the British Foreign Secretary on economic sanctions in the Far East, May 18; El Salvador's recognition of "Manchoukuo;" resumption of railway service between Peiping and Mukden, as of July 1

793.94/6586 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Тоkyo, April 18, 1934—5 p. m.

[Received April 18—9 a. m.]

71. 1. Fleisher²⁴ informs me that he has telegraphed to the *New York Herald Tribune* the full text of his translation of the "unofficial" statement released last night by the spokesman of the Foreign Office²⁵ regarding the Japanese attitude toward the rendering of assistance to China by other countries. This translation has been checked with the Japanese text by the Embassy and found to be substantially correct. An official translation into English is to be issued by the Foreign Office tonight or tomorrow. If the official translation differs in any important particulars from the translation telegraphed to the *Herald Tribune*, I shall inform the Department by telegraph.

2. Although the Foreign Office spokesman at first labelled the statement as "unofficial", he told the correspondent of the Associated Press that it had received the approval of the Minister of Foreign Affairs. This morning he told the newspaper correspondents that the statement "could be considered as official" and that it would be sent to the Japanese diplomatic missions abroad for transmission to the various governments.

3. This morning the Foreign Office spokesman further stated that if the League of Nations should take any concerted action of political significance in China, such action would be regarded as objectionable by Japan. He also stated that Japan would use force if necessary to

²⁴ Wilfrid Fleisher, managing editor of the *Japan Advertiser*, and correspondent in Japan of the *New York Herald Tribune*.

²⁵ For text of the English translation unofficially issued by the Foreign Office, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 224.

uphold its policy. In reply to a question he stated that the policy was not intended to conflict with any existing treaties including the Nine-Power Treaty.²⁶

4. While local opinion on the subject has not yet crystallized, some observers believe that this constitutes the most important pronouncement of Japanese policy toward China since the presentation of the 21 demands.²⁷

Repeated to Peiping.

GREW

893.01 Manchuria/1076 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 18, 1934—7 p. m.
[Received April 18—10:30 a. m.]

180. Following telegram has been received from Peck at Nanking:

"April 18, 9 a. m. Wang Ching-wei arranged confidential interview last night with four intimate friends and me to inform me that the Japanese are forcing the Chinese Government to a decision in regard to reopening through railway traffic with 'Manchukuo'. The Japanese are not demanding formal recognition of 'Manchukuo' but on the contrary they consent to any device suggested by China to divest through traffic of significance in that connection such as by separate railway managements, operation of through traffic by a third party, et cetera. Wang asked whether I would personally advise the Chinese Government to yield or to give point-blank refusal thereby incurring risk of reopening hostilities with Japan since Japan would probably run through trains under military guards. I replied that I had not the slightest idea what course would appeal to the Department as being the more advisable but that from conversations with various persons I thought there would be few foreign critics if China compromised with Japan since apparently China was faced with *force majeure* and no third party showed disposition to intervene forcibly on behalf China. Wang said obviously Japan was insisting on through traffic as first step leading to *de facto* recognition of Manchukuo and surrender by China would appear to be betrayal of the moral support given by the League and various nations. One person present observed that surrender to Japan would imperil the Government's position internally but Wang replied ostentatiously that this could be disregarded and the international aspect was the only one to be considered. There followed discussion whether through traffic would constitute *de facto* recognition but no conclusion was reached except that difference between *de facto* and *de jure* recognition was slight. There was evident apprehension that some powers are awaiting any excuse afforded by China to extend *de facto* recognition to 'Manchukuo'. Ap-

²⁶ Signed at Washington February 6, 1922, *Foreign Relations*, 1922, vol. I, p. 276.

²⁷ See *ibid.*, 1915, pp. 79 ff.

parent motive behind the interview was the hope that I would inform Department by telegraph of the difficult decision which is being forced by Japan on China and of the extreme unwillingness of the Chinese Government to take any step savoring of recognition of 'Manchukuo.'

Above telegram appears to indicate that Wang Ching-wei is anxious to have our support in making his decision in this difficult matter. Legation is of the opinion that Peck should be instructed to say that the American Government is not prepared to advise as to what decision China should make in the matter.

Following additional telegram has been received from Peck.

"April 18, 2 p. m. Unofficial report is current that the Government has decided to leave question of through traffic with Manchuria for local settlement, probably on the basis of the operation of the traffic by some foreign firm having financial investments in the Peiping-Mukden Railway thus disassociating the Chinese Government from the project."

JOHNSON

793.94/6597

*The Chinese Foreign Office to the Chinese Legation in Washington*²⁸

Issued today following informal statement in reply to Japanese statement of April 17th:

"China is always of the opinion that international peace can be maintained only by the joint efforts of all the members of the family of nations. Especially is it necessary for nations to cultivate the genuine spirit of mutual understanding and remove the fundamental causes of friction in order to establish durable peace among them. No state has the right to claim the exclusive responsibility for maintaining international peace in any designated part of the world.

"Being a member of the League of Nations China feels it her duty to promote international cooperation and achieve international peace and security. In her endeavor to attain these ends she has never harbored any intention of injuring the interests of any particular country far less causing a disturbance of peace in the Far East. China's relations with other nations in this regard have always been of such a nature as would characterize the relations between independent and sovereign states.

"In particular China desires to point out that the collaboration between herself and other countries whether in the form of loans or in the form of technical assistance has been strictly limited to matters of a non-political character and that the purchase of such military equipment as military aeroplanes and the employment of military instructors and experts have been for no other purposes than national defence which chiefly consists in the maintenance of peace and order in the country. No nation which does not harbor

²⁸ Copy transmitted to the Department by the Chinese Minister on April 19.

any ulterior motives against China need to entertain any fears concerning her policy of national reconstruction and security.

"In regard to the situation now existing between China and Japan it should be emphasized that genuine and lasting peace between the two countries as between any other countries should be built upon foundations of good-will and mutual understanding and that it would go a long way towards the laying of such foundations when the existing unfortunate state of affairs could be rectified and when the relations between China and Japan could be made to rest on a new basis more in consonance with the mutual aspirations of the two countries."

[NANKING,] April 19, 1934.

893.811/925 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 20, 1934—noon.
[Received April 20—7:28 a. m.]

184. Department's 87, March 1 [31], 4 p. m. and my 168, April 14, noon.²⁹ French Chargé d'Affaires informs me that French Government feels that a protest addressed to the Japanese authorities would seem to imply the recognition of a privileged situation for Japan in Manchuria and suggests that oral protest should be made by the foreign consular authorities concerned to the local "Manchukuo" authorities concerned.

I have not yet learned British Government's reaction.

JOHNSON

793.94/6588 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, April 20, 1934—8 p. m.
[Received April 20—11:50 a. m.]

72. My 71, April 18, 5 p. m.

1. I have today received so many conflicting interpretations of the reasons for Amau's enunciation of Japan's policy concerning foreign "interference" in China that I do not yet feel in a position to clarify the matter to the Department. There are those who report "on reliable authority" that the announcement was made without the authorization or knowledge of Hirota who is reported to be angry and distressed at Amau's action, said to have been taken to please the military with whom Amau is now working in an endeavor to emulate Shiratori.³⁰ I know

²⁹ Telegram No. 168 not printed; it reported communication of Department's views expressed in No. 87 to representatives of Great Britain, France, and Germany. See also footnote 23, p. 109.

³⁰ Toshio Shiratori, former spokesman at the Japanese Foreign Office.

definitely that Shidehara and other liberals have called on Hirota and have registered their strong disapproval of the statement, which appears to run counter to the latter's conciliatory policy of cultivating better relations with China and other nations. On the other hand, the Vice Minister for Foreign Affairs told Fleisher today that the announcement accurately represented the policy of the Government.

2. The enunciated policy is of course open to broad interpretation and in view of all present circumstances it is my opinion and that of most of my colleagues that it will not, at least for the present, be enforced in a way liable to create friction with other countries. It seems to me to be highly probable that the statement has been made with a view to building up Japan's position in the eventual conversations preliminary to the coming Naval Conference.

3. The only certain method of obtaining a correct interpretation of the announcement is to seek an explanation from Hirota himself. If I should seek an interview at the Foreign Office it would be attended by wide publicity. Hirota has, however, offered to receive me at his residence without publicity if I should at any time so desire. I shall take no action unless instructed by the Department.

Repeated to Peiping by mail.

GREW

893.01 Manchuria/1076: Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, April 20, 1934—noon.

120. Your 180, April 18, 7 p. m.

1. The Department feels that it would be neither appropriate nor expedient for the American Government to undertake to give the Chinese Government advice with regard to this matter.

Without implying any disapproval by Department of the expression made by Peck, as reported, of his personal opinion, Department desires that Peck at an early moment say to Wang Ching-wei, orally and informally, as from you, that it is your understanding that the Department's view is as stated above; also, that, in so doing, Peck reiterate to Wang that the view which he expressed with regard to compromise was strictly an expression of personal opinion. Further, Peck may point out, as for information, that, while it is true that in the press there have appeared reports suggesting that various powers may be contemplating modifying their position with regard to Manchukuo, these reports appear to have little if any basis in fact; that, whether they are or are not deliberately inspired for obvious purposes, it might be queried: should China or any other power adopt as a basis for action

by it a hypothesis based on rumor that some other powers are preparing to make such modification. The American Government and the governments members of the League have on various occasions made known their position, in declarations of attitude which still stand.³¹

Department requests that both Legation and Peck reread in this connection for background and guidance purposes Department's telegram to Legation No. 215, July 17, 1932, 11 p. m.³²

HULL

793.94/6588 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, April 20, 1934—6 p. m.

54. Your 72, April 20, 8 p. m. and 71 previous. Department has read text as printed in *New York Herald Tribune* and is informed by a press correspondent that Japanese Ambassador states he has official text which differs from *Herald Tribune* text by only a few words and that he is making translation and will call at Department with regard to the matter in due course. Correspondents have pressed Department for comment, but Department has declined, Japanese Government having communicated nothing to it, to make any comment. Department feels that neither you nor it should initiate at this stage any action indicative of interest or concern and approves penultimate sentence of your telegram 72.³³

HULL

793.94/6648

The Ambassador in Japan (Grew) to the Secretary of State

No. 751

TOKYO, April 20, 1934.

[Received May 5.]

SIR: [For first two paragraphs of this despatch, see extract printed in *Foreign Relations, Japan, 1931-1941*, volume I, pages 223-224;

³¹ When this instruction was carried out on April 22, Dr. Wang Ching-wel "said that if the Chinese Government did consent to resume through traffic with Manchuria it would certainly be in a way which would not disturb in any way the principle of non-recognition of 'Manchukuo'; it would be done through the operation of a through service by the Wagons Lits Company, with due safeguards in relation to separate tickets and rolling equipment for the two sections of the line, or in some such way. The Chinese Government, he said, would never take any step which could be construed as implying recognition of 'Manchukuo'." (893.01 Manchuria/1094)

³² *Foreign Relations, 1932*, vol. iv, p. 165.

³³ In informing the Embassy in the Soviet Union (as Department's No. 47) and the Legation in China (as Department's No. 123), the Department requested reports on reaction, official and unofficial, in those countries (793.94/6589).

for the enclosed "Unofficial statement" by the Japanese Foreign Office on April 17, 1934, see *ibid.*, page 224.]

The Embassy's impression is that the statement as issued conveys the true policy of the Japanese Government toward activities by other countries in China, but that the Foreign Office is somewhat fearful of the effect of the statement abroad and therefore is carefully maintaining a position where it can deny that such a statement was ever officially issued. This view is borne out by a conversation which a member of the staff of the Embassy had with an under official of the Bureau of Asiatic Affairs of the Foreign Office on the 19th. According to this official, the essential basis of the announcement, namely, that the Japanese Government feels that it should be consulted by other governments before they take any action in China, is the actual opinion of those in charge of Japan's relations with China. The official stated that the statement of policy should be interpreted in a negative rather than a positive way; that Japan did not contemplate any single-handed action in China but only wanted the other powers to recognize Japan's right to be consulted when they contemplated any activity in China. The official did not state how this policy could be reconciled with Japan's recognition, in the Nine-Power Treaty, of the administrative integrity of China.

It has been apparent for some time that the Japanese Government has been developing such a policy as is outlined in the statement unofficially released by the Foreign Office on April 17th. There was considerable resentment, official and unofficial, of the American wheat and cotton loan to China, and for months past the Japanese have viewed with a suspicious and resentful eye the activities of American airplane companies in China. Even the activities of Dr. Rajchman, of the Health Bureau of the League Secretariat, in China have called forth considerable criticism in Japan. On April 9th, in commenting on rumored plans for international cooperation in giving economic assistance to China, the spokesman for the Foreign Office stated that such attempts have always ended in failure in the past; that the repercussion from failure in Japan was much greater than in other countries; and that for these reasons Japan would not only not join in such international cooperation but would definitely oppose any plans for international cooperation.³⁴ The statement issued on April 17th is undoubtedly an elaboration and elucidation of the policy mentioned on the 9th, but the question which has been agitating foreign circles in Tokyo is not why the Government issued such a statement, but why the Government issued the statement at the present time, when everything possible is being done to conciliate foreign countries.

³⁴ For additional correspondence on this subject, see pp. 371 ff.

The under-official of the Foreign Office with whom a member of my staff conversed stated that he knew of no reason for issuing the statement of policy at the present time, but seemed to be inclined to ascribe the move to a desire on the part of Mr. Amau to create a sensation, such as Mr. Shiratori, when in the same position in the Foreign Office, was inclined to create. This interpretation, however, seems somewhat strained. Baron Shidehara, when questioned by one of the newspaper correspondents, expressed surprise that the statement should be issued just at the moment when Japan's relations with other nations appeared to be improving. An explanation which most observers agree seems to be the most reasonable is that the Japanese suspect that Dr. Rajchman, of the League Secretariat, now on his way to Geneva from China, where he has been conducting investigations for some months past, is carrying with him some plan for international technical and economic assistance supervised by the League of Nations, to China, and that the Japanese Government wishes to forestall any such move by the League.

There are various reports, some of which seem to be reliable, regarding the impelling force behind the issuing of the statement. One is that the action was taken at the instigation of the military, who have always advocated a strong attitude toward China and who induced Amau to issue the statement without the authorization of Mr. Hirota, thereby placing him in a most difficult position, as the policy enunciated in the statement is not in accord with his conciliatory policy, and as he cannot withdraw the statement without incurring the enmity of the military. On the other hand, Mr. Shigemitsu, the Vice Minister for Foreign Affairs, according to most reliable information, thoroughly endorses the statement, asserting that it forms a part of Japan's fixed policies, and that it will be carried out regardless of the opposition of other nations of the world. Mr. Amau himself, in a private conversation, asserted that the statement was issued as a sort of preliminary to the forthcoming naval conference, which would be a success if Japan's thesis regarding assistance to China is accepted by the other powers and which would fail if the thesis is not accepted.

Amau, in the press conference of the morning of April 20, made an impromptu translation of a typewritten document. According to his translation of the document, Japan has no intention of interfering with the legitimate interests of other powers in China; Japan will object only when the action of a third power threatens Japan's position; Japan has no intention of interfering with the independence of China or of infringing on the interests of China; and Japan has no intention of deviating from the established policies of the Open Door and equal opportunity, or of infringing existing treaties. This state-

ment was apparently issued after it was seen that the original statement had excited much adverse comment abroad, and was intended to calm the fears of other nations. It will be observed, however, that while it modifies the tone of the original statement somewhat, it does not alter the basic policy.

According to the *Tokyo Nichi-Nichi* of April 19, 1934 (Japanese Edition), the Army authorities unqualifiedly support the stand envisaged in the statement issued by the Foreign Office in regard to international assistance to China. Since the outbreak of the Manchurian incident in 1931, the military authorities have viewed all attempts at or consideration of political and economic assistance to China as being injurious to the maintenance of peace and order in East Asia. This was demonstrated by Japan's refusal to accept the conclusions of the Lytton Report,³⁵ which contemplated assistance to China. The Japanese military authorities believe that European and American nations should not endeavor to interfere in Oriental affairs, because of their lack of adequate knowledge of conditions and factors making for the maintenance of peace in the Orient. The maintenance of peace devolves only upon Japan and China, and there can be no argument on this point. They hold that it is shown by actual developments that the Nine-Power Treaty aiming to bring about peace and order in China has no practical value in its application to actualities, and that it is reasonable to conclude that it has practically been invalidated. Under these circumstances, they say, Japan should refrain from participating in the next naval conference if it is proposed that the conference touch upon Oriental problems in addition to matters directly concerned with naval limitation, and if the conference should proceed to consider the political problems of the Orient, Japan should immediately withdraw from the conference, as Japan's policy in this regard is settled and unshakable and no discussion can be permitted. Therefore Japan should object to any agreement which will hamper cooperation between Japan and China, if any such agreement is proposed at the next naval conference, according to the military authorities.

In regard to the statement issued by the spokesman of the Foreign Office, the Embassy desires to invite the attention of the Department to the fact that the term "Toa" (Eastern Asia) is used in the statement. As a rule, the Japanese formerly used the term "Toyo" (Eastern Seas, or the Orient, as distinguished from "Seiyo", Western Seas or the Occident) or "Kyokuto" (Extreme or Far East) in designating the Far East generally. The term "Eastern Asia" has a somewhat

³⁵ League of Nations, *Appeal by the Chinese Government, Report of the Commission of Enquiry* (Geneva, October 1, 1932).

different and more precise connotation and is probably meant to include parts of China.

So far four vernacular newspapers, the *Tokyo Asahi*, the *Jiji*, the *Chugai Shogyo* and the *Hochi*, have published editorials on the subject of the statement issued by the Foreign Office. They all endorse the principles contained in the statement, although the *Asahi* doubts that cooperation between Japan and China will be possible for some time to come, because of opposition among some elements in China. The *Hochi*, while not disapproving of the statement, believes that the phraseology was too abstract, resulting in misunderstandings abroad, and was issued at the wrong time, before an understanding had been reached through diplomatic channels with other nations. The *Japan Advertiser* of April 19th published an editorial on the subject, expressing doubt that other nations will be prepared to subscribe to the Japanese thesis regarding assistance to China. Newspaper clippings containing these five editorials are enclosed herewith.³⁶

In my opinion, the implications contained in the Foreign Office statement are very serious. If the policy as therein outlined is adhered to and carried out strictly, it will constitute an element in international affairs as important as, if not more important than, the Monroe Doctrine of the United States. It goes much further than the Monroe Doctrine and places China in a state of tutelage under Japan. In view, however, of the declared policy of the present Minister for Foreign Affairs to use every means in his power to better Japan's relations with other nations, I do not believe that any attempt will be made at the present time to enforce the policy outlined in the Foreign Office statement in a provocative manner.

Respectfully yours,

JOSEPH C. GREW

793.94/6590 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, April 21, 1934—10 a. m.

[Received April 21—9: 35 a. m.]

187. Thursday's and Friday's press carries headlines regarding statement of Japanese Foreign Office spokesman on Chinese [situation], authentic version of which, however, has only been thoroughly digested today and all papers continue this as front page story, together with the attempted modification issued yesterday by Tokyo. In general press here interprets Japan's move as a "Monroe Doctrine for the East" proposed by Japan at a moment of general confusion in

³⁶ None reprinted.

the western world. The attempted explanations and disclaimers which have followed the first statement have, in the view of the press, merely underlined and clarified the essentials.

In the Houses of Parliament on the 19th Simon stated that he must await further information before any official statement could be made and official spokesmen are maintaining this attitude, although Foreign Office Press Section pointed out to correspondents British treaties, particularly the Nine-Power Agreement and the earlier Four-Power Consortium Agreement of 1920.³⁷ It is expected an official statement will be made in the House of Commons early next week in reply to questions.

The press and public opinion obviously infer this Japanese statement will, apart from China itself, be regarded very seriously by the British and Soviet Governments but more especially by the United States Government since it threatens the traditional American policy of the "open door". Press assumes United States will take the initiative in consulting with other powers. There is a general sentiment expressed both in the press and in conversation for close Anglo-American cooperation. Lord Cecil³⁸ states in a press interview he regards this Japanese action as an inevitable consequence of the failure of the League of Nations to stop Japan from seizing Manchuria.

Foreign Office has stated no conversations have taken place as yet between the British Ambassador and American Government on this subject.

BINGHAM

793.94/6591 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, April 21, 1934—11 a. m.

[Received April 21—8:35 a. m.]

188. My 187, April 21, 10 a. m. In conversation with Simon yesterday evening he read me British Embassy telegram from Tokyo, just received, giving the British Ambassador's version of the statement of the Japanese Foreign Office spokesman in regard to China. Simon said he took a most apprehensive view of this Japanese move and said that to meet it successfully he felt close Anglo-American consultation and cooperation was necessary, and hoped for his part that once the facts were established there might be an early exchange

³⁷ For text of the Consortium Agreement signed October 15, 1920, see *Foreign Relations, 1920*, vol. 1, p. 576.

³⁸ Viscount Cecil of Chelwood.

of views. I regarded it as significant that he made no reference to the League of Nations.

I told Simon I would report his statement to me to my Government.

BINGHAM

893.811/926 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 21, 1934—3 p. m.
[Received April 21—11:10 a. m.]

187. My 184, April 20, noon. British Legation states that British Foreign Office has instructed it that it is unwilling to retreat from position previously taken which was reported in my 122, March 15, 4 p. m.

JOHNSON

793.94/6592 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, April 21, 1934—9 p. m.
[Received April 21—2:05 p. m.]

73. My 72, April 20, 8 p. m. and Dept's 54, April 20, 6 p. m.

1. The opinion of foreign observers is now tending towards the belief that the Foreign Office statement of policy was issued at the present moment owing to anxiety over the increasing evidence of foreign activity in China. Rajchman is on his way to Geneva to report to the League of Nations on the question of technical assistance. Monnet, also of the League, is reported by my French colleague to be active in Shanghai in endeavoring to organize an international syndicate, with alleged prominent participation of American capital, for the purpose of financing a public works program. The Chinese Government is said to insist upon the exclusion of Japanese from participation in the proposed financing. The German General von Seeckt is reported to have arrived in China with a considerable number of officers to give military instruction, while Americans, Italians, and French are said to be active in selling airplanes. The Legation in Peiping is doubtless in a better position than the Embassy to confirm or deny the foregoing reports. At any rate the combined effect of these various alleged activities and enterprises lead to Japanese fears of a strengthening China and is believed to have precipitated the recent definition of policy. Observers now believe that the statement was issued with Hirota's full endorsement although none of my colleagues appears as yet to have discussed the matter with him.

2. On being questioned yesterday as to the method by which Japan proposed to circumvent the delivery of war material and other foreign assistance to China, the Vice Minister for Foreign Affairs told Fleisher that pressure would be brought to bear not on the countries of origin but on the Chinese themselves.

Repeated to Peiping.

GREW

793.94/6595 : Telegram

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

Moscow, April 22, 1934—5 p. m.

[Received 10:25 p. m.]

60. Your telegram No. 47, April 20, 6 p. m.³⁹ Soviet reaction to Japan's announcement in regard to China is one of unalloyed delight. The position of the Soviet Union is regarded as greatly improved since it is considered likely that the United States and Great Britain now will have to oppose Japan openly whereas the Soviet Union will be able to remain discreetly in the background and may thus avoid the war with Japan which has been considered inevitable.

Litvinov, grinning broadly, said to me today:

"Perhaps your Government will realize now that there is no limit to which Japan will not go. Any concession whatever leads merely to further demands. This is equivalent to proclamation of a protectorate over China.

I know that the Japanese Minister in Peiping informed the British and German Ministers in advance. The British Minister said he could not assent. The German assented. You will note that the Japanese announcement was not directed against the German instructors of the Chinese Army which to my mind means that those instructors are the agents of the Japanese Government rather than of the Chinese Government. The announcement was directed against the United States and against the League of Nations whose committee headed by Rajchman is about to report.

There is but one way to stop Japan today and that is to call on all powers interested in the Pacific for a joint protest. The United States, the Soviet Union, Great Britain, France, Holland and Italy should be invited to join in a protest."

I asked Litvinov why he did not include Germany. He said that he believed Germany was much too close to Japan at the moment to do anything but make trouble. I asked him if he did not think action should come by way of the League. He replied that the League would take no action; that this was a matter for the Pacific powers. I asked

³⁹ See footnote 33, p. 117.

him if he thought words would be of any use unless we were ready to back them up by acts which none of us were anxious to perform. He answered that thus far Japan had only used words and that at the moment words were a fitting reply.

Litvinov said:

“If you allow this statement of the Japanese Foreign Office to pass without comment the Japanese in the future will insist that it has established a definite policy and that you have acquiesced by your silence.”

I made no comment on the foregoing observations but asked Litvinov how his negotiations with regard to the Chinese Eastern Railway were progressing. He said that he had submitted another offer to Japan but although the Japanese had promised to discuss it they had not done so.

The Soviet press under orders has refrained from comment on the Japanese announcement.

BULLITT

793.94/6596 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, April 23, 1934—4 p. m.

[Received April 23—1 p. m.]

190. In reply to several questions in the House of Commons this afternoon Simon stated that he had received no notification from the Japanese Government but British Ambassador had sent him text of what was described as translation of an informal statement made to the Japanese press by Minister for Foreign Affairs. The statement appeared to be concerned with certain possible dangers which might arise out of relations between China and Japan. Japanese explained that this statement had been caused by their apprehension of action of certain foreign powers in China. Simon explained he personally felt Great Britain was not referred to and concluded in substance as follows:

The general character of the statement and of certain details in it, such as the reference to financial assistance to China, are of a nature which have made me think it necessary to communicate with the Japanese Government with the object of clarifying the position of His Majesty's Government.⁴⁰

⁴⁰This paragraph corrected on the basis of telegram No. 192, April 23, 10 p. m., from the Ambassador in Great Britain, received April 23, 4:55 p. m. (793.94/6598).

In reply to request for assurances that His Majesty's Government would do nothing without the United States Simon side-stepped and pointed out that he had already addressed this inquiry and further answered that he had read in this morning's press the reported interview given by Ambassador Saito in Washington.

BINGHAM

793.94/6591 : Telegram

*The Acting Secretary of State to the Ambassador in Great Britain
(Bingham)*

WASHINGTON, April 23, 1934—6 p. m.

156. Your 187, and 188, April 21, 10 a. m. and 11 a. m. We have received neither in Tokyo nor in Washington any communication from Japanese Government. Thus far, Department has declined to discuss or comment upon Japanese Foreign Office statement.

We believe that the essential facts with regard to the issuing of the statement and its substance are now known; that the issuance of such statement naturally causes in the United States and in the other countries which possess rights and interests in the Far East feelings of amazement; and that all such powers would wish in the light of those facts to express views and to make such decisions with regard to action individual or concurrent as they may deem appropriate. For example, we are considering the making by the American Government, for the benefit of the American people, of a statement containing reference to international law and treaties and declaring, with or without detail, our attitude and position, but we have not decided definitely that this will be our procedure. In the light of Sir John Simon's approach to you, we would give careful consideration to any suggestions or proposals which the British Government might wish at an early moment to make.

You may inform Sir John Simon of all of the above and say to him that, in acting for the safeguarding of our own interests, we are willing to do our part toward the safeguarding of the common interest, but not to do more than our part and that we will welcome any indication which he may be disposed to give us, in confidence, at his earliest convenience, of the British Government's thought, or intentions, in the premises.

A separate telegram follows giving additional data information which you may, in your discretion, use in connection with the above.

PHILLIPS

793.94/6591 : Telegram

*The Acting Secretary of State to the Ambassador in Great Britain
(Bingham)*

WASHINGTON, April 23, 1934—7 p. m.

157. Reference Department's 156, April 23—6 p. m. As throwing possible additional light on the Japanese Foreign Office statement, we are informed that the Japanese Ambassador here has stated to a press correspondent that this statement of policy was circulated by the Japanese Foreign Office to Japanese missions abroad some time ago and that the Foreign Office spokesman's statement should not be regarded as directed against the United States but was made as a warning to an European power (confidentially named) which power is contemplating making to China a loan for financial rehabilitation purposes. If true, the first point is important. Whether or not there is any basis of fact for the second point, these statements are further evidence among various indications that the Japanese Government, having made an affirmation of an intent which challenges rights and interests of other governments and contributes to the creation of the theory of a Japanese hegemony in the Far East, is seeking, by use of diplomatic opiates, to induce absence or mildness of rejoinder by the powers.

Comment from Tokyo indicates opinion among foreign observers there that the statement was issued with Hirota's endorsement.

PHILLIPS

793.94/6601 : Telegram

The Consul at Geneva (Gilbert) to the Secretary of State

GENEVA, April 24, 1934—2 p. m.

[Received 2:40 p. m.]

55. The Japanese Consul General here last evening made a formal statement to the press outlining Japan's Asiatic policy. Although in line with recent Japanese announcements, the distinct public impression is that it is addressed particularly to the League and that it was called forth at least in part by developments in the League's program of technical assistance to China.

American press representatives tell me that while they did not transmit complete text (approximately 400 words) they telegraphed extensive quotations of most significant portions particularly the Associated Press and the *New York Times*. If the Department desires full text or summary please instruct.

Yokoyama informs me that the same general material embodied in his statement had been telegraphed by Tokyo to a number of Japanese

diplomatic missions including Washington to be employed with the press for "clarifying" the Japanese position. He said, however, that his statement is distinctly designed for Geneva and contains certain special phrasing with that end in view. Yokoyama explained that the phrase "responsibility for peace in close collaboration with Asiatic powers" did not include states having interests in the Far East but was confined to native Asiatic states. He said that it naturally applied to Soviet Russia inasmuch as Asiatic Russia was an integral part of the Soviet state. He also added that it would naturally apply to the Philippines should the "Philippine Government" desire it.

Press representatives have reported that Yokoyama will issue a further statement upon Avenol's ⁴¹ return tomorrow interpreting more in detail the application of this expression of Japanese policy vis-à-vis the League. Yokoyama informed me, however, that this was not his intention. He stated that he would take the matter up direct with Avenol. He would hand him the Japanese statement officially and declare to him its general application to the League and more specially its application to certain League endeavors in which Japan was not represented. These latter were chiefly the consultative committee on the Sino-Japanese affair and the matter of the League's technical assistance to China. He would not suggest to Avenol that the Japanese pertinent position be conveyed to the bodies concerned. His intention was that through these representations to the Secretary General Japan would place its policy formally on record with the League. He would at the same time make the added statement that any activities of the League particularly those of the League bodies in question which did not conform to Japanese general expression of policy in the Far East would be regarded by Japan as inimical acts. In this connection Yokoyama made special reference to the question of technical assistance to China stating that the Japanese Government was under the impression that Dr. Rajchman's report involved a program which particularly in its financial elements was either implicitly or explicitly politically antagonistic to Japan.

GILBERT

793.94/6728

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)* ^{41a}

[WASHINGTON,] April 24, 1934.

1. In connection with consideration of attitude and action in rejoinder to the action taken last week by the Japanese Foreign Office, it

⁴¹ Joseph Avenol, Secretary General of the League of Nations.

^{41a} Addressed to the Secretary of State and the Under Secretary of State.

should be kept in mind that the United States Fleet is now no longer in the Pacific Ocean (Note: It is now possible for the jingoes and chauvinists of the Navy faction in Japan to be, if they choose, more audacious than at any time since the spring of 1932).

2. There should be kept in mind the facts that the U. S. cotton and wheat "loan" to China and the extensive sale to China of American airplanes, together with employment by China of American aviation instructors, have figured prominently among the developments in China which the Japanese have viewed with misgiving and of which they complain. The "loan" was made during the present Administration, by the R. F. C.,⁴² without the approval of the Department of State; and the Far East personnel of the Department went on record at that time with warnings in regard to it. The sale of airplanes to the Chinese and employing by the Chinese of American aeronautic personnel were actively promoted under the Hoover Administration, by the Department of Commerce, notwithstanding indications of misgiving by this Department and definite expressions of opinion advising against it by Far Eastern personnel of this Department.

S[TANLEY] K. H[ORNBECK]

893.811/926 : Telegram

The Acting Secretary of State to the Minister in China (Johnson)

WASHINGTON, April 24, 1934—4 p. m.

125. Your 184, April 20, noon and 187, April 21, 3 p. m., in regard to the Liao River Conservancy. As the record now stands, we are in accord with the French suggestion that objection should be registered but differ in regard to suggestions for procedure for so doing; the British on two occasions have indicated that they are unwilling to approve the suggestion; and the Germans do not wish to take any initiative but are prepared to join other powers in some action.

The Department will defer further consideration of the matter until it receives word from you that the French, in the light of the existing situation, desire to pursue the matter further.

PHILLIPS

793.94/6592 : Telegram

The Acting Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, April 24, 1934—6 p. m.

55. Your 73, April 21, 9 p. m., and previous. Department has still had no communication from any Japanese source with regard to this matter and has made no comment. We are informed that Sir John

⁴² Reconstruction Finance Corporation.

Simon has stated in House of Commons that he has instructed British Ambassador [at] Tokyo to communicate with the Japanese Government with the object of getting light upon certain aspects of the spokesman's statement and to learn what application it might have to Great Britain.

Department desires that you obtain a copy of translation of text as telegraphed by Fleisher to *New York Herald Tribune* and that you inquire of Hirota whether this is a reasonably accurate translation of the statement. You should not invite comment or clarification. If Hirota volunteers comment, you should listen attentively but without entering into any discussion of the matter and should report fully and as nearly as possible in his phraseology. Department hopes that you will be able to execute this at the earliest possible moment.

2. I asked Saito⁴³ to come in this afternoon and be so good as to give us the text. Saito came and declared that there had been no text but that Amau had made certain statements in reply to questions put to him by press correspondents.

PHILLIPS

793.94/6600 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 24, 1934—7 p. m.
[Received April 24—8: 15 a. m.]

193. Department's 123, April 23, 2 p. m.,⁴⁴ has been repeated to Peck at Nanking (1) for communication by air mail to Hankow for the Minister, (2) for report to Department on reaction at Nanking.

As is not surprising in view of the persistent threat of further Japanese aggression particularly in North China there have been no reports of violent popular reaction to the Japanese statement. General tone of Chinese press comment is one almost of consternation at the wide implication of the Japanese statement of policy but the Legation notes a remarkable moderation of expression in most Chinese editorial comment in North China. The *Ta Kung Pao*, however, describes the Japanese statement as the most audacious challenge that Japan has hurled at China and at the powers; a challenge based on the belief that no power is prepared to go to war about the question. Some comment suggests that the statement is an effort by Japanese to sound out international opinion as to her claim to hegemony over China and the Far East.

Press telegrams from London today report statement of British Foreign Secretary in the House of Commons and the despatch of a

⁴³ Hiroshi Saito, Japanese Ambassador at Washington.

⁴⁴ See footnote 33, p. 117.

British note to Tokyo believed chiefly to reaffirm British position under the Nine-Power Treaty.

Press reports from the United States quote Ambassador Saito as saying in press interview that Japan's restatement of policy with regard to China resulted from the American wheat and cotton credit and from sale of American airplanes to China.

Repeated to Peck at Nanking for information and communication by air mail to the Minister.

JOHNSON

793.94/6602 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, April 24, 1934—8 p. m.

[Received April 24—4: 55 p. m.]

196. I was unable to obtain an appointment with Simon today due to Suvich's⁴⁵ visit and accordingly instructed Atherton⁴⁶ to discuss Department's 156, April 23, 6 p. m., with Sir Victor Wellesley. Wellesley stated that he would convey to the Foreign Secretary the Department's statement and gave Atherton his personal viewpoint on the situation, which I repeat merely for background, and request that no reference be made to these personal remarks of a Foreign Office official.

Wellesley stated that the British note to Japan, reported in my 192, April 23, 10 p. m.⁴⁷ also referred to the position of both England and Japan under their treaty obligations, and more especially the Nine-Power Treaty. He felt that the recent Japanese statement was made by Japan through fear of the development of a united China and an effective military spirit which had been strengthening since the Manchurian campaign. While America and England had a common interest in a strong and united China, this was the opposite from what Japan wanted. It was all very well, according to Wellesley, for nine powers to sign a paper pact but if no teeth were written into it to make it effective, how many nations were prepared to back up today any unsuccessful representations made to Japan in connection with her China policy. Wellesley was obviously very skeptical that Great Britain would consider any use of threats towards Japan except under provocation of some grave incident and equally doubtful as to how far the United States would go, and under these circumstances was apparently of the opinion that individual action was preferable in the

⁴⁵ Fulvio Suvich, Italian Under Secretary of State for Foreign Affairs.

⁴⁶ Ray Atherton, Counselor of Embassy in Great Britain.

⁴⁷ See footnote 40, p. 125.

present instance. I may add here that the Foreign Office press officer has given such an opinion to several correspondents today, pointing out that concerted representations to Japan might merely put the Japanese back up and obtain no modification of intention on her part. Wellesley stated, in his own opinion, an exchange of views with the United States would be useful but obviously doubted whether any closely concerted Anglo-American cooperation towards Japan was likely in the present instance since England's attention was more centered in the continental situation. These views Wellesley took care to explain were his personal ones, and that he would ask Sir John Simon to communicate with me as soon as he had had a chance to consider the Department of State's reply.

The Chinese Minister called on me this afternoon and gave me a résumé of his conversation with Sir John Simon yesterday afternoon which I gather did not contradict the general attitude of Wellesley's remarks to Atherton. Definitely the Chinese Minister stated that Simon felt that the United States concern was probably greater than that of England.

BINGHAM

793.94/6605

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] April 24, 1934.

The French Ambassador, during his conversation this afternoon, touched upon the Far Eastern situation and asked me whether we had taken any position as yet in Tokyo; he also referred to the several press interviews which the Japanese Ambassador in Washington had given and said that without a doubt his Japanese colleague was talking too much; when he read one of the early interviews in which the Ambassador was quoted as mentioning an "unfriendly act" he was astounded.

In reply I said that we had not made up our minds as to what our action would be; it was possible that, inasmuch as the Japanese Government had announced publicly through the press its policy with respect to the Far East and had not communicated with other governments, it would presumably not be necessary for us to communicate with Japan; on the other hand, we might feel that a statement to the American people of this Government's views and responsibilities under the treaties with Far Eastern countries might be advisable; possibly if other countries saw fit to make parallel statements to their own people of upholding treaty rights, that might have a good effect.

I told the Ambassador that I was talking to him frankly in reply to his inquiry and that I could only emphasize again that we had reached no definite decision.

WILLIAM PHILLIPS

893.71 Manchuria/55

The Secretary of State to the Minister in Switzerland (Wilson), at Geneva

WASHINGTON, April 24, 1934.

SIR: The receipt is acknowledged of your unnumbered despatch, dated February 23, 1934,⁴⁸ enclosing a copy of a communication from the League of Nations (C.102.M.37.1934.VII), dated February 14, 1934, transmitting a copy of a note from the British Government to the Secretary-General of the League, requesting that the question of the extent to which *de facto* relations may be permitted between foreign postal administrations and the Manchurian postal authorities, without involving, by implication or otherwise, recognition of the existing regime in Manchuria, be brought before the relevant sub-committee of the Advisory Committee set up by the League Assembly by its resolution of February 24, 1933.⁴⁹

In view of the probability that the Advisory Committee will desire to be informed of the procedure which the American postal authorities have adopted with regard to the settlement of transit payments due to the "Manchukuo" postal authorities in respect of mails sent through Manchuria, you request that you be furnished with information which would enable you to reply to inquiries from the Advisory Committee, and with comment or expression of policy in this relation which the Department would desire you to state.

It is understood that no question of payment by the American postal authorities to the "Manchukuo" postal authorities for transit charges has arisen, for the reason that no mail originating in the United States is sent in transit through Manchuria.

It is desired that, after the Advisory Committee has taken up the question raised by the British Government, you seek a suitable opportunity, without, however, appearing to take a position of leadership, to state that, in the opinion of the American Government, it would be desirable that the postal administrations of states members of the League of Nations and of other states adhering to the resolution of February 24, 1933, of the League Assembly, avoid any deal-

⁴⁸ Not printed.

⁴⁹ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 113.

ings with the postal administration of Manchuria which might be construed as conferring recognition upon the "Manchukuo" regime. You may suggest that clearance of accounts due to the "Manchukuo" postal authorities might be made by the postal administrations concerned through appropriate agencies of the Japanese Government, or alternatively through the International Postal Union and thence through appropriate agencies of the Japanese Government. It is believed that either method of procedure would avoid raising in fact or by implication the question of *de facto* relations between the postal administrations concerned and the "Manchukuo" postal authorities.

Very truly yours,

For the Secretary of State:

WILLIAM PHILLIPS
Under Secretary

793.94/6607 : Telegram

The Counselor of Legation in China (Peck) to the Secretary of State

NANKING, April 25, 1934—2 p. m.

[Received April 25—8:50 a. m.]

30. Department's 123, April 23, 2 p. m. to the Legation.⁵⁰

1. In a recent conversation with me the Minister for Foreign Affairs described the Japanese informal statement as violating China's sovereignty and treaties relating to China. Another responsible Chinese officer summarized Chinese official opinion as follows:

The Japanese statement arrogantly seeks to limit China's sovereign right to employ services, purchase military materials, and borrow foreign capital. China is surprised that foreign governments have not repudiated Japan's assumed authority to limit their rights acquired by treaty with China. Informant asserted that China possessed the right of any independent nation to acquire a military establishment and that the Japanese hypothesis that all military equipment is designed for use against Japan is baseless since it is intended as much for establishing and maintaining internal peace as for foreign defense. Informant stated that Chinese official opinion indignantly and completely rejects the authority assumed by Japan in the statement but he added that it would be only reasonable to include Japan in any international group financial assistance granted China if such is contemplated.

2. There is no important unofficial opinion in Nanking and inspired official press is more bitterly critical than the remarks quoted above.

3. An American newspaper correspondent informed me today that

⁵⁰ See footnote 33, p. 117.

Suma, Secretary of the Japanese Legation in Nanking told him that the Japanese statement incorporated many of his recommendations to the Japanese Foreign Office but Suma criticized the method of the announcement saying that he had been actively endeavoring since April 17 to allay the Chinese apprehensions caused by the statement.

Repeated to the Legation.

PECK

793.94/6608 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, April 25, 1934—6 p. m.
[Received April 25—1:35 p. m.]

200. Wellesley sent for Atherton this afternoon and after obviously having discussed with Simon the conversation reported in my 196, April 24, 8 p. m., in a brief talk made it quite clear that any suggestion for concerted consideration by the British and American Governments of the recent Japanese statement was not intended to go beyond an exchange of views. Atherton replied that this was perfectly clear and said the substance of the Washington telegrams he has referred to in his conversation with Wellesley yesterday set forth that the State Department would be glad to consider any suggestions Simon had to submit. Wellesley was obviously anxious that the above points were clearly understood. Wellesley continued that he was under no delusion of the final objective of Japanese policy in regard to China but in the present instance he felt Japan had a fairly strong case for defensive argument of her recent statement. He went on to say that "they" pointed out that the wheat loan T. V. Soong had secured in America last year was contrary to spirit of the four-power consortium agreement of 1920⁵¹ (I may add that the Chinese Minister informed me yesterday Simon made vague reference to this fact in his conversation with Quo⁵² on Monday). Wellesley continued that "they" also very much resented the activities of League of Nations through Rajchman in Shanghai. Wellesley expressed his personal viewpoint that in both these matters which concerned China in which Japan had such a great stake geographically and financially Japan could understandably claim to be consulted. Atherton asked Wellesley to whom he referred as "they" but this he did not answer definitely leaving the impression, however, he had had a recent conversation with the Japanese Ambassador. Wellesley then went on to add that he person-

⁵¹ *Foreign Relations*, 1920, vol. I, p. 576.

⁵² Quo Tai-chi, Chinese Minister in Great Britain.

ally did not fear that Japan would use force if foreign nations went contrary to spirit of her recent declaration but that in thousands of insidious ways Japanese influence working in China would be against any foreign project in China not favored by Japan. The weight of this Japanese influence Wellesley felt would be a practically insurmountable obstacle.

BINGHAM

793.94/6609

Memorandum by the Secretary of State

[WASHINGTON,] April 25, 1934.

The Chinese Minister called and stated that he had been attempting to see me for some days, under instruction from his government, but that I had been absent since the 20th of April until this morning. He said that his best information was that a representative of China at Tokyo was informed directly, and he thinks accurately, that the statement, recently emanating from Tokyo through a so-called official press representative, in which Japan in effect was announcing her domination of Asia, was given to the press without consultation with Japanese Minister of Foreign Affairs Hirota; that the Minister was only shown the statement after it had been broadcast to the world through the press; and that it was entirely out of harmony with the Minister's plans of placating the United States and other countries and promoting friendly relations, in accordance with announcements and steps heretofore made and taken by the Foreign Office of Japan. The Chinese Minister said he thought this was the truth of the incident. He then stated that his government had instructed him to propound three questions to me. First, what was my reaction to this entire Japanese development? Second, what steps did my government contemplate taking with respect to these pronouncements coming out of Japan? Third, whether this government, as a ranking signer of the Nine-Power Treaty, would be disposed to convene the parties to this treaty for purpose of consultation? To all of which I replied that I was industriously proceeding to assemble accurately and as nearly official as possible, all the facts and circumstances pertaining to the entire problem presented, and that in the meantime there was nothing I could say to him with respect to any of his inquiries. He seemed somewhat disappointed and pressed further for some sort of expressions from me, but each time I repeated my first answer to him. He then inquired when he might see me and get something more definite and informative. I replied that it was not possible to be exactly certain as to just what time, but that he was at perfect liberty to keep in

touch with the Department at any and all times with the view to availing himself of the benefit of such information as might be permissible to impart to him.

C[ORDELL] H[HULL]

793.94/6615

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] April 25, 1934.

The Italian Ambassador called to inform me that he was in receipt of a telegram from the Italian Ambassador in Tokyo to Rome reporting an interview which he had recently had with an official of the Japanese Foreign Office. The Italian Ambassador in Tokyo had apparently gone to the Foreign Office to ask the question whether the Amau statements represented in fact the attitude of the Foreign Office and received an answer in the affirmative; furthermore, the Ambassador had reported to Rome that, in his opinion, the Japanese Government were intent on carrying out the program announced with respect to China and that nothing now would stop them; it appears that he himself regarded the situation as extremely serious and had so reported to his Government; Mr. Rosso asked whether I could give him any information with regard to the attitude of this Government. I told him that we were gathering information, but had not reached any conclusion as to the position which we should take.

WILLIAM PHILLIPS

793.94/6601 : Telegram

The Secretary of State to the Consul at Geneva (Gilbert)

WASHINGTON, April 25, 1934—6 p. m.

30. Your 55, April 24, 2 p. m.

1. Forward full text by mail.⁵³

2. Department has declined to discuss or comment upon the statement issued by the spokesman of the Japanese Foreign Office in regard to Japan's attitude toward China. Department desires that for the present American officials withhold comment, awaiting developments. Without initiating any action indicative of particular interest or concern, please report on reaction, official and unofficial, and on developments.

3. Repeat paragraph 2 to Paris and Rome.

HULL

⁵³ Not printed.

793.94/6612 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Тоkyo, April 26, 1934—5 p. m.
 [Received April 26—9:30 a. m.]

77. Department's 56, April 25, 1 p. m.⁵⁴

1. Statement was first issued orally to press correspondents in Japanese and later "unofficially" in written English translation.

2. No written Japanese text was issued by the Foreign Office but Rengo distributed a Japanese text of the oral statement and the Foreign Office has not denied the authenticity or correctness of the Rengo Japanese text.

3. Fleisher's translation of the Rengo Japanese text was checked by the Embassy and found to be substantially correct.

4. A translation was issued on the 19th by the Foreign Office but was subsequently labeled "An English translation unofficially issued by the Foreign Office of the unofficial statement issued by the Foreign Office on April 17".⁵⁵ This translation which consists of 550 words appears to be a substantially identical version of Fleisher's translation which was adopted by the Foreign Office with a few unimportant changes. Copies were mailed to the Department 21st.⁵⁶ The complete text will be telegraphed if deemed by the Department necessary or desirable.

5. The Embassy has copies of the Rengo Japanese text and of the "unofficial" English translation issued by the Foreign Office.

6. The "unofficial" translation issued by the Foreign Office differs slightly in wording from the translation telegraphed to the *Herald Tribune* but does not differ substantially in meaning. In telegraphing his translation Fleisher omitted a few words and phrases which do not appear necessary to convey the meaning.

The Department appears to be endeavoring to obtain an authoritative text of the statement. There is no authoritative text. The best obtainable is the unofficial English translation of the unofficial oral statement made by the spokesman of the Foreign Office to newspapermen. I have good reason to believe however that the Japanese text as read by Amau was taken from an instruction approved by Hirota for transmission to all Japanese diplomatic missions for their guidance but released by Amau to the press without Hirota's knowledge or consent.

Since the beginning of this affair I have made no statements whatever to the press, taking the position that any information on the sub-

⁵⁴ Not printed.

⁵⁵ For text, see *Foreign Relations*, Japan, 1931-1941, vol. I, p. 224.

⁵⁶ Despatch No. 751, April 20, from the Ambassador in Japan, *ibid.*, p. 223.

ject should emanate either from the State Department or the Foreign Office here.

GREW

793.94/6612 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, April 26, 1934—5 p. m.

57. Your 77, April 26, 5 p. m. Yesterday the Japanese Ambassador gave us confidentially a text in translation of Hirota's instruction to Japanese Minister to China.⁵⁷ Amau's statement of April 17, as reported in *Herald Tribune* text, seems substantially a paraphrase of that instruction.

HULL

793.94/6614 : Telegram

The Counselor of Legation in China (Peck) to the Secretary of State

NANKING, April 26, 1934—6 p. m.

[Received April 26—9:25 a. m.]

32. 1. Informal press release by the Chinese Foreign Office April 25 announced attempts by Japanese diplomats in China to explain away points in the Japanese April 17 statement and rebut them. Statement concluded with assertion that China is working for international security and for upholding treaties such as Nine-Power Treaty⁵⁸ and the League Covenant⁵⁹ and that realization of this policy depends largely on the cooperation of the countries concerned.

2. There are evident indications that China's spirit of resistance to Japan has been revived and strengthened by belief that the effect of the Japanese April 17 statement is to join the Nine-Power Treaty signatories with China as victims of Japanese treaty violation. Apparently Chinese Government intends to press this point energetically even to the extent ultimately of heading a conference of treaty signatories if necessary. Repeated to the Legation and the American Minister.

PECK

⁵⁷ See letter dated April 25, with enclosures, from the Japanese Ambassador *Foreign Relations, Japan, 1931-1941*, vol. I, p. 228.

⁵⁸ *Foreign Relations, 1922*, vol. I, p. 276.

⁵⁹ *Treaties, Conventions, etc., Between the United States and Other Powers, 1910-1923* (Washington, Government Printing Office, 1923), vol. III, p. 3336.

793.94/6619 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, April 26, 1934—9 p. m.
[Received April 26—2:10 p. m.]

78. Department's 55.⁶⁰ Instructions carried out at earliest possible moment today. Hirota replied that only Amau could answer my inquiry as to whether Fleisher's telegram was a reasonably correct translation of Amau's statement because the latter's statement was oral (see my telegram 77⁶¹). The Minister's only comment was that Amau had indulged in "high flown language" which as he had told me yesterday had not had his own approval. The Minister, however, added that he himself had approved the supplementary and explanatory statement made orally by Amau in the press conference of April 20, the substance of which was cabled to the American press on that day.

It has been impossible to locate Amau until this evening. He said that his statement of the 17th was oral and informal and did not have the approval of Hirota; that he issued no official text, either in Japanese or English; and that he can authorize as official and authentic only his statement of the 20th referred to above. He refused to verify as a "reasonably accurate" translation of his first statement, the version telegraphed to the *Herald Tribune*.

The following was sent to me late this evening by Hirota as the gist of what Amau "said or should have said" on the 20th. The Minister conveyed to me the message that this represents his true policy towards China and that it may be given any publicity deemed desirable.

(Translation) "Japan has not infringed upon China's independence or interests, nor has she the intention to do so. In fact, she sincerely desires the preservation of territorial integrity of China and her unification and prosperity. These ends should, fundamentally speaking, be attained by China herself through her self-awakening and voluntary efforts.

Japan has no intention to trespass upon the rights of other powers in China. Their bona fide financial and commercial activities will redound to the benefit of China which is quite welcome to Japan. She, of course, subscribes to the principles of the open door and equal opportunity in China. She is observing scrupulously all existing treaties and agreements concerning that country.

However, Japan cannot remain indifferent to anyone's taking action under any pretext, which is prejudicial to the maintenance of law and order in East Asia for which she, if only in view of her geographic position, has the most vital concern. Consequently, she cannot afford

⁶⁰ April 24, 6 p. m., p. 129.

⁶¹ April 26, 5 p. m., p. 138.

to have questions of China exploited by any third party for the execution of a selfish policy which does not take into consideration the above circumstances.”

Repeated to Peiping.

GREW

793.94/6613 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, April 26, 1934—10 p. m.
[Received April 26—10:15 a. m.]

79. My 75, April 25, 1 p. m.⁶² The British Ambassador has told me in confidence that his instructions directed him to seek a clarification of Amau's statement with special reference to the provisions of the Nine-Power Treaty. Sir John Simon observed that Great Britain has no intention of taking measures in China contrary to Japan's security or treaty rights and presumed that Japan likewise has no intention of infringing the terms of that treaty. Hirota's reply was along the lines of his confidential statement to me although it was communicated to Lindley more formally through an interpreter. The Minister did not tell Lindley that the statement was issued without his knowledge or approval but he did say that the statement failed to interpret correctly the policy of the Japanese Government. Hirota added that while Japan is endeavoring to maintain the principle of the open door, China has partially closed the door in Japan's face by the boycott. Lindley expressed confidentially to his Government the view that China's policy of excluding Japan from the various projects of assistance is contrary to the interests of the other signatories of the Treaty and is likely to embroil us all with Japan.

The text of Amau's statement which Lindley cabled to his Government was the English "unofficial translation of the unofficial statement" issued by the Foreign Office to the press on April 19th. (See my 73).⁶³

GREW

793.94/6670

The Chief of the Division of Far Eastern Affairs (Hornbeck) to the Secretary of State

[WASHINGTON,] April 26, 1934.

MR. SECRETARY: In the Japan matter, the simple facts in simple outline, as so far disclosed, are as follows: a few weeks ago the Japanese

⁶² *Foreign Relations, Japan, 1931-1941*, vol. I, p. 227.

⁶³ April 21, 9 p. m., p. 123.

Minister for Foreign Affairs sent to Japan's Minister in China an instruction giving the principles of what might be called Japan's "China policy". The contents of that instruction were made known at that time to Japan's missions in various other countries. On April 17, the spokesman of the Japanese Foreign Office, Mr. Amau, a responsible official, made a statement to the press, which statement was based upon and followed closely the contents of the instruction referred to above. The novelty about the statement lies not in its contents but in the fact that it was made. Mr. Amau's statement to the press was not a declaration of policy; it was a disclosure of policy. As a disclosure it simply shows what Japan's "China policy" is; it confirms estimates long since made by unprejudiced outside observers of what it has been; and it shows that the Japanese Foreign Office consciously and deliberately reduced to writing and circulated to its representatives abroad, at about the moment when Mr. Hirota was writing you his letter of February 21, 1934,⁶⁴ the principles to be followed in pursuit of that policy, in relations with China.

The concluding paragraph in the instruction which the Japanese Foreign Office gave its Minister to China reads as follows:

"5. From the points of view above stated we think our guiding principle should be generally to defeat foreign activities in China at present, not only those of a joint nature but those conducted individually, in view of the fact that China is still trying to tie Japan's hands through using the influence of foreign Powers."

S[TANLEY] K. H[ORNBECK]

793.94/6623

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] April 26, 1934.

The British Ambassador ⁶⁵ called this afternoon and, with reference to the attitude of his government to the Far Eastern situation, said that they were opposed to any concerted action. They believed that each power should state its own views.

Sir Ronald then went on to say that he was prepared to read to me the instructions which had been sent to the British Ambassador in Tokyo and which he understood were delivered yesterday, as follows:

"The Japanese statement is of such a nature that we cannot leave it without comment." The Ambassador was told "to point out that the Nine Power Treaty guarantees equal rights to its signatories and Japan is a signatory. His Majesty's Government of course must

⁶⁴ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 127.

⁶⁵ Sir Ronald Lindsay.

continue to enjoy all the rights in China which are common to all the signatories or which are otherwise proper, except in so far as they are restricted by special agreements or in so far as Japan has special rights recognized by other powers and not shared by them.

"It is the aim of His Majesty's Government to avoid all the dangers to the peace and integrity to China on which the statement purports to be based. We could not admit Japan's right to decide alone whether anything such as technical or financial assistance promotes such a danger. Under the Nine Power Treaty Japan has the right to call attention to any action which may appear to her inimical to her interests and this provides Japan with safeguards. We assume that the statement is not meant to abridge the common rights of other powers or to infringe Japan's treaty obligations."

I thanked Sir Ronald for this communication and asked whether it was the intention of his government to give publicity to it. He said that in all probability the substance of these instructions would be given to Parliament; that since nothing had been given today presumably there would be no publicity until Monday⁶⁶ when Parliament again meets. He was very anxious that we should keep him advised of any step which we might make; he was leaving for New York tomorrow not to return until Tuesday; but in his absence Mr. Osborne⁶⁷ would be glad to communicate any message to him.

WILLIAM PHILLIPS

793.94/6622 : Telegram

The Counselor of Legation in China (Gauss) to the Secretary of State

PEIPING, April 27, 1934—1 p. m.

[Received April 27—5:45 a. m.]

195. Department's 123, April 23, 2 p. m.⁶⁸ Following is the Minister's comments:

"April 26, 5 p. m.

1. Statement should not be permitted to pass unchallenged by governments party to Washington Treaties,⁶⁹ as it runs directly counter to the spirit and letter of Nine-Power Treaty regarding principles and policies⁷⁰ which is part of series of treaties which must be considered as whole. Japan has not given notice that she considers treaty no longer binding but powers should inform Japan that abrogation of one of the series of treaties abrogates all.

2. Policy covered by statement if pursued is intended to control our relations, national as well as commercial, with a nation which we recognize and have dealings with as an independent country. The

⁶⁶ April 30.

⁶⁷ Francis D. G. Osborne, British Minister at Washington.

⁶⁸ Not printed, but see footnote 33, p. 117.

⁶⁹ For correspondence concerning the Washington Conference held November 12, 1921—February 6, 1922, see *Foreign Relations*, 1922, vol. I, pp. 1 ff.

⁷⁰ *Ibid.*, p. 276.

mere statement of such a policy may be sufficient to prevent purchase of banned articles on our markets as Chinese are well aware that the Japanese are able and willing to use force. In this connection remember the effect of Japan's opposition to Federal Wireless contract.⁷¹

3. In arriving at a decision as to our action due consideration should be given to attitude which China adopted toward Nine-Power Treaty in 1926⁷² in opposing adherence by non[signatory?] powers. It is not China's independence that interests us so much as our independence of action in the Pacific both now and in the future.

4. Consideration also must be given to situation which eventually must result in our retirement from the Philippines. Independence of Philippines, conferred by the United States will continue to be matter of concern to the United States. Neutrality of Philippines will be of questionable value in the face of Japanese attitude toward Washington treaties evidenced by present statement."

GAUSS

894.8591/1

The Acting Secretary of the Navy (Roosevelt) to the Secretary of State

(SC)EF37

WASHINGTON, April 27, 1934.

SIR: An increasing number of reports received by this Department indicate the importation into Japan of large amounts of raw materials essential for belligerent activities.

Should Japan have any belligerent intentions, it is believed that an early indication of the initiation of hostile acts would be the quiet and unheralded concentration of Japanese shipping in home ports, both, in order to prevent seizure or possible internment, and also to provide the necessary tonnage for any movements overseas.

In order to obtain as early an indication as possible of such a concentration, it is requested that all Consular Offices be instructed to check and compare carefully all movements of Japanese vessels with the published schedules of their movements, in order to detect any marked deviations which might reveal a concentration of this nature. The published schedules of movements of Japanese vessels are believed to be obtainable from the local offices of their steamship companies or shipping agents at the stations of the Consular Offices.

It will be appreciated if all such movements, and any analyses of them that may be made showing any trend toward concentration, be forwarded to this Department as soon after their discovery as may be practicable.

Respectfully,

H. L. ROOSEVELT

⁷¹ See *Foreign Relations*, 1929, vol. II, pp. 829 ff., and *ibid.*, 1930, vol. II, pp. 626-627.

⁷² See *ibid.*, 1926, vol. I, pp. 1001 ff.

793.94/6624 : Telegram

The Consul at Geneva (Gilbert) to the Secretary of State

GENEVA, April 28, 1934—11 a.m.
[Received 1: 10 p. m.⁷³]

61. Consulate's 59, April 26, 5 p. m.,⁷⁴ paragraph 3.

1. I have found the occasion to ascertain privately from Avenol in a manner strictly conforming with the Department's 30, April 25, 6 p. m., paragraph 2, his views of League policy vis-à-vis the Far Eastern situation. The points which he covered are as follows:

(a) He stated that a public misunderstanding had been created which was doubtless somewhat inspired concerning an alleged relationship between the operations of the Monnet consortium⁷⁵ and the League project of technical assistance to China. He declared that the relationship which was asserted in some quarters to exist was in any event absolutely without authority on the side of the League and therefore was juridically speaking nonexistent. He admitted that in this respect rumors were current regarding understandings between Rajchman and Monnet as were also current more general allegations regarding political activities on the part of Rajchman. To dispel any question that the League had improperly associated political action with its technical work he intended to take steps to clarify the entire matter. This clarification would be accomplished either in the meeting in May of the Commission on Technical Assistance at the time when Rajchman presents his report to that body or if it should eventuate that a public discussion of this matter would seem undesirable the question would be adjusted in some other manner outside the Commission. His manner of expressing himself on this point carried the implication that should it be shown that Rajchman had engaged himself politically or undertaken action beyond the scope of his mandate from the League it might become necessary that he be repudiated.

(b) Respecting what Avenol stated to me regarding the position of the League in the face of the current situation in the Far East I will say that it bore no resemblance whatever to the League's attitude at the outbreak of the Manchurian affair in 1931 either technically or in its more general political aspects. Avenol asserted to me that no information had been conveyed to him either specifically or generally regarding the pertinent policy of the League powers and that officially he had no intimations of their policies. His general comment on the policy of the powers did not go beyond current press accounts. Describing the present situation as a "different and greater issue" than the original Manchurian affair he said that he did not perceive that the League was involved in it in any way and that in so far as his control of influence reached it was his intention that the League should not be involved. In particular he would endeavor to avoid that the

⁷³ Telegram in two sections.

⁷⁴ Not printed.

⁷⁵ Jean Monnet of Paris visited China to organize a banking group to aid Chinese reconstruction. See pp. 371 ff.

current issue be linked *de jure* in any way with the "Sino-Japanese dispute" of which the League of course remained technically seized.

(c) As a direct corollary of the foregoing he said that it must be admitted that the mandate of the Assembly Consultative Committee on the Sino-Japanese dispute could be interpreted as embodying the current issue as in a broad sense the two were inextricably linked. Any member of the Committee could of course raise the question in that light. He did not believe, however, that any state would do so primarily because he thought that no general support would be accorded such action and incidentally because it would result in doing China a disservice as suggested in my 58, April 26, 4 p. m., paragraph 4.⁷⁶ The present program for the forthcoming meeting of the Commission was that its deliberations should be confined solely to the postal question which was on its agenda.

(d) In a like manner the members of the Commission on Technical Assistance with the possible exception of some action for a clarification of its position as discussed above would confine itself to purely technical questions.

The element of positive League policy in the Far East to which Avenol gave utterance was a strong assertion that he was determined that the League would continue to pursue a "modest" program of technical assistance to China and that any interference with such an appropriate activity would be combated.

(e) Regarding China's preoccupations respecting League action as reported in my 58, of which I find Avenol was also generally cognizant he stated that he did not believe that the situation would afford an opportunity to China to raise the question in any way.

2. In all of the foregoing Avenol expressed himself clearly and unequivocally. While League action rests on the will of League states and while Avenol naturally only spoke as Secretary General I think that it may be reasonably assumed that he has general or special knowledge of the position of the principal League powers vis-à-vis the League in these respects and that such knowledge was in the background of what he had to say.

3. Both in its bearing as explanatory of the position of the League in the present issue and as of interest to the Department in other spheres I took the opportunity which was presented me to inquire whether this position of the League as he described it respecting the Far Eastern political situation might be considered as illustrative of a more general policy of the League in all political matters. The answer Avenol gave me was naturally not a direct affirmation, it was tantamount to saying that the League for an indefinite future in so far as it could consistently do so would avoid the handling of new political questions and likewise in so far as possible would seek to avoid action in those which were now before it which would jeopardize

⁷⁶ Not printed; in paragraph 4 Mr. Gilbert stated that to raise the question without support from the Great Powers would obviously be more detrimental to Chinese interests than not to raise it at all (793.94/6620).

continued League support by the League states particularly concerned. As is obvious no specific vote or conclusive forecast of League policy in such respects is possible inasmuch as the League's position will undoubtedly be governed by unforeseeable political situations. What Avenol had to say in these respects, however, carried connotations of my discussion of this subject in Consulate's despatches 835 political, March 7 and 863 political, April 5.⁷⁷

4. In this general connection on the basis that League action rests upon the will of League states particularly the Great Powers' competent opinion in Geneva presents the Far Eastern question at least in some of its aspects as possibly coming before the League in two ways.

(a) Great Britain if she finds her interests in the Far East vitally affected may at some stage seek to employ the League of Nations as an agency to promote her policy.

(b) France with her relations with the Soviet Government in the background and also as associated with the question of Russia's possible approach to the League might bring the question into the League to accomplish a primarily political maneuver (Consulate's despatch 858 political March 27 [28]).⁷⁸

The recent anti-Japanese utterances of Mussolini in so far as they may reflect definite Italian policy are also seen as having a possible bearing on the situation.

5. Avenol requested that I regard his expressions to me as strictly confidential.

GILBERT

793.94/6625 : Telegram

The Consul General at Canton (Ballantine) to the Secretary of State

CANTON, April 29, 1934—noon.
[Received April 29—7:28 a. m.]

Consuls at Canton have received for transmission a declaration dated April 27 by the Southwest Political Council addressed to the League of Nations and to the Ministers of the signatory powers of the Nine-Power Pact. This declaration asserts that the statement of policy issued by the Japanese Foreign Office on April 17 threatens the independence of China and the peace of the Far East and it calls upon the League and the parties to the Nine-Power Treaty to discharge their obligations under existing instruments aimed at maintaining international peace.

⁷⁷ Neither printed.

⁷⁸ Not printed.

Copies by mail.⁷⁹ Repeated to the Department, the Legation and Nanking.

BALLANTINE

793.94/6629 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Tokyo, April 30, 1934—1 p. m.

[Received April 30—1:40 a. m.]

84. My 83, April 29, 7 p. m.⁸⁰ Despite previous announcement by the Foreign Office spokesman that an official statement clarifying Japan's policy in China would be issued this afternoon, Amau said at the press conference this morning that no such statement would be issued and that he considered the affair "a closed incident". No mention was made of the American *aide-mémoire*⁸¹ presented to the Minister by me last evening.

GREW

793.94/6630 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, April 30, 1934—5 p. m.

[Received April 30—2 p. m.]

213. My 211, April 30, 3 p. m.⁷⁹ Simon answering questions in Parliament stated the principle of equal rights in China was guaranteed very explicitly by the Nine-Power Treaty of 1922 and the Government assumed that the Japanese statement of April 17th was not intended to infringe the common rights of the other powers in China. The Japanese Foreign Minister had informed the British Government that this assumption was correct and reaffirmed the policy of the "open door" in China.

In reply to further questions Sir John stated that the communication of His Majesty's Ambassador to the Japanese Minister for Foreign Affairs of April 25th was a friendly inquiry and was to the effect that the principle of equal rights in China was guaranteed very explicitly by the Nine-Power Treaty, to which Japan was a party, and His Majesty's Government must of course continue to enjoy all rights in China which were common to all signatories, or otherwise

⁷⁹ Not printed.

⁸⁰ *Foreign Relations*, Japan, 1931-1941, vol. I, p. 232.

⁸¹ See telegram No. 59, April 28, 7 p. m., to the Ambassador in Japan, *ibid.*, p. 231.

proper, except in so far as the rights were restricted by agreement such as the consortium agreement, or in so far as Japan had special rights recognized by other powers and not shared by them. The Ambassador added that the anxiety regarding China expressed in the Japanese statement could not apply to the United Kingdom since it was the aim of British policy to avoid the dangers to peace and the integrity of China to which the statement referred. The British Government could not admit the right of Japan alone to decide whether any particular action such as the provision of technical and financial assistants promoted such danger, if that had indeed been the implication of the statement which they did not believe. In articles numbers 1 and 7 of the Nine-Power Treaty Japan had the right to call attention of other signatories to any action in China inimical to her security. That right provided Japan with safeguards and His Majesty's Government therefore assumed that the statement was not intended in any way to infringe common rights of other powers in China, or to infringe Japan's inter-treaty obligations.

In reply the Japanese Minister for Foreign Affairs indicated that His Majesty's Government was correct in this assumption and assured His Majesty's Ambassador that Japan would observe the provision of the Nine-Power Treaty and that the assumption of the Japanese Government and His Majesty's Government with regard to the treaty coincided. The Japanese Foreign Minister stated in conclusion that Japan continued to attach the greatest importance to the maintenance of the "open door" in China, and reaffirmed her acceptance of that policy.

In reply to a question as to the numerous statements issued by the Tokyo press officer and various Japanese officials in Washington and Berlin, and Geneva which seemed to conflict with the latest statement of Hirota, Sir John said one must not assume that information which reaches readers of the press in every press statement is authorized.

"I think the statement made by the Japanese Foreign Minister is reasonably clear and His Majesty's Government are content to leave this particular question where it is. I would only add that His Majesty's Government are resolved to assist to the utmost possible extent the spirit of international cooperation in the progress of China towards peace and prosperity, and in the maintenance of the spirit of harmony and good will in the Far East."

Official text available tomorrow will be forwarded by the pouch.⁸²

BINGHAM

⁸² Not printed.

793.94/6638 : Telegram (part air)

The Consul at Geneva (Gilbert) to the Secretary of State

GENEVA, May 1, 1934—2 p. m.
 [Received May 3—8:06 a. m.]

64. Consulate's No. 61, April 28, 11 a. m. paragraph 1 (a).

1. The current League relationship to the Far Eastern situation centers almost entirely in the "Rajchman question" which although very involved largely comprises the following factors:

(a) The responsible Secretariat authorities maintain that the League's assistance to China is solely of a technical character and concomitantly that any activities which may have extended beyond the technical field have not been under the authority of the League and thus have been improperly conducted;

(b) This matter is, however, thrown into the political field by allegations against Rajchman which appear to have been made publicly by the Japanese. Thus Rajchman emerges as a symbol.

The political angle thus arises from the contention that although the League project of assistance to China was begun before Sino-Japanese dispute arose (Consulate's despatch 471, political, January 17, 1933⁸⁴) and although Rajchman's present mandate is most specifically technical (Paris Embassy despatch No. 121, July 20, 1933⁸⁴) the present plan of assistance derives morally from recommendation 10 of the Assembly report of February 24, 1933⁸⁵ (Consulate's despatch No. 528, political, February 27, 1933⁸⁴). The basic value of such assistance is thus the promotion of a strong central government in China which it is alleged the Japanese do not desire for political reasons. The burden of proof should therefore be thrown upon Japan for interpreting as political an activity in China which in any other state would be merely an appropriate assistance of value to the rest of the world as well as to the country concerned.

2. The contentions just presented are supported by a large body of opinion in Geneva including a number of League officials. The possibility of this becoming a political issue nevertheless would apparently lie chiefly in its strong emphasis by the press. A number of press representatives here express the present intention [of] keeping this issue very much alive and their attitude is to brush aside any juridical aspects and take the broad position that in face of Japanese demands a repudiation of Rajchman would mean a repudiation of the entire plan of assistance which could only be interpreted as a final abnegation by the League of its entire position [in the] Sino-Japanese matter.

⁸⁴ Not printed.

⁸⁵ League of Nations, *Official Journal*, Special Supplement No. 112, pp. 56, 74.

3. I informally discussed the foregoing with Haas, Secretary of the Council Committee, in the light of press accounts, who informs me as follows:

(a) The Rajchman report has been received in Geneva and will probably be issued by May 7. It will be simultaneously released in Nanking. Rajchman has been advised by the Secretariat to make an advanced copy available to the Department during his stay in the United States. It is not known here whether this has been done.

(b) Rumors current that the Rajchman original report embodying many political aspects has been amended in the Secretariat to circumvent Japanese allegations are completely without foundation. Secretariat has no authority over the report, Secretary General being merely a transmitting agency between Rajchman and the Council committee. Haas characterized the report as entirely technical. Its financial clauses solely concern the administration and utilization of funds and contain nothing respecting a source of funds or financial negotiations.

(c) Nothing is known by Secretariat respecting Rajchman's "political" activities in China other than the Japanese allegations.

(d) The atmosphere of the report reflects, however, a broad policy of "emancipating China" and promoting its "self-development".

(e) The exceedingly delicate situation for the League as described in paragraph 2 above is fully recognized by Secretariat. They, however, perceive it as becoming technically a League issue only through Japan's making formal allegations through a demand by Rajchman for vindication or through some action which the Council Committee might in the circumstances feel impelled to take. The matter is seen, nevertheless, as divorced from the Secretariat itself and one for the powers on the committee who may have pertinent information to present.

(f) Secretariat is unaware of any formal allegations by Japan against Rajchman although press despatches have carried implications that statements of that character have been made by responsible Japanese officials.

4. I am informed that although the Secretary General has been in Geneva for some days Yokoyama has not seen him and has thus not carried out his intentions as expressed to me which I described in my telegram 55, April 24, 2 p. m. This might be construed to the effect that Japan will avoid the issue which would be created by making formal allegations. In association with this there is a strong rumor current of broader political interest to the effect that Tokyo has instructed Yokoyama that he went too far in his written statement and particularly in his interview with the press.

GILBERT

861.77 Chinese Eastern/1310 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

ТоКГО, May 1, 1934—5 p. m.
[Received May 1—8:45 a. m.]

85. In a long conversation today with the Soviet Ambassador he said that the resumed negotiations for the sale of the Chinese Eastern Railway had already failed. The delegates of Manchukuo had made an unimportant concession in the amount to be paid for the railway which he had cabled to Moscow and had already received reply to the effect that the new proposition was not satisfactory to the Soviet Government. He said that he would communicate this reply to the Minister for Foreign Affairs within a few days and he felt that at that time the relations between the two countries would become further strained. He said that he does not expect that war between the two countries will break out this year because the Japanese are not at present adequately prepared. Further report by mail. Repeated to Peiping.

GREW

793.94/6632 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

ТоКГО, May 1, 1934—6 p. m.
[Received May 1—8:35 a. m.]

86. Department's 60, April 30, 6 p. m.⁸⁶ Full text published here.⁸⁷ In an interview with Fleisher today the Vice Minister for Foreign Affairs said that the American statement of policy is a frank and friendly one and is received by the Japanese Government with same spirit in which it was sent by Mr. Hull. The Japanese Government welcomes it as giving an opportunity to express its own views in the same friendly way and it will therefore be answered with the same traditional frankness. The tone, he said, is entirely different from that used by Mr. Stimson.

No press comment is yet available but it is possible that the newspapers will take their cue from the Foreign Office. Repeated to Peiping.

GREW

⁸⁶ Not printed.

⁸⁷ For text of American *aide-mémoire* referred to, see telegram No. 59, April 28, 7 p. m., to the Ambassador in Japan, *Foreign Relations*, Japan, 1931-1941, vol. I, p. 231.

793.94/6634a : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, May 1, 1934—7 p. m.

61. Substance of Secretary's background talk at press conference today, not for attribution to himself or the Department, made before the receipt of any reaction to our statement,⁸⁸ is given for your guidance:

It is and has been the policy of the United States Government for many years to cooperate with the efforts and professed desire of the Japanese Government to strengthen the traditional relations of friendship between the two countries. To carry out this policy as successfully as possible, it has been our view that the less agitation and excitement injected into any differences between the conceptions of the two Governments regarding any particular question the more likely would its adjustment be satisfactory and in a spirit of better understanding and harmony. With that in view it has been the policy of our government to talk as little as possible and to discuss the questions that arise in a spirit of friendliness in order that their determination might be reached in an amicable way. It would be most helpful to both countries, in accomplishing this common purpose, if we would point to and emphasize the letter and spirit of such communications as those recently exchanged by the Japanese Foreign Minister and the Secretary of State rather than seek out and rake together various reports and news items emanating from Japanese sources and the [to] reply with respect to them. Our communication was a statement of principles, attitudes and one might say of intentions which we think correctly and properly govern the course of our Government in conducting its foreign affairs. Our statement has a message for China and other countries as well as Japan. The courses of the British and our Governments have been independent but not unnaturally along parallel lines. Each has emphasized the importance of treaties, rights, obligations and interests of each country alike under treaties.

HULL

793.94/6630 : Telegram

The Secretary of State to the Ambassador in Great Britain (Bingham)

WASHINGTON, May 2, 1934—4 p. m.

176. 1. Department desires that you make a careful study and analysis of the British Government's attitude and action in regard to the Japanese statements relating to China policy from April 17

⁸⁸ Released April 30, Department of State, *Press Releases*, May 5, 1934, p. 244.

to April 30, inclusive. It is believed that you have all the information which is available here with the possible exception of the fact that on April 26 the British Ambassador here read to the Under Secretary the instructions which had been sent by the British Government to the British Ambassador in Tokyo.

2. Department desires also that you report as soon as practicable in regard to the reaction in Great Britain to the British Government's attitude and policy.

3. The Department desires further that you endeavor discreetly but persistently to ascertain what the Foreign Minister had in mind in his reference to Japan's "special rights recognized by other powers and not shared by them". (See your 213, April 30, 5 p. m.).

HULL

793.94/6637: Telegram

The Ambassador in Italy (Long) to the Secretary of State

ROME, May 2, 1934—8 p. m.
[Received May 2—4:25 p. m.]

85. Department's 30, April 25th to Geneva. In conversation with Suvich⁸⁹ this afternoon on other matters I asked him incidentally whether they had made any representations in Tokyo on the subject of the Japanese declaration of February 19th [*April 17th?*] about China. He said that they had not made any representations and that their course would remain unchanged in spite of any Japanese declarations; that he had read with interest the press-reported text of the note of the American Secretary of State which he thought was very strong and clear; that Italy along with other countries would benefit by the strong statement of the American Government which was quite explicit and to the point; and that the statement of Sir John Simon in the House was somewhat evasive and was indicative of the political character of Simon, whom he characterized as a compromiser.

LONG

793.94/6646: Telegram (part air)

The Consul at Geneva (Gilbert) to the Secretary of State

GENEVA, May 3, 1934—9 a. m.
[Received May 5—7:08 a. m.]

66. Consulate's 64, May 1, 2 p. m., paragraph 4.

1. Yokoyama called on me last evening and said that he would be glad to tell me of the purport of a conversation which he had had

⁸⁹ Italian Under Secretary of State for Foreign Affairs.

the evening before with Avenol. Yokoyama informed me in substance as follows:

(a) He handed to Avenol the statement cited in my 55, April 24, 2 p. m., and made oral explanations along the general lines described in the final paragraph of that telegram.

(b) He made no specific reference to the consultative committee inasmuch as he understood that the deliberations would be confined to the postal question and were "thus of no political importance".

(c) Respecting the committee on technical assistance, he informed Avenol that Japan desired that the League take steps to guard against the "misuse in China" of technical assistance for political dissimulation.

(d) In response to Avenol's inquiry whether the Japanese Government could furnish him with any evidence that political activities had been associated with the technical work or carried on by any technical officials, Yokoyama replied that he would make no reference to the past but that his statement only concerns the future.

(e) Expanding on the foregoing Yokoyama informed me that he had made no allegations against Rajchman and that Japan would take no position respecting allegations or his return to China other than that his and all other League activities in China must be strictly nonpolitical.

(f) Answering my inquiry he said that while he had not employed with Avenol the term "inimical acts" he felt that he had "satisfactorily conveyed the impression".

(g) As he outlined them to me Avenol's statements to him appeared to have been of the general tenor with certain obviously necessary omissions of what Avenol said to me as reported in my 61, April 28, 11 a. m., paragraph 1 (a) and (d). Avenol stressed to him the limited character of the program of assistance to China and its complete disassociation from political undertakings and asked him to transmit these assurances to the Japanese Government.

2. Yokoyama carefully explained to me that neither his written statement nor his explanations were in any respect "representations" but that he had given them to the Secretary General solely for his information. The distinction was, however, very subtle.

3. Yokoyama's statements to me and likewise his statements to Avenol as he related them to me denoted a complete avoidance of any commitments or of any assertions of specific intentions on the part of Japan. There was in particular an avoidance of any definition of the term "political activity". The only definition of Japanese policy in any direction was a general reference to the criterion of Japan's public statements of policy with the implication that Japan will advance a specific interpretation in any given instance as it might arise.

4. The Avenol-Yokoyama conversation appears at present to "stabilize" the Japanese relations to the League's in this matter with the exception of possible developments as discussed in my 64.⁹⁰

GILBERT

⁹⁰ May 1, 2 p. m., p. 150.

793.94/6636 : Telegram

*The Counselor of Legation in China (Gauss) to the Secretary of State*PEIPING, May 3, 1934—11 a. m.
[Received May 3—12: 12 a. m.]

198. Following from Minister at Nanking May 2, 4 p. m.

"Hsu Mo⁹¹ informed me today that Chinese Government had inquired of British Government an explanation of reference in Sir John Simon's statement on April 30 to especial rights of Japan 'recognized by the other powers'".

GAUSS

793.94/6644a : Telegram

The Secretary of State to the Ambassador in Japan (Grew)⁹²

WASHINGTON, May 3, 1934—6 p. m.

62. 1. Referring to statement in American papers that the *Nichi-Nichi* has declared editorially that "the statement of Secretary Hull violates the pledge made by President Roosevelt to Viscount Ishii in Washington last May, recognizing Japan as the stabilizing influence of the Far East", officials of the Department, in reply to inquiry, categorically denied that the President gave any pledge to Viscount Ishii.

2. An American paper, in reporting the denial, states that "It is also pointed out here that any profession of respect for Japan as a stabilizing influence in the Far East would have no reference to the present diplomatic discussion, in which the potentially disturbing influence of Japan as a result of the recently announced Tokio policy has been the subject under consideration." No such statement as that quoted above was made by the Department.

HULL

761.94/740

The Ambassador in Japan (Grew) to the Secretary of State

No. 761

Tokyo, May 3, 1934.
[Received May 18.]

Sir: I have the honor to enclose with this despatch a memorandum⁹³ of a conversation which I had with the Soviet Ambassador on May 1 at his Embassy, returning the call which he made on me on March 9.*

⁹¹ Political Vice Minister for Foreign Affairs.⁹² The same telegram, May 3 (No. 135), to the Minister in China.⁹³ Not printed.

* Embassy's despatch No. 700, of March 8, 1934. [Footnote in the original.]

During our conversation Mr. Youreneff touched on nearly all the present points of conflict between the USSR and Japan and, as will be noted, declared that he was very pessimistic regarding the future relations between the two countries. His feeling of pessimism seemed to be caused in considerable part by the apparent abrupt failure of the renewed negotiations for the sale of the Chinese Eastern Railway and for this reason it is believed desirable to report certain circumstances attendant upon the resumption of the Sale Conference. It is believed that these circumstances should contribute to an understanding of the expected reaction in Japan when the failure of negotiations becomes generally known.

During the past month the Soviet Ambassador and the Minister for Foreign Affairs have continued to hold frequent interviews, supposedly to discuss the sale of the Railway. These interviews have been noted in the press with regularity as was also a conversation between Mr. Youreneff and General Hayashi, the Minister of War, on April 21. None of these conversations was made public. Nevertheless, when it became known that "Manchukuo" had drafted a new proposal and that a resumption of the Conference was imminent, public interest was at once aroused. The vernacular press was unanimously optimistic and there were universal expressions of gratification that "Manchukuo" had drafted an offer said to contain the most liberal concessions imaginable. But what concerned the Japanese more directly was the fact that renewal of the negotiations was ascribed to the skill and good offices of Foreign Minister Hirota. At this point Mr. Ohashi, chief "Manchukuo" delegate, gave a press interview declaring that he believed that the new offer was eminently just and reasonable; the *Yomiuri Shimbun* opined that the expected sale of the railroad would be regarded in official quarters as the first recognition of "Manchukuo" by a state other than Japan; and certain papers such as the *Miyako* and the *Asahi* argued that Mr. Hirota would not have brought the conferees together once more had he not felt that negotiations would this time prove successful. A definite psychology of optimism has been created.

It is not yet known what the "Manchukuo" terms are but, as will be seen from the attached memorandum of conversation, they proved unacceptable to the Government in Moscow. Presumably this fact will be made known in a few days when the next meeting of the delegates is decided upon.

If the Conference definitely fails at this time, Soviet-Japanese relations will once more become strained. The Japanese will place the blame squarely upon the Soviets. It is furthermore possible that the Foreign Minister, whose name is now linked with the negotia-

tions, may suffer some measure of embarrassment and also that opportunity may be afforded the militaristic and chauvinist portions of the nation to strengthen their hand. Whether or not the repercussions of the incident extend thus far, it is quite probable that the opinion, heard from time to time, that Japan will never be able to deal successfully with the Soviets by ordinary peaceful methods, will gain more adherents. Furthermore, to point the impossibility of the present dual control of the Railroad, incidents continue to occur, word having recently reached Tokyo that there is trouble at Pogradichnaya where Japanese troops were refused permission to use the station compound and where, on April 30, white Russian guards are reported to have attacked six Soviet railroad officials. In concluding this subject it is hardly necessary to point out that the risk of the eventual seizure of the railroad or its economic ruin still remains and, if the conference fails, may be regarded as considerably increased.

In regard to the fisheries dispute there have been no concrete developments in the last several weeks but it is rumored in the press that a plan is under consideration to organize a joint Soviet-Japanese corporation, capitalized at 60,000,000 yen, to conduct the fisheries. To this corporation, which would be set up under Japanese law, Japan would contribute the fishing equipment of the Nichiro Fishery Company and affiliated companies while Soviet Russia would contribute, besides equipment, the fishing grounds in Soviet territorial waters. It is proposed, according to these reports, that profits be divided on a 50-50 basis and that the concern be headed by a Japanese president and a Soviet vice-president. Although this concern would not operate under many of the handicaps faced by the Chinese Eastern Railway, it is questionable whether Soviet Russia would show much enthusiasm for another international venture of this kind.

Another question which appeared to cause some anxiety in Japan were the reports that Soviet Russia intended to join the League of Nations. Several of the vernacular papers commented editorially on this development and all expressed surprise at the change of attitude on the part of the Soviets. The general opinion seemed to be that the USSR, if reports are true, wishes to join the League for the very reason that Germany and Japan decided to quit it, namely "the great change in the international situation". It was advanced that Soviets were led to this step by considerations of national safety but that the matter would not affect Japan or Japanese policy which was based on justice and friendship.

Adverting to another of the questions alluded to in my conversation with the Soviet Ambassador it will be seen that his government is said to regard the Mongolian question with equanimity. This opin-

ion is at variance with the consensus of local opinion formed from the available information. It is believed that the Japanese are in a position to make their influence felt in Inner Mongolia, not only through the activity of their agents in that region, but through the influence of measures already taken in the "Manchukuo" Inner Mongolian Province of Hsingan which are designed to benefit the Mongols. Furthermore a member of my staff was told some time ago by a newspaper man who had interviewed the Panchen Lama that that individual declared that the coronation of Pu Yi had a strong ideological appeal to all Mongols. It will be remembered in this connection that the Mongols have long regarded the Manchus as their allies and that, in recent years, they have bitterly resented Chinese immigration. In Inner Mongolia where the desire for a strong autonomous government is said to prevail it is likely that the people will be swayed by the highest bid for their friendship. The Japanese hold strong cards and the fact that Inner and Outer Mongolia are traditionally antagonistic will not further Soviet influence.

But more important than as a sphere of influence the strategic significance of Mongolia is worthy of note. A flank attack on Soviet Russia through Outer Mongolia would isolate the Far Eastern possessions of the USSR and a flank attack on "Manchukuo" through Inner Mongolia would likely prove more decisive than a frontal attack. While the Mongolian question has evidently not matured as yet, public interest has been attracted by press reports of the activity in Sinkiang further west and south. I shall continue to watch for any significant developments regarding this general region, sometimes held to be the greatest danger spot in Soviet-Japanese relations.

Respectfully yours,

JOSEPH C. GREW

793.94/6644 : Telegram

The Ambassador in France (Straus) to the Secretary of State

PARIS, May 4, 1934—11 a. m.
[Received May 4—8:30 a. m.]

342. Yesterday evening Léger⁹⁴ talked with Marriner about the background of the French reply to the Japanese note of explanation with regard to their attitude toward China which had been communicated by the Japanese Ambassador here to the French Government. The reply was handed to the Japanese Ambassador yesterday morning and released for the press of this morning.

Léger said that the French Government had been slow in making any statement on the subject not because its intentions were in doubt

⁹⁴ Alexis Léger, Vice Political Director of the French Foreign Office.

but because they felt that the first interests in this subject lay in the United States and in England and they wished to be sure that any attitude they might adopt would be insofar as possible in accord with the policies of these two countries. He said that up to the present the British attitude had not been made perfectly clear but that when the matter was called officially to the attention of the French Government by the note of explanation of the Japanese Ambassador they felt it was essential that France's position as an upholder of the existing treaties should be made absolutely clear. He feels that the French reply makes it plain that France does not regard Japan as having any different relation to China than that of the other signatories of the Washington agreements and would expect any question arising to be settled by the friendly procedure specified in article 7 of the agreement of February 6, 1922.

Mailed London, Geneva.

STRAUS

793.94/6695

The Ambassador in Japan (Grew) to the Secretary of State

No. 771

TOKYO, May 4, 1934.

[Received May 19.]

SIR: Reverting to my despatch No. 751 of April 20, 1934, as well as to my telegram No. 71 of April 18, 5 p. m., and subsequent telegraphic correspondence concerning the "unofficial" statement issued to the press by the spokesman of the Foreign Office on April 17 regarding the Japanese attitude towards the rendering of assistance to China by other countries, I have the honor to submit the following report more as a record of the facts and developments than as an appraisal of their results. Such an appraisal and a general survey of the situation can, I feel, better be made after the domestic and foreign reverberations from the affair have run themselves out.

From information gathered from many sources I am now convinced that the background of Mr. Amau's statement was as follows:

The Japanese Government for some time had been increasingly anxious over the reports of foreign activity in China. Mr. Rajchman was reported to be on his way to Geneva to report to the League of Nations on the question of technical assistance. Mr. Monnet also of the League of Nations was said to be active in Shanghai in organizing an international syndicate for the purpose of financing a public works program in China. A considerable number of officers with the German General von Seeckt were understood to have arrived in China for the purpose of giving military instructions, while foreign firms were active in selling to the Chinese Government airplanes, automo-

biles and other potential accessories of warfare. From all of these activities Japanese interests were at the insistence of the Chinese Government understood to be excluded. Accordingly an instruction was sent with the approval of the Minister for Foreign Affairs to Mr. Ariyoshi, Japanese Minister in China, conveying the attitude of the Japanese Government toward these various activities in particular and to the relations of foreign countries with China in general. (I have been informed from a reasonably reliable source that the instruction, before being sent to Mr. Ariyoshi, also received the approval of the Cabinet.)

For some time past Mr. Amau, the spokesman of the Foreign Office and Chief of the Bureau of Information and Intelligence, had been pressed by Japanese newspaper correspondents for a statement of the attitude of the Japanese Government towards these various activities. This pressure appears to have come to a head on April 17 when Mr. Amau with the approval of Mr. Shigemitsu, the Vice Minister for Foreign Affairs, gave to the Associated Press correspondent the gist of the instruction, in a rough oral translation. Later on the same day he gave to the Japanese correspondents the text or substance of the instructions to Mr. Ariyoshi, and on the 18th he made for the foreign press correspondents a written translation into English of the same document. This translation was at first given out on Foreign Office stationery as an official communication, but it was later labelled "unofficial" and all but a few copies, one of which is now in possession of the Embassy through the courtesy of Mr. Fleisher, correspondent of the *New York Herald Tribune*, were recalled. At first Mr. Amau stated to the Associated Press correspondent that his statement (or the diplomatic instruction on which it was based) had received the approval of the Minister for Foreign Affairs, but it will be observed that later* he modified this assertion by stating to Mr. Dickover⁹⁵ that his oral statement of April 17 did not have the approval of Mr. Hirota. I myself am now convinced that while Mr. Hirota had approved the original instruction to Mr. Ariyoshi, he was not consulted before Mr. Amau's statement of April 17 was given out and in view of his policy and efforts to improve Japan's relations with other countries, I doubt very much if he would have approved of the issuance of this public statement at the present time. Mr. Shigemitsu and Mr. Amau seem to have had no conception of the effect which it would produce abroad. There are others who believe that the announcement was a carefully considered step taken with the full approval of Mr. Hirota who later was obliged to make Mr. Amau the scapegoat. I do not share these views and find that most of my colleagues now agree

* Embassy's telegram #78, April 26, 9 p. m. [Footnote in the original.]

⁹⁵ Erle R. Dickover, First Secretary of Embassy in Japan.

with me on this point. Mr. Hirota's confidential statement to me of April 25 † to the effect that the statement had been issued without his own knowledge or approval and that an erroneous impression of the Japanese Government's policy had thereby been given to the world, impressed me as being sincere. In such a case one can only be guided by one's personal impressions. My impressions of his sincerity were quite clear. My British colleague who at first reported to his Government that the announcement had been made with Mr. Hirota's approval, later altered his opinion and cabled his Government accordingly.

Whatever the truth of the matter, there is no doubt that Mr. Hirota has been placed in a difficult position. There are many among the Japanese themselves who consider that the Foreign Office committed a thoroughly awkward blunder which was not helped by its subsequent awkward handling. But Mr. Hirota is, so to speak, between the devil and the deep sea because of the chauvinists and the military on the one hand and the moderates on the other and it would have placed him in a thoroughly dangerous position to have publicly disavowed Mr. Amai's statement. The word "assassinations" has been used in the comments of some observers. The Minister, however, said to me in confidence but in apparently complete frankness ‡ that the policy of the Government is complete support and observance in every respect of the provisions of the Nine Power Treaty and that Japan has no intention of seeking special privilege in China nor of opposing the bona fide trade of other foreign powers nor of interfering in any way with China's administrative or territorial integrity. This he said is the precise policy of the Emperor,⁹⁶ which he himself is doing his best to carry out and that he intends to do so even at the possible cost of his own life. He added that in carrying out this policy he has the full support of the Minister of War. Mr. Hirota went on to say that naturally the maintenance of peaceful conditions in China is especially important to Japan in view of her own propinquity and that certain foreign influences, which he did not specifically mention, are constantly trying to stir up trouble for Japan. His endeavor, he observed, is to counteract these influences so far as possible while fully respecting the rights and legitimate interests of other countries.

The further steps in the affair have been fully dealt with in the various telegrams from this Embassy. The doubts and misunder-

† Embassy's telegram #75, April 25, 1 p. m. [Footnote in the original; telegram printed in *Foreign Relations, Japan, 1931-1941*, vol. I, p. 227.]

‡ Embassy's telegram #75, April 25, 1 p. m. [Footnote in the original.]

⁹⁶ Marginal notation by the Chief of the Division of Far Eastern Affairs: "Then why did Hirota approve the instruction to Ariyoshi—which instruction is the important item in the whole story? SKH."

standings which arose with regard to the precise nature of the spokesman's original statement can be explained only by the shifting positions taken by Mr. Amau himself. The facts have been explained to the Department as clearly as possible.‡

The Department's *aide-mémoire* ¶ was decoded at 5 p. m. on April 29, and although the Foreign Office was closed owing to that day being both Sunday and the anniversary of the Emperor's birthday, I was fortunately able by writing an urgent personal letter to obtain an interview with the Minister at his residence at 6:30 when I presented the *aide-mémoire*. The Minister's only comment after reading it was that the whole affair had caused "great misunderstanding". He said at that time that he would reply in due course, but according to conflicting press reports it does not yet appear to have been definitely decided whether a reply will be made or not.[¶] The chauvinistic elements appear to desire to leave the matter as it is. They claim that Japan has stated her policy and that that settles the matter. The more reasonable elements, however, realize that the matter can never be settled or "closed" as long as Japan's views are so at variance with those of other countries in general and of the United States in particular. They therefore believe that it would be better to discuss the question further and if possible to remove the seeds of future discord. In any case there are indications that the authorities are considering their next step, if any, with the greatest care and it will probably be discussed not only by the Cabinet but by the Privy Council in view of the importance which the matter has now assumed.

For my own part I may say that the substance and tone of the Department's *aide-mémoire* have my full concurrence and admiration. I believe that it was absolutely called for by the circumstances and that it was expressed with a clarity and moderation which not only puts our Government on precise record without giving needless offense, but which will undoubtedly sink into the Japanese consciousness whatever the public reactions may be.

I was last night informed by my French colleague that his Government has handed to Mr. Sato, Japanese Ambassador in Paris, a communication setting forth the views of the French Government in the light of the situation which has arisen from Mr. Amau's statement of April 17, but this communication has not yet been published here.

‡ Embassy's telegrams #77, April 26, 5 p. m. and #78, April 26, 9 p. m. [Footnote in the original.]

¶ Department's telegram #59, April 28, 7 p. m. [Footnote in the original; telegram printed in *Foreign Relations, Japan, 1931-1941*, vol. I, p. 231.]

[¶] Marginal notation by the Chief of the Division of Far Eastern Affairs: "Grew says nothing about having said 'No reply expected' (which [Japanese Ambassador] Saito has said that Grew said)."

At a later date the Embassy will no doubt be in a better position to appraise the significance and results of this whole affair and to report thereon to the Department.

Respectfully yours,

JOSEPH C. GREW

793.94/6645 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, May 5, 1934—noon.
[Received May 5—2:50 a. m.]

202. Legation's 198, May 3, 11 a. m. Following from Minister at Nanking dated May 4, 3 p. m.

"Hsu Mo informed me May 3 that the Chinese Minister at London had reported that he had been informed by the British Government that 'special rights' meant Japanese concessions and the railway zone in Manchuria. Hsu Mo stated that the Chinese Government was dissatisfied with this reply and had informed its Minister to make further inquiries".

For the Minister:
GAUSS

793.94/6665

Memorandum by the Secretary of State

[WASHINGTON,] May 7, 1934.

The British Ambassador called and first stated that in conversation with an important United States official, not of the State Department however, he had indicated a violent state of mind in criticizing the recent statement of Sir John Simon in the House of Commons regarding the British attitude towards the statements about control of the Orient emanating from various Japanese sources during past weeks. The Ambassador said that he had called to inquire whether the State Department felt specially disappointed at the nature and the substance of this statement of Sir John Simon. I replied that the statement had not called for any special conference here in the Department on the part of myself and associates; that there was, naturally, some comment and speculation with reference to the clause in Sir John's statement which proposed to make exception to some kind of rights of Japan in Manchuria or other portions of China. I stated that I myself was frankly somewhat disappointed to find this exception clause, which seemed somewhat enigmatical, in Sir John Simon's statement and that so far as my impression went the matter was viewed by my associates with the same state of mind; that while there had been no general expressions in the way of adverse comment

in the United States, I had observed from London press dispatches that the press of England was generally critical of this phase of Sir John's statement. The Ambassador said that that was another matter which he was not dealing with, but that he was making his inquiry of me with respect to American sentiment and especially the state of mind of the State Department. I again told him that all in all the Department was not and had not been exercised about the matter; that England being more interested materially in the Orient than the United States, it was her fullest privilege to treat the Japanese publicity as her judgment thought best; that it was true all of the governments signatory to treaties operative especially in the Orient were in the same boat with respect to their observance; that I myself felt that since none of the countries such as Great Britain and the United States were planning pronouncements in any event that would call for the use of force, unequivocal and clearcut statements from each government relative to their rights, interests, and obligations, in the Orient—such statements being made separately and independently by each of the governments—would offer the best possible method of dealing with these Japanese utterances by arousing the moral sentiment of the world; that I would have been delighted if each of the governments signatory to such treaties had thus spoken out, but unfortunately only Great Britain, the United States and France had done so. The Ambassador said that it was thoroughly justifiable for Sir John Simon to insert the exceptional clause in his statement about the rights of Japan. My reply to this was that in stating a broad fundamental position relating to the rights, interests and obligations of all the nations signatory to the treaties involved, there was not any occasion whatever for singling out some one of numerous, purely minor or local conditions for the purpose of making an exception in favor of Japan and in favor of Japan's alleged rights.

The Ambassador seemed entirely content when I stated to him that this government was not exercised or disposed seriously to complain at the particular or exceptional clause above referred to in Sir John Simon's statement.

C[ORDELL] H[ULL]

793.94/6685

The Ambassador in Great Britain (Bingham) to the Secretary of State

No. 686

LONDON, May 7, 1934.

[Received May 16.]

SIR: I have the honor to refer to the Department's telegraphic instruction No. 176, May 2, 4 p. m., asking for an analysis of the British

Government's attitude and action with regard to the Japanese statement on April 17th.

Before discussing the motivating forces formulating the British attitude on this question it seems desirable, even at the risk of repeating to some extent information previously reported by telegram, to summarize chronologically the events subsequent to April 17th.

The first mention of the Japanese statement appeared in the London press on April 19th, and I saw the Foreign Secretary on April 20th (see my No. 183 [187], April 21, 10 a. m.⁹⁸) who had just received a report from the British Ambassador at Tokyo. Obviously at that time Sir John Simon personally took an apprehensive view of what Japan might have in mind, and he anticipated, once the facts were established, an early exchange of views with the United States Government. I cannot but feel that Sir John Simon's personal attitude as expressed to me underwent considerable modification by the time he made his statement in the House of Commons (my No. 190, April 23, 4 p. m.), since in this statement he took pains to emphasize that the British Government had already made "a friendly inquiry" at Tokyo (which instruction to the British Ambassador in fact had only been drawn up on the previous evening) with the object of "clarifying certain aspects" of the Japanese statement; and in response to questions addressed to him regarding cooperation with the United States he was obviously anxious to avoid making any definite answer.

The statements of the Japanese Ambassador at Washington were reported in the press here, as also were the remarks of the Japanese Consul General at Geneva and the Japanese Ambassador at Berlin. Ambassador Nagai's assertions were particularly scrutinized in an attempt to estimate whether in fact Japanese and German officialdom, both outside the League of Nations, were in any accord. It may also be well to point out that in general the press carried very full reports of the United States attitude towards this policy of Japan, particular reference being made to the gravity with which it was viewed in Washington.

While naturally press despatches from abroad were much featured in the daily newspapers, the London Foreign Office, through its spokesman, was consistently pointing out that until Japan's intentions were definitely ascertained, and until it was determined how far, if at all, Great Britain was affected, it would be a mistake to assume that this statement of policy was as serious as a first casual reading might indicate. Consequently there was rather limited editorial comment, and it was not until April 26th that the *Times* published its first editorial reviewing the situation to date. This editorial started off with the sentence: "The latest developments at Tokyo sug-

⁹⁸ See also telegram No. 188, April 21, 11 a. m., p. 122.

gest that to condemn Japanese policy towards China unheard is just as premature as to applaud it." But it is the last paragraph which is of particular interest, in that it pointed to the prosperous British colony of Hong Kong and to the extent of British investments in Shanghai (which the Secretary of the China Society in London later stated were even underestimated in that editorial, for while "the Japanese population[""] (in Shanghai) "exceeds the British, the total of British capital invested there, as shown by a recent investigation of a neutral economist of repute, is three times as large as that of Japanese capital. Moreover, as Shanghai does more than half China's foreign import trade, and the value of the British exports to China (excluding Manchuria) last year exceeded Japan's, there is ground for claiming that commercially also our interests in the port are larger than her's.")

On April 30th the *Times* also carried the text of a statement telegraphed by its correspondent in Tokyo as the only version of the official spokesman's oral statement of April 17th for which responsibility was accepted by the Tokyo Foreign Office. The text is as follows:⁹⁹

"Japan has no wish to infringe the independent interests or prosperity of China. As regards Manchukuo, we ask the other Powers to recognize the fair and free actions of that country. Neither in Manchukuo nor in China have we any territorial ambitions. Japan is geographically in the position to share in trade profits if China is united and developed, but the unification and prosperity of China must be attained by her own awakening, not by the selfish exploitation of other Powers.

"We have no intention to interfere with the interests of third parties. If other Powers engage in trade with China for the benefit of China we welcome it. We have no desire to deviate from the policy of the open door and equal opportunity, or to infringe treaties, but Japan objects to any action whatsoever by other Powers that may lead to disturbance of peace and order in East Asia. Japan bears the responsibility for the maintenance of peace and order in East Asia with other Asiatic Powers, particularly China. The time has passed when other Powers or the League can exercise their policies only for the exploitation of China."

The press on April 30th carried in general a long report of the American position, intimating that President Roosevelt himself took a serious view of the situation. That afternoon Sir John Simon made his second statement in the House of Commons, the text of which was contained in my telegram No. 230 [213], April 30, 3 [5] p. m. Editorial opinion subsequent to the Foreign Secretary's statement of April 30th was forwarded in the Embassy's despatch No. 675,

⁹⁹ For other versions of the Amai statement, see *Foreign Relations, Japan, 1931-1941*, vol. I, pp. 224 and 229.

May 2, 1934,¹ which pointed out that the general tone of the responsible daily press (likewise prevalent in conversations) was an attempt to whitewash the intent of Japanese policy because of the alleged satisfactory assurances that have been received in reply to inquiries made at Tokyo and especially because of specific assurances that in any event Japanese policy was not directed against Great Britain. A contrary view is expressed in the *Economist* of May 5th (copy attached).¹ An *Evening Standard* cartoon (copy attached)¹ is also an unconscious endorsement of this contrary point of view.

Sir John Simon's statement to the House of Commons on April 30th contained the reference which gave rise to question 3 in the Department's telegraphic instruction No. 176, May 2, 4 p. m. When a written question is asked of the Foreign Secretary in the House of Commons it is submitted to the geographical department of the Foreign Office to frame a reply in the first instance. The present head of the Far Eastern Department, Mr. Orde, is away on leave and his assistant apparently drafted the reply Simon made (my No. 213, April 30, 5 p. m.). Since then the Chinese Legation and the press have been closely questioning the Foreign Office as to the particular significance of the phrase. In every case it has been pointed out that the phraseology had no hidden meaning and was intended merely to describe certain rights and concessions which Japan enjoyed and were not shared by other Powers, as, for instance, Japanese concessions in Hankow and Tientsin and certain policing rights with railways (i. e., the South Manchuria Railway was tentatively mentioned on one occasion; on another occasion the Kiukian Railway). When the Acting Chief of the Far Eastern Department was asked by a member of my staff about this particular phrase he was obviously perviewous on this point and conveyed the impression that he had in truth framed the draft reply for Sir John Simon to read in the House of Commons. "Obviously the phrase was an unfortunate one, but not intended to cover any special significance, for", said this Acting Chief, "Great Britain has certain rights in China that are not shared by other countries, as we know France has, etc., and we wanted merely to make clear that whatever Japan had in this category of rights were also excepted."

The above, I believe, is the correct interpretation of this phrase and, in my opinion, no particular significance should be attached to it.

In presenting this chronological diary of official statements and press reports on the Japanese statement I venture also to set forth certain points of view that have been expressed repeatedly as considerations the Government had in mind in reaching its determination of policy.

The two compelling problems before the British Government are,

¹ Not printed.

first, the uncertainty of the European situation, particularly as regards the rearmament of Germany and the general breakdown of disarmament negotiations; secondly, the necessity of fostering Great Britain's progress to economic and financial recovery. The first problem needs no elaboration. The requirements of the second problem, which are equally evident, were authoritatively explained in the budget speech of the Chancellor of the Exchequer in which he took pains to point out that, whereas the first impetus to increased British trade had come from the home market, further recovery depended entirely on the improvement of world conditions and world trade (and it so happened that this speech announcing reductions in the British income tax and remissions in the emergency cuts of 1931 was made on the very day the Japanese spokesman made his initial statement in Tokyo). The export of cotton and woollen textiles is not the least important part of British foreign trade, and the problem of Japanese competition in this and other fields has for some months been receiving the serious attention of the Cabinet, as has been reported by this Embassy in earlier despatches. There is no doubt that the Cabinet, at the moment of formulating its position on the Japanese statement, had clearly in mind the fact that there would be announced shortly a scheme of colonial import quota restrictions directed in the main against Japanese goods. In view of the Empire's favorable balance of trade with Japan, such a policy would defeat its object if the moderate amount of support which can be given Lancashire by drastic action in the Empire would create deep trade hostility or provoke open or disguised Japanese retaliation. For, in the last analysis, the market for British textiles, as is the case with most British exports, is the world, not the colonial market. So it follows that in determining its attitude at the present time the British Government was not inclined to consider any immediate policy to add political fuel to the conflagration shortly to be augmented by the arbitrary restriction of Japanese imports into British colonial possessions. (See my despatch of today's date).²

Therefore, except in the fact of a direct and pressing menace to the Empire in the Far East, and in view of other considerations enumerated previously, it is unquestionably the British view that the present is not the propitious moment to press the Japanese question, especially since it is reasoned that the United States and Russia will adopt such an attitude at the present time as to defer a crisis.

Then, too, there has been an element in this country traditionally friendly to Japan which has for some time pointed out that a strong China in the Far East was not necessarily a favorable factor to England, since Chinese nationalism has bred British boycotts, the Shanghai situation of 1930 [1925?], agitation for the abolition of extraterritorial

² No. 693, May 7; not printed.

toriality and concessions resultant, for instance, in the recession of Weihaiwei and the demand for the renunciation of Hong Kong. This British element with Far Eastern interests is opposed to antagonizing the Japanese politically for the following reasons:

(1) Such a policy would cause Japanese retaliation against British trade, not only in Japan, but also in China, since the Japanese would certainly institute more or less effective propaganda and indirect controls against British-Chinese trade.

(2) Such a policy, which would tend to strengthen the militarist element in Japan, might lead to an issue at a time when the Singapore Base, as revealed in the Admiralty conference of last autumn, is almost two years from completion.

(3) Should England eventually decide upon a policy of resistance to Japan it must be calculated upon cooperation with the United States which will not be truly effective unless the public will of the United States is back of the Government in a policy of aggressive resistance. Such an exchange of notes as Mr. Hull and Mr. Hirota recently completed and the withdrawal of the American fleet from the Pacific are both cited as instances that the American Government wants to play down the Japanese situation.

Paradoxically, the conclusions of this group are tacitly reinforced by the attitude of the strong antiwar element in this country. This group is entirely dissatisfied with the Government's Japanese policy and with its supine acceptance of Japanese explanations. But while it is in principle opposed to the use or threat of force, in such a case, to suppress aggression it is somewhat at sea in this situation since its former panacea in such circumstances, the League of Nations, seems to offer no solution in the present crisis, as it was unable to enforce its will in the Manchurian situation.

These, then, are arguments which have been given consideration in determining policy here, obtained incidentally in conversations with high Government officials (other than those reported in my No. 196, April 24, 8 p. m., and my No. 200, April 25, 6 p. m., together with the memorandum forwarded by letter dated April 24, 1934, to Mr. Hornbeck³). I venture also to outline a little more fully than in my telegram No. 228, May 7, 11 a. m., to Mr. Norman Davis,⁴ the very definite conclusions I have reached regarding British policy.

The British Government has made up its mind to run no risk so far as the Far Eastern situation is concerned at this time and to concentrate all its efforts in trying to keep peace in Europe and to rehabilitate its economic life. England considers that the seriousness with which the Japanese statement of policy of April 17th was viewed in the United States, in Russia and in China is sufficient to deter Japan from taking any provocative action at the present time; that for the

³ Latter not printed, but see reply dated May 29, p. 196.

⁴ Not printed.

moment no threat to the British Empire lies in the Far Eastern situation, nor is Japan likely to provoke a war in the Far East unless Germany precipitates a war in Europe. For the time being England will endeavor to refrain from any provocative action vis-à-vis Japan (which purely economic considerations do not demand) which would tend to increase tension in the Far East or more particularly between Japan and England. For this reason, although until the Japanese statement of April 17th the British Government was prepared to join with the United States Government in exploratory conversations for the forthcoming naval conference, this policy is now under review by a special Cabinet Council and no decision has as yet been reached. This accounts for the recommendation in my telegram to Mr. Norman Davis (No. 228) that no further inquiries be made of the British Government regarding Anglo-American naval conversations until the outcome of the British Cabinet's decisions is known.

I have learned from usually well informed sources that it has even been suggested in the present Cabinet Council discussions that this was not a particularly happy moment, from a purely British viewpoint, for a renewal of the London Naval Treaty discussions, provided in these discussions England would attempt to maintain parity with the American navy and by Anglo-American cooperation to force Japan into the maintenance of an inferior position she was not willing to accept. Predicated on the fact that the American navy would never be used against Great Britain, it was a question for study whether England would not do better to consider her requirements vis-à-vis her European neighbors, the defence of her sea routes, and especially her Far Eastern requirements, outside the compromise of a possibly unsatisfactory future naval treaty.

From the long term point of view, I am certain the British are under no illusions as to the objective of Japanese policy in regard to China from the twenty-one demands of 1915 to date; that this policy will not be carried forward aggressively whenever world indifference or world disturbances permit. The English realize that ultimately this situation will have to be met, preferably side by side with the United States; but for the present, with the uncertain conditions in Europe, and economic adjustments to be made at home, they do not want to jeopardize the Far Eastern *status quo* or England's comparatively advantageous position in China by any appearance of such Anglo-American cooperation, coercion or preparedness as would put Japan back again in the hands of her militarists and force an issue thereby, which for the time being the British Empire does not want to meet.

Respectfully yours,

For the Ambassador:
RAY ATHERTON
Counselor of Embassy

793.94/6659

The British Ambassador (Lindsay) to the Secretary of State

WASHINGTON, May 8, 1934.

DEAR MR. SECRETARY: In our conversation yesterday we touched on the phrase in the British statement to Japan concerning special rights possessed by Japan in relation to China which have been recognised by other Powers and not shared by them. Last night I received a telegram from Sir John Simon in which he gives me the text of the answer he had returned in the House of Commons to a parliamentary question on the phrase quoted above. The answer is in the following terms:—

“The phrase which my honourable friend has quoted was employed for the purpose of indicating that any particular policy of His Majesty’s Government in China or any particular activity of British subjects could only be successfully challenged by showing that such policy or such activity infringed some special Japanese right recognized by other Powers and not shared by them.

“They are not rights of a general character that would fall within category indicated by my honourable friend. Japan however, like other countries, has no doubt acquired special rights in China recognized by other Powers but not shared by them by virtue of agreements relating to particular enterprises. An example would be the Japanese concession in Hankow. I am not in a position to give a list of such agreements nor do I think it necessary to do so, since the responsibility of proving that this or that right comes within the category in question does not rest on His Majesty’s Government.”

I think that this statement by Sir John Simon has a considerable bearing on the conversation which we had.

Believe me [etc.]

R. C. LINDSAY

793.94/6676: Telegram (part air)

The Consul at Geneva (Gilbert) to the Secretary of State

GENEVA, May 9, 1934—5 p. m.

[Received May 11—7: 10 a. m.]

70. In a confidential conversation today Hoo⁵ informed me as follows:

(1) He had telegraphed for instructions to Nanking submitting suggestions in line with those discussed in my 58, April 26, 4 p. m. paragraph 4.⁶ Nanking did not reply.

(2) Avenol advised him that the best position for the Chinese in the Technical Assistance Committee would be to ignore the Japanese

⁵ Victor Chitsai Hoo, Chinese Minister in Switzerland.

⁶ See footnote 76, p. 146.

public declarations and to proceed on the assumption that the assistance to China would continue as planned. Hoo stipulated that in such event the League issue a communiqué revealing the decisions of the Committee should they be to that effect. Hoo believes that this course will be followed.

(3) The Chinese hope is that this may force the Japanese to define their objections to the assistance project more specifically or respecting some elements of the work which would give China the opportunity to raise the moral issue (Consulate's 66, May 3, 9 a. m. paragraph 3). Hoo admitted, however, that it would probably be difficult to get the Japanese to do this.

(4) The Chinese have in the present situation given up any idea of raising the general Far Eastern question in the Council or having it raised in the consultative committee.

(5) Hoo will represent China in the forthcoming meetings of League bodies.

GILBERT

793.94/6717

The Minister in China (Johnson) to the Secretary of State

NANKING, May 10, 1934.

[Received June 4.]

SIR: I have the honor to enclose herewith a memorandum dated May 3, 1934,⁷ reporting a conversation between the American Minister and Dr. Wang Ching-wei, President of the Executive Yuan and Acting Minister for Foreign Affairs, and a memorandum dated May 4, 1934,⁷ of a conversation between the American Minister and Mr. Peng Shopei, Director of the Department of Political Affairs of the Executive Yuan, relating to the present controversy between the Chinese and Japanese Governments.

It is interesting to note that Dr. Wang Ching-wei stated, *inter alia*, that it had been decided in the conference recently held by him with General Chiang Kai-shek (at which Mr. Huang Fu⁸ was present) not to alter China's present policy with regard to the question of postal service between China Proper and Manchuria, but that two possible methods of settlement of the question of through traffic on the Peiping-Mukden Railway had been discussed, the necessity of doing nothing which would prejudice the Chinese policy of non-recognition of the regime in Manchuria being constantly borne in mind. One of the alternative methods for conducting through railway traffic without prejudice to the idea of non-recognition of the regime in Manchuria, Dr.

⁷ Not printed.

⁸ Chairman, Peiping Political Council.

Wang said, was to give control of the traffic between Mukden and Peiping to some sort of travel agency.

I have the honor to state, as of incidental interest, that Mr. Y. Suma, Secretary of the Japanese Legation residing in Nanking, a few days ago informed an American newspaper representative that such a method of disposing of this problem would not meet with the approval of the Japanese Government.

Mr. Peng made the interesting statement that he thought the Japanese would present a number of demands in the near future, both to the Nanking and Peiping authorities.

In this relation, it may be observed that a number of rumors have reached this office to the effect that such demands have already been presented by the Japanese authorities, presumably representatives of the Kwantung Army, among them being the right to build a railway from Chengte, in Jehol, to Peiping; the right to build a railway from Kueihua, on the Peiping-Suiyuan Railway, to Taiyuanfu, capital of Shansi Province; the right of Japanese subjects to raise cotton in North China; the right of Japanese subjects to conduct mining operations in northern Shansi, etc. It has been impossible to find any official basis for these rumors.

Very respectfully yours,

For the American Minister:
WILLYS R. PECK
Counselor of Legation

893.01 Manchuria/1113

*The Consul General at Mukden (Myers) to the Minister in China
(Johnson)*⁹

No. 925

MUKDEN, May 10, 1934.

SIR: I have the honor to enclose herewith a copy of Bulletin No. 17, dated May 3, 1934,¹⁰ issued by the Bureau of Information and Publicity, Department of Foreign Affairs, Hsinking, embodying the communications which were exchanged between Minister of Foreign Affairs, Mr. Hsieh Chieh-shih, and the Right Reverend Bishop A. Gaspais, Acting Apostolic Delegate to "Manchukuo".

The press reported that in connection with the official announcement of the appointment of Bishop Gaspais as the temporary representative of the Catholic Church in "Manchukuo", which was issued by the Catholic mission at Hsinking on April 20, the following statement was made:

"It is a well-known fact that the Catholic Church, regardless of the country in which it preaches the Gospel, does not neglect the interests

⁹ Copy transmitted to the Department by the Consul General at Mukden in his unnumbered despatch of May 10; received June 9.

¹⁰ Not printed.

and welfare of the people of that country. The Holy See remains always faithful to this tradition, by choosing representatives in order to negotiate with the constituted authorities in regard to all problems which concern the Catholic Church.”

It may be added that the Japanese press did not fail to remark that the Bishop's appointment was regarded as *de facto* recognition of the new state by the Holy See.¹¹

Respectfully yours,

M. S. MYERS

894.8591/1

The Secretary of State to the Secretary of the Navy (Swanson)

WASHINGTON, May 11, 1934.

MY DEAR MR. SECRETARY: I acknowledge the receipt of the Navy Department's secret letter of April 27, 1934 ((SC)EF37), in which reference is made to the reported importation into Japan of large quantities of raw materials essential for belligerent purposes, and in which it is suggested that an indication of the possibility of hostilities being initiated would be a concentration of Japanese shipping in Japanese ports. The request is made that American consular officers be instructed to check and compare carefully all movements of Japanese vessels with the published schedules of their movements, in order to detect any marked deviation therefrom.

The Department is most desirous of cooperating in every way practicable with the Navy Department. It is, however, reluctant to issue a general instruction to consular officers in the sense of your request, for the reason that a systematic effort on the part of American consular officers in all parts of the world to follow the movement of Japanese vessels would inevitably become a matter of public knowledge and would tend to affect adversely the relations between the United States and Japan. It is believed that American naval attachés, who are of course stationed in all the principal maritime countries, would be in position to procure sufficient information to indicate whether a concentration of Japanese vessels is being effected.

The American Consul at Kobe, Japan, is under standing instruction to render a monthly report on Japanese shipping, and he has at various times reported on the distribution of Japanese vessels in various parts of the world. He is now being directed to follow the matter as closely as possible and to report by télégraph if he should procure information tending to indicate any significant change in the distribution of Japanese vessels.

Sincerely yours,

CORDELL HULL

¹¹ A news despatch dated April 19 from Rome stated that this appointment was not meant to imply in any way a recognition of "Manchukuo" (893.00 P.R./81).

793.94/6678 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, May 12, 1934—6 p. m.

[Received May 12—6:48 a. m.]

92. I am informed by my French colleague that about 10 days ago the French Foreign Office handed to Ambassador Sato a memorandum setting forth the French Government's views on Japan's China policy. The text or the substance of the memorandum has not been published here and my French colleague has not received the text but he tells me that it has caused embarrassment to the Japanese Government because it specifically calls attention to the stipulations of article 7 of the Nine-Power Treaty, with which the recent statements of Japanese policy would appear to conflict. My French colleague thinks that when the French newspapers containing the text of the memorandum arrive in Japan it will be published and will cause a reopening of the discussion of Japan's policy.

Repeated to Peiping by mail.

GREW

793.94/6678 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, May 12, 1934—1 p. m.

71. Your 92, May 12, 6 p. m. The substantive portion of the French note, as reported in press despatches from Paris, is as follows:

"It is with satisfaction that the French government notes the affirmation thus given by the Japanese government of its fidelity not only to the general principles of international law but to the conventional statutes which now regulate the relations of China with the foreign powers.

"From the last part of the note mentioned above, it appears that Japan cannot remain indifferent to interventions which might prejudice the maintenance of order and justice in the Far East.

"If such events should occur in China the French government believes that the Imperial government would seek, in concert with the other powers, to find a lawful solution in conformity with the principles which inspire the acts of Washington, and notably by application of the conciliatory procedure laid down in Article 7 of the treaty of February 6, 1922. It is in fact only in this framework and in this form, in the opinion of the French government, that an equitable and satisfactory solution of Chinese questions can be found."

The Embassy at Paris was informed by the Foreign Office that the French Government had delayed its note until action had been taken by the United States and Britain, for the reason that the

French Government wished to be sure that any attitude that it might adopt would be in accord in so far as possible with the policies of the other two countries, whose interests in the issue raised by the Japanese were conceived to be greater than those of France.

HULL

893.71 Manchuria/57 : Telegram

The Minister in Switzerland (Wilson) to the Secretary of State

GENEVA, May 14, 1934—4 p. m.
[Received May 14—12:25 p. m.]

247. Your instruction of April 24 concerning "Manchukuo" Advisory Committee received yesterday. This morning I learn from Haas that the meeting today is merely to select officers and that at the meeting scheduled Wednesday afternoon¹² it is contemplated that the chairman will make a proposal to following effect:

(1) It will be recalled that "Manchukuo" is not a member of the Universal Postal Union; that the Advisory Committee's report of June 3rd last, paragraph 2, covered preventive action in case of application by "Manchukuo" for admission to Postal Union; that by this the Advisory Committee certainly did not mean that the Assembly resolution prohibited the forwarding of postal correspondence through Manchuria; that such practical steps as might be taken by the appropriate administrations of the states members of the League to enable the carrying on of such transit (under conditions in no sense implying *de jure* or *de facto* recognition of the existing regime in Manchuria) should not be regarded as inconsistent with that resolution.

(2) The Advisory Committee is of opinion that:

(a) "Manchukuo" cannot appeal to the provisions of the Universal Postal Union in regard to its relations with the postal administrations of the countries belonging to the Universal Postal Union.

(b) The Assembly's report and the Advisory Committee's recommendation cannot be construed to preclude the competent technical administrations of members of the League from taking temporary measures which, not being based upon an international convention and not involving the conclusion of an international convention or the use of an organization created by an international convention, may seem to them advisable in order to permit the forwarding of postal correspondence through Manchuria.

(c) If such measures involve the establishment of relations between postal administrations of members of the League and the "Manchukuo" administration such relations should only be regarded

¹² May 16.

as between administrations for the proper conduct of technical services and not as relations between states or governments. Lest the technical nature of such relations lead to confusion it is particularly recommended that should the postal administration of states members of the League address correspondence to the "Manchukuo" postal administration such communications should contain once for all an explicit statement that they are not to be regarded as communications between one government and another.

Comment follows in my 248, May 14, 5 p. m.

WILSON

893.71 Manchuria/58 : Telegram

The Minister in Switzerland (Wilson) to the Secretary of State

GENEVA, May 14, 1934—5 p. m.

[Received May 14—2:10 p. m.]

248. 1. Reference to my 247, May 14, 4 p. m., Haas states that he has discussed proposal with the Chinese and he does not anticipate that they will raise objections thereto. I brought up informally the suggestion that arrangements might be made through the International Postal Union and thence through the appropriate cooperation of the Japanese. Haas replied that he felt there would be more appearance of recognition in dealing with "Manchukuo" through an international convention of which they were not members and against whose membership the Advisory Committee had pronounced than there would be in dealing through the technical organs of the various states directly with similar technical organs of "Manchukuo".

2. I am inclined to think from the attitude of Haas and others with whom I have spoken that the draft proposal will encounter little opposition in the Committee. Therefore should I put forward the Department's views we would find ourselves in opposition to the advice of the technical organs of the League and become the leader if not the sole supporter of an opposition.

3. There would be clearly a certain risk of political consequences if we take such a stand and you may feel therefore that in the circumstances it would be advisable to fall in with the view of the Committee if it accords unanimous approval to the draft. If opposition develops to the draft proposal I shall, of course, bear in mind the Department's preference and do whatever I may discreetly see that it is adopted.

Please instruct urgently.

WILSON

893.71 Manchuria/59 : Telegram

The Minister in Switzerland (Wilson) to the Secretary of State

GENEVA, May 14, 1934—7 p. m.

[Received May 14—2:15 p. m.]

250. Supplementing my 247 and 248. After election of Moresco, Netherlands, as president, the Advisory Committee heard a statement from Eden¹³ as to the motives which led to the British sending their letter of January 8 last (document C 102). The chairman invited comment and the representatives of France, Czechoslovakia, and Switzerland emphasized the entirely technical nature of this matter and the necessity for making recompense directly for services to the "Manchukuo" authorities. Moresco will offer a report at the next meeting on Wednesday afternoon.

It became clearly evident that the entire Committee wishes to treat this matter as purely technical with no political significance. I could not have advanced the Department's views without at once assuming a leadership of a thesis in opposition to that held by other members. I therefore felt it advisable to withhold comment awaiting replies to my 247 and 248. If you still feel it advisable I can take the matter up both informally and formally on Wednesday.

WILSON

761.94/748

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

No. 49

Moscow, May 14, 1934.

[Received May 31.]

SIR: I have the honor to report that, in the course of a long conversation about other matters yesterday, I inquired of Litvinov with regard to his negotiations for the sale of the Chinese Eastern Railway. He said that he had just personally taken the matter into his hands and had begun fresh discussions with the Japanese Government which, he believed, would lead to a definite result. I asked him what effect this would have on the recognition of "Manchukuo". He replied in almost the same words that he used when I asked him the same question on March 14, saying: "Our sale of the Railway to the Government of Manchukuo will constitute *de facto* recognition of the Manchukuo Government." I then asked him if that would be followed by *de jure* recognition. He said that the matter had not yet come up; that the Japanese had never suggested that the Soviet Union should recognize "Manchukuo."

¹³ Anthony Eden, British Under Secretary of State for Foreign Affairs.

With regard to the Japanese announcement of policy toward China, he said that he believed that the object of the Japanese move was to prove to China that she could count on no real help from either the United States or Great Britain. He added that he believed that the Chinese would now be obliged to accept any demands which the Japanese Government might present and that he would not be surprised to see both Peiping and Tientsin occupied by Japanese troops during this summer.

As a final comment, Litvinov said: "It is my impression, and I find the impression general in Europe, that the United States and Great Britain are engaged in tossing the ball of responsibility in the Far East back and forth between them, each one hoping that the other will take the lead. So long as that remains the case, the Japanese will be free to do what they want. It is still my belief that the only effective method of restraining the Japanese is to arrange at once joint action by all powers having interest in the Pacific."

Respectfully yours,

WILLIAM C. BULLITT

893.71 Manchuria/59 : Telegram

The Secretary of State to the Minister in Switzerland (Wilson)

WASHINGTON, May 15, 1934—1 p. m.

152. Your 250, May 14, 7 p. m., and previous. Department considers that course suggested in its mail instruction of April 24, 1934, is preferable to direct relations between interested postal administrations. We do not, however, consider it expedient to take a position of leadership or to raise an issue in this matter. The Department therefore desires that, unless opposition develops to the draft proposal (in which case you should bear in mind the Department's instruction of April 24), you offer no comment other than, if invited to comment, to state, in your discretion, that, provided the procedure outlined in paragraph (2) subsection (e) of the proposal is ensured, your Government is not disposed to object.

HULL

893.71 Manchuria/60 : Telegram

The Minister in Switzerland (Wilson) to the Secretary of State

GENEVA, May 16, 1934—6 p. m.

[Received May 16—2:15 p. m.]

253. Department's 152, May 15, 1 p. m.

1. At the meeting of the Advisory Committee on "Manchukuo" this afternoon the president circulated a draft project essentially

the same as that outlined in my 247, May 14, 4 p. m. The last subparagraph, however, differed slightly from subparagraph (c) and read as follows:

“In the event of such measures involving the establishment of relations between postal administrations of states members of the League and the postal administration of ‘Manchukuo’, such relations should only be regarded as relations between one administration and another, for the sole purpose of insuring the proper conduct of technical service, and not as relations between one state and another or between one government and another. Lest these technical relations lead to confusion, it is recommended that, should the postal administrations of states members of the League address correspondence to the postal administration of ‘Manchukuo’, such communications should contain once for all an explicit statement that they are only to be regarded as communications between one administration and another, for the sole purpose of insuring the proper conduct of technical services, and that they do not imply that the Universal Postal Convention ¹⁴ is applicable.”

2. In order to reenforce the draft in the sense of your instruction I offered as an amendment to insert the words “and not as communications between one government and another” after the word “services” in the final sentence of the subparagraph above quoted. The amendment was accepted without objection and the draft project adopted. Final text by mail.¹⁵

WILSON

894.00/521

The Ambassador in Japan (Grew) to the Consul at Geneva (Gilbert) ¹⁶

Tokyo, May 17, 1934.

DEAR MR. GILBERT: I acknowledge with thanks the receipt of your letter of April 5, together with a copy of your strictly confidential despatch No. 858 Political, dated March 28, 1934,¹⁵ which I have read with great interest. In answer to your letter and in compliance with the suggestion contained therein I shall endeavor to outline briefly the present political situation here with particular reference to the Japanese attitude towards international cooperation both at present and in relation to the basic Japanese policy of dominating East Asia. I enclose also a list of subjects,¹⁵ copies of our despatches on which have been sent to Berne. No doubt you have seen many, if not all, of these.

¹⁴ Signed at London, June 28, 1929. For text, see 46 Stat. 2523, or League of Nations Treaty Series, vol. cix, p. 245.

¹⁵ Not printed.

¹⁶ Copy transmitted to the Department by the Ambassador in Japan without covering despatch; received June 5.

In your letter you remark that "one gains the distinct impression that having achieved to such a large degree their objective in Manchuria, the Japanese are now endeavoring to effect an appeasement of the feeling against them in every direction possible." That is, in fact, the specific task which Hirota has set himself as Foreign Minister. Accordingly—to use the phrases current in the Japanese press—for the "desperate diplomacy" of Count Uchida¹⁸ there has been substituted the "national defense by diplomacy" of Mr. Hirota.

In promoting his policy of conciliation Hirota has shown force and ability. He came into office last September at a moment when the pendulum of public feeling was tending to resume the norm. Already Shiratori, the aggressive spokesman of the Foreign Office, had been forced out. The resignation of Count Uchida was in itself a blow to military influence. Within a few weeks commenced the momentous "Five Minister's Conference" at which Hirota by confronting Araki with pure common sense is believed to have won his pledge not to interfere in matters of foreign policy. And then in January, Araki himself, the high priest of the military cult, found he could not redeem the pledges he had made to the army and resigned. Furthermore, through public utterances and in the Diet, the voice of public opinion revealed dismay at the size of the military budgets and an inclination to blame the army for the unnecessary and dangerous state of agitation into which the nation as a whole had been led. Business men and capitalists wished to be free to reap the profits of the export boom. During all these months Hirota worked steadily, and I believe sincerely, to create a friendly basis upon which to deal with China, Soviet Russia, Great Britain, and the United States. His hand was manifest in an immediate toning down of anti-foreignism in the press; it was revealed in the renewed efforts to solve the current problems between Japan and Soviet Russia one by one; and it was emphasized to me in conversations in which Hirota showed an eagerness to explore any possible avenue which would lead to an improvement in American-Japanese relations. Certain people considered him a genuine liberal and the strongest Foreign Minister since Komura and Kato.

Nevertheless, many believe Hirota's moderation to be one of manner and strategy rather than substance. Certainly no one could have come into office last year unless he was pledged to support Japan's continental adventure and unless he profoundly believed in Japan's "mission to preserve the peace of East Asia". It is precisely here that we find a deep-rooted antithesis. The Japanese Government is at present struggling to escape from the dangers of international isolation and yet substantially every Japanese—in the Government and out—is determined that their nation must realize its long cher-

¹⁸ Japanese Minister for Foreign Affairs, July 1932–September 1933.

ished ambition, hegemony over East Asia. It is for this reason that the Japanese Government finds it difficult to bid for the world's friendship with anything more tangible than words. One cannot avoid the suspicion that at heart a great many here—we might even say a majority—view the treaties and international commitments to which Japan is a party as just so many obstacles in the path to Empire. Of course there are reasonable-minded elements, and the older statesmen, Saionji, Makino, and others who influence the Throne, do not share these somewhat unscrupulous views without many reservations, but they are old men and we cannot count on their restraining influence much longer. It is simply that the nation, with the goal in sight, is reluctant to admit that the period of consolidation, customary after each wave of Japanese expansion, is now in the best interests of the country.

It immediately comes to mind that this incompatibility between the desire of Hirota to win friends for Japan and the fundamental ambitions of the nation has already been illustrated by the justly famous "Amau Statement" of Japan's policy towards foreign assistance to China. It has already proved a source of great embarrassment to Hirota's policy of friendship on the one hand, and yet, on the other hand, no one, no government official even, has publicly denied that this statement represents the genuine policy of the Government. It happens, as a matter of fact, that the original Amau statement was an instruction to Japan's diplomatic representatives abroad and that its public announcement did not have the approval of the Foreign Minister, but this circumstance is beside the point. Japan has revealed herself as firmly opposed—say what she may—to the objects and purposes of the Nine Power Treaty and the efforts of the League of Nations to extend international (and Occidental) assistance to China. In fact, I believe that it was largely the work of Rajchman and Monnet that worried the Foreign Office into issuing such instructions for the guidance of its Minister in China and other representatives elsewhere.

With Soviet Russia Japan is trying to keep the peace at present. Viewing the situation from Tokyo neither side has now any stomach for war nor are there indications in Japan or Manchuria of preparations pointing to imminent warfare. For the time being at least we need only fear a frontier incident of unusual gravity. Although Hirota has taken up the Chinese Eastern Railway question, the yen-ruble exchange question, the fisheries dispute, and the boundary problems one by one with an evidently genuine desire to remove them from the slate, progress has been very halting and bids fair to continue so. The rumors that the U. S. S. R. is contemplating joining the League have not aroused great attention here although such comments

as have come to light interpret the step as prompted by considerations of national safety. Undoubtedly the Japanese realize that the League's influence in the Far East would be strengthened by the entry of the Soviets, but the possibility seems too remote to have aroused any great degree of apprehension as yet. Incidentally the Soviet Ambassador recently told me that he had no reason to believe that Soviet Russia was about to join the League but that he did not know what might come about in future.

So far as the question of a non-aggression pact between the U. S. S. R. and Japan is concerned, Hirota has stated that it is his policy first to remove the specific points of conflict between the two nations before taking up the question of a general pact. It is believed that a strong minority, notably the army, opposes such a pact and that to ignore this minority would court the risk of reversing the present trend towards a more normal national psychology. After these specific points of conflict have been removed, the minority would retain no valid reason for continuing their opposition.

In concluding this letter I refer to the portion of your despatch outlining the position which Japan is taking at the present time in Geneva, namely, the wish to be represented on League bodies in return for Japanese cooperation, the alternative being withdrawal from all League treaties. Writing from Tokyo I should be inclined to question the value of Japanese cooperation in the first place (except in social matters such as narcotic's control) owing to the exclusive character of Japanese ambitions in the Far East, and in the second place I should question whether withdrawal from all League treaties would create a situation entirely distasteful to the majority of the Japanese people. That the technical and political difficulties involved in securing acceptance of the Japanese reservation should be envisaged in Tokyo as providing plausible reasons for not withdrawing from the League next year, I am inclined to doubt. Japan has burnt her bridges behind her so far as the League is concerned. The Government has repeatedly indicated that Japan's withdrawal from the League was necessitated by a fundamental divergence of views and, only two weeks ago, the Foreign Minister—the spearhead of the conciliatory forces now articulate—said publicly:

“Our proposition having been rejected by the Powers, we were compelled to serve notice of withdrawal from the League of Nations, with which we had maintained close cooperation for so many years. However, that step was one which Japan perforce had to make in order that we might fulfill our mission and responsibilities in East Asia.”

Any Japanese Government which attempted to retain Japan's membership in the League would court the danger of denying Japan's

“mission and responsibilities in East Asia”—one of the terms in which the conviction of Japan’s “Manifest Destiny” is expressed. If, then, Japan’s secession from the League and League activities should be definitive, it would of course carry with it the inevitable corollary that Japan would be estopped from making use of the League as a medium for the manipulation of the balance of power.

The arguments of the foregoing pages indicate the nature of the problem which confronts the present “Cabinet of Old Men”. The Saito Government is trying, so to speak, to keep the brakes on. Furthermore, having survived recent political crises with increasing difficulty, the Cabinet is racing against time. Will the common sense of the nation reassert itself with sufficient celerity or will the Government succumb to death by attrition before the forces of moderation have gained the upper hand? At the present time it is only the liberal, super-party advisors to the Throne who are keeping the Government in power in the face of dissatisfaction in many quarters. Should they fail in the near future the succeeding Government would almost inevitably be more reactionary. For the real good of the country they must hold on as long as possible. In any event, the mantle of government will not again fall on the generation which was at the helm when Japan rose to the position of a world power. We shall sooner or later be seriously concerned as to whether the new generation will acquit itself successfully of the gigantic task to which the nation seems committed because American and Japanese policy in the Far East will directly conflict—unless someone puts the helm over hard.

I found your despatch extremely interesting and helpful.

With kind personal regards,

Yours very sincerely,

JOSEPH C. GREW

793.94/6689 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, May 18, 1934—4 p. m.
[Received May 18—1:20 p. m.]

265. Simon made statement in reply to questions in the House of Commons this afternoon, official text of which will be available tomorrow when I shall telegraph again if I deem necessary either correcting or amplifying American press reports which I understand are full. Following is brief summary of what press is cabling tonight.

Simon said he believed in friendship with Japan and recalled the principle of equal rights in China as guaranteed in the Nine-Power Treaty and Japan’s solemn assurance in this respect. Any doubt of Japanese good faith was, in his opinion, very unlikely to produce a

friendly conclusion. "I think it is just as well that we should quite clearly understand it was not true that we or, as far as I know, anybody else had ever signed a treaty with China in which we had pledged ourselves to use all our forces to preserve the territorial integrity and political independence of China."

Replying to the opposition that Great Britain embark on a policy of economic sanctions in an effort to forestall any war, Simon replied "Economic sanctions cannot be applied without the risk of war and we cannot undertake any system of sanctions or effective actions of this type unless the United States cooperates."

While extensively praising the American aid to the League "which I hereby gratefully and publicly recognize" Simon said "The Commons must understand, however, the limitation under which the United States is likely to act." He intimated that Great Britain is willing to participate in an international policy of sanctions in specific cases provided the United States as well as other nations interested formally agree; "Nevertheless it must be recognized that a policy of sanctions cannot be set up like a bottle of medicine for dosage when and where needed. It is a matter necessitating full review in each individual case and before action of any power of this nature all interested must formally agree."

Simon reaffirmed at some length Great Britain's desire to reach an agreement at Geneva on disarmament; said that Great Britain has already set the example for the reduction of armament and it is now up to the other nations to follow suit.

Complete text by pouch.¹⁹

BINGHAM

793.94/6691 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, May 19, 1934—1 p. m.
[Received May 19—11:40 a. m.]

267. It seems advisable to amplify my 265, May 18, 4 p. m. and American press reports by quoting verbatim official text of that portion of Simon's statement dealing with sanctions in which he referred to American cooperation.

"It is absolutely no use talking about economic pressure unless you make certain that it is going to be effective. So far as the principal countries of Europe are concerned, you cannot, as a matter of fact, make a system effective unless the United States actively cooperate.

¹⁹ Not printed.

We all in this country acknowledge with every possible gratitude the contributions which the United States is able to make towards the improvement of international affairs. The United States was in fact one of the principal authors of the Covenant, and it was a matter of great regret to the rest of us that when the time came the United States was not prepared to join the League.

It is not a matter for us to reproach anybody with. It merely is to be observed as a fact. But notwithstanding that the United States have constantly made the most valuable contributions towards the work which the League of Nations is trying to do. Either by appointing an observer, or sometimes by nominating an ambassador at large, sometimes through diplomatic channels, the Americans, although not members of [the] League, have joined in a great deal of the good work, and certainly I would be the very last not to recognize gratefully and publicly the service which America has done for the world. But realizing [*really*] there is no sort of good in our pretending not to observe the limitations within which the United States is likely to act.

I am going to give the House an illustration. The House may remember that in the course of the discussions on the British draft convention at Geneva,²⁰ we attempted to draft in the best possible form the articles in the convention to deal with security. We tried to put in articles what is called the consultative pact to provide that if there were anything of a threat of a breach of the Kellogg Pact,²¹ there should be a consultation between signatories and that action should then be discussed and decided upon, and we would endeavor to act together. I, myself, was responsible for the final form in which those articles were drafted. I might say that I drafted them with Mr. Stimson's declaration before my eyes, because my object was to present, on behalf of the British Government, something which, as far as I could see, was exactly in the form most likely to secure American support. When the matter came to be discussed, the American representative, Mr. Norman Davis, made a very careful declaration,²² and I should like to read a couple of sentences from the declaration in order that we may see for ourselves what it is foolish not to face—to estimate what is the measure of the promise of help in respect of such things as consultative pacts and action thereupon which we might hope to get from the great Republic on the other side of the ocean. This is what Mr. Norman Davis said:

'We are willing to consult with other states in case of a threat of [to] peace with a view to averting conflict. Further than that, in the event that the states in conference determine that a state has been guilty of a breach of the peace in violation of its international obligations and take measures against the violator, then, if we concur in the judgment rendered as to the responsible and guilty party, we will refrain from any action tending to defeat such collective effort which the states may thus make to restore peace.'

Nothing could be clearer than that. I certainly am not going to invite anybody to deny that it is valuable, but it is "[quite] absurd to pretend that that declaration, solemnly made with the authority of the Ameri-

²⁰ For discussions at the General Disarmament Conference, see *Foreign Relations*, 1933, vol. I, pp. 1 ff.

²¹ Treaty for the Renunciation of War signed at Paris, August 27, 1928, *ibid.*, 1928, vol. I, p. 153.

²² See telegram No. 644, May 19, 1933, 11 p. m., from the Chairman of the American delegation, *ibid.*, 1933, vol. I, p. 154.

can Government at Geneva, encourages us to believe that America would take full part in economic sanctions. If I call attention to two passages in that declaration, I do hope that the House will believe that I do not do it with any desire to minimize the value of the declaration, but I do it for the purpose of clearness. In the first place, if all the conditions here are satisfied, what is it that the United States are good enough to say their Government would do? It is this, 'we will refrain from any action'—not 'we will take any action'—'tending to defeat such collective effort'. Whose collective effort? Not a collective effort in which the United States take part, but a collective effort of other people, 'which the states'—not the United States—'may thus make to restore peace'.

My honorable and learned friend the member for South Nottingham (Mr. Knight) has lately [just] said that it is a [valuable] declaration, and I would be the very last to say it is not because it means this: suppose there arose what I may perhaps call a flagrant case in which the American nation was deeply stirred and suppose that the states of Europe or the other states of the world had the means by which they could put some pressure upon what is here called 'the violator' and suppose we will insofar [*went so far*] as to do it, it is a very material thing to know that if such action commended itself to the United States we might be sure that the United States Government would do nothing whatever to encourage its own citizens or to defend them if they tried to break the ring. It is a very material thing, and corresponds in some degree with the situation which developed at one stage of the war. But it is a very different thing the [*from*] saying, 'here are economic sanctions waiting to be adopted if it were not for the pusillanimity of the British Government, and if only the critics in the House formed a government we would have economic sanctions before you could say "Jack Robinson."'"

Following Simon, Baldwin²³ pointed out that in his opinion limitation was probably the only practical form of disarmament in air, that it was difficult to see how sanctions could be avoided against a transgressor and "if we go in for the collective maintenance of peace, it is no good going in for it [first] unless we are prepared to fight in will and also in material. Nothing could be a worse guarantee to the world or a more cruel deception of our own people than to say, we will guarantee peace by arms, but not be ready for information [*it*]. There is no doubt that if we are going to enforce a collective guarantee or collective sanction, it means we have to make this country a great deal stronger than she is today."

Baldwin then referred to his recent pronouncement on air policy (despatch No. 566, March 16²⁴) and stated that the required preliminary work to strengthen the air force was being done so that no time should be lost if his pledge had to be implemented.

BINGHAM

²³ Stanley A. Baldwin, British Lord President of the Council.

²⁴ Not printed.

893.01 Manchuria/1096 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Tokyo, May 22, 1934—7 p. m.

Received May 22—8:02 a. m.

97. The Consul General of Salvador today told the Belgian Ambassador that he had learned only on May 12 that his Government had recognized "Manchukuo" on March 3. It was not made clear how the recognition was originally extended or why it was not sooner given publicity, but it is announced in the Japanese press that the Consul General has now addressed a note to the Minister of "Manchukuo" in Tokyo informing him of the fact of recognition.

The Consul General has told the local correspondent of the Associated Press that he believes the step was taken by his Government with a view to trade considerations, especially to increasing the sale of Salvadorean coffee to Japan. He further showed to the correspondent his instructions which expressed the belief that the recognition of "Manchukuo" by Salvador might react unfavorably upon the relations between the United States and Salvador or the United States and Japan and directed him to endeavor to allay any ill feeling which might result.

Repeated to Peiping by mail.

GREW

500.A15A5/159

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*

[WASHINGTON,] May 24, 1934.

OUR DIPLOMATIC POSITION, AS OF TODAY, IN THE FAR EAST, WITH SPECIAL REFERENCE TO NAVAL CONFERENCE AND NEED FOR NAVAL CONSTRUCTION

1. There have occurred recently two things of particular importance with regard to our problems in relation to the Far East:

(A) The disclosure, in consequence of the statement²⁵ by the spokesman of the Japanese Foreign Office, of the contents of Japan's instruction to the Japanese Minister to China (which was also circulated by the Japanese Foreign Office to Japanese missions elsewhere) of which the concluding paragraph (of translation as furnished us by Mr. Saito) reads:

"5. From the points of view above stated we think our guiding principle should be generally to defeat foreign activities in China at present,

²⁵ Unofficial Statement by the Japanese Foreign Office, April 17, 1934; known as the "Amau Statement"; for text, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 224.

not only those of a joint nature but those conducted individually, in view of the fact that China is still trying to tie Japan's hands through using the influence of foreign Powers."

(B) The disclosure, by virtue (1) of evidence which we have directly from London which shows that the British Government has experienced some sudden change of mind,—if not of heart—with regard to the Naval Conference and (2) of evidence telegraphed us from Tokyo which suggests that the British are leaning heavily toward refusal on Great Britain's part to oppose Japan's demand, if and when, for naval parity,—disclosure of the fact that we cannot rely on Great Britain as a diplomatic ally in support of our view and position that there should not be granted by agreement revision in Japan's favor of the existing naval ratios.

2. We should welcome these developments. They do not alter the situation in the Far East or the problems which confront us there. They do make it clearer to us and easier for us to make clear to others just what that situation and those problems are. The clarification should facilitate our efforts to chart the course which the United States should follow and to devise methods and create (or seek to obtain) agencies and instruments for dealing adequately with the problems which are ours.

It is of advantage to us to know, on the authority not of a statement or statements by individual Japanese but of a definite instruction of the Japanese Government to its diplomatic representatives that, "From the points of view above stated we think our guiding principle should be generally to defeat foreign activities in China at present, not only those of a joint nature but those conducted individually, in view of the fact that China is still trying to tie Japan's hands through using the influence of foreign Powers."

It is of advantage to us to know, from the evidence of statements made not once but on several occasions and in several ways by the British Secretary for Foreign Affairs and of statements made by high British officials in London and in the Far East and of statements by influential British leaders not in office, that Great Britain cannot be counted on to make with us a united front of opposition to Japan and may on the contrary be expected to endeavor to make compromises with Japan both in reference to China and in reference to naval matters. (Note: It may be assumed that the British hope and expect that we will play the role of defensive full back in these connections.)

3. The British feel—and rightly—that they cannot rely on us for maintenance of a united front when and where the problem presented in the Far East calls or may call—as they see it—for "positive action". They are not willing to take a position wherein they may be exposed and find us leaving them in the lurch. We are not willing to make commitments to them. Such being the case, it is just as well for us to

divest ourselves of hope that they will take an advanced position before and until we shall have taken it and shown ourselves irrevocably committed to it. When we shall have done that, we may expect that they will in some cases come along side and in other cases not. In some matters we and they have a common interest; in many matters our interests and theirs are not common. In relation to some matters we and they have a common psychology; in relation to many matters our reactions and our thoughts are not the same. They have certain perplexities and solitudes in world politics which are not ours. We have certain theories and ideals which are not theirs. In those connections where there is not community of interest and of concern, it is futile for anyone to expect that they and we will see alike, think alike and act alike—or in common.

4. This country is blessed with comparative remoteness from the storm centers in world politics. We have no strong and/or hostile near neighbors. We have within our continental boundaries, within a single united and unified area, unparalleled natural resources, a stimulating climate, and a population of 125,000,000 persons possessed of comparatively rugged and dynamic physical and mental qualities. We are in better position than is any other nation to live according to our own conceptions of what is right and desirable. We should make it our determination that we will in the field of foreign relations as well as in that of internal affairs take those positions which we deem to be right and practicable—due consideration being given to the rights and interests and views of other nations—hoping for but not expecting or relying upon support of other countries.

5. To facilitate our doing this, we need to be free to make our own decisions and to pursue our own courses with regard to such questions in the political field as are vital. Among those questions or problems is that of national security. Unless and until there prevails definitely and obviously among all the major powers a conclusive will to peace, a devotion comparable to ours to the principles and promises embodied in such instruments as the Pact of Paris,²⁶ we should be sole judge of the size and the character of the equipment which we need to ensure this country against successful military assault from without upon our territories or our interests. If we wish, further, to ensure due respect for our views and procedure in the councils of the family of nations; if we wish to be assured that other nations will live up to the provisions of agreements into which they have entered with us, we need to be free to expand, at any time and in such manner as we may deem fit, that equipment. Therefore, the world being what it is, it would be well for us to acquire and preserve freedom of action in regard to naval construction.

²⁶ *Foreign Relations*, 1928, vol. I, p. 153.

6. There are in the Far East three oriental powers: Japan, Russia and China. There are possessed in important measure of territory in eastern Asia and the western Pacific three occidental powers: Great Britain, France and the Netherlands.

There are, however, in and on the Pacific Ocean, facing and faced by each other on that ocean, two great powers, and only two; the United States and Japan. Of these two powers, both have unusual rights and obligations—by agreements to which both (along with other powers) are parties—in and with regard to another country, China. That third country, China, is located on the western side of the Pacific Ocean. Between it and us, in the Pacific Ocean, and not very far from us, as distances go today, lie Japan and Japan's insular possessions.

7. With regard to many matters, the concepts and the methods of the Japanese people and those of the American people differ; with regard to some, they are in definite and obvious conflict. For example, the American people have throughout their history shown a tendency to exalt the authority of international law, of treaties, of formal international agreements, and to deprecate and discourage possession and use of military force (Note: We have fought a great deal, and we will fight; but in principle we are opposed to fighting). The Japanese people have had until recently no familiarity with international law or treaties or international agreements; they have shown themselves in late years a little disposed to regard such as of high authority; and they have always placed high value upon possession of military weapons and processes of direct display and use of force.

8. Almost all of the other nations have felt during recent years that Japan's policies and methods are a menace to the public peace and the public welfare. The majority of the nations have given expression in one way or another to this feeling. In connection with developments in Manchuria, the United States and the League of Nations made definite objection in the form of diplomatic remonstrances and pronouncements, to the course which Japan was pursuing. It seems clear, however, that the people of the United States manifested deeper and more widespread concern than did those of any other country. Whatever may be our strategy and tactics, it is a fact that, after China and Russia, this country has more reason than has any other for apprehension with regard to the use which Japan may make of the military equipment which that country possesses or acquires. The Japanese army is a menace to Russia and to China. The Japanese army and navy are a menace to China. The Japanese navy is a menace to us. Great Britain, France and the Netherlands have reason to fear that Japan may impair their interests or drive them from the Far East. They have little reason to fear an assault by the Japanese upon their home territories. They are powers in but not powers on

the Pacific Ocean. We are a power both in and on that ocean. The political responsibilities and political concepts of the others differ less from and are less in conflict with those of Japan than are ours. We have more reason than have the others to be apprehensive with regard to the ultimate use which the Japanese may make of their naval force. The question of Japanese comparative naval strength is therefore of more direct and vital concern to us than to any other of the powers.

9. The maximum of insurance which we can take out against injury to ourselves by and from Japan lies along the line of naval construction. The Japanese speak and understand the language of force. Whether we wish to insist upon our views or to safeguard ourselves as far as possible against an attack by Japan, the soundest course for us lies on the line of possessing naval strength such that the Japanese will not dare to take the risk of resort to force against us.

10. In a sense the British may be regarded as being in the act of "letting us down". In another sense the course which they are pursuing simply forces us to do what we ought in any case to do.

We should refuse to become parties to any agreement whereby the existing naval ratio is revised in Japan's favor. We should be glad to be released, if it so happens, from our commitment to the existing naval ratio. There rests upon us no obligation to convene the Naval Conference. So far as any country is under that obligation, Great Britain's responsibility is greater than is ours. We should welcome non-convening of the Conference. We should welcome lapsing of the existing agreements.

The most effective step that can be taken by the present Administration in this country toward making our position in relation to Far Eastern questions what it should be lies in the direction of bending this country's energy toward the building up of a definitely "superior" U. S. Navy. The Administration should do everything that it can in that direction during its present term. If it can carry that program sufficiently far before November 1936, it may expect to be able during its next term to devote its energies, with some prospect of making reasonable progress, toward the development of "peace machinery."

S[TANLEY] K. H[ORNBECK]

893.7793 Manchuria/2 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, May 24, 1934—noon.
[Received May 24—5:40 a. m.]

223. Following telegram has been received from Peck.

"May 23, 5 p. m. A report is current in Nanking that the Chinese Government has definitely decided to authorize resumption of through

railway traffic with Manchuria in the guise of a purely economic undertaking under the control of an "international travel agency" to be organized by Chinese banks and to permit resumption of post office relations with Manchuria in a way which will not involve the Japanese or Chinese Governments and will be in accordance with the League resolution. Suma today expressed to me belief in the general accuracy of this report and said that the decision was reached at the Executive Yuan meeting on May 22."

JOHNSON

893.01 Manchuria/1114

The Minister in El Salvador (Corrigan) to the Secretary of State

No. 9

SAN SALVADOR, May 24, 1934.

[Received June 9.]

SIR: I have the honor to report that in reply to a notification on the part of the Emperor of Manchukuo that he had assumed the throne of that country on March 1, 1934, the Government of El Salvador sent a communication in reply dated March 3rd granting its recognition to that Government.

The Salvadoran Minister of Foreign Affairs on May 21st in an interview to the local press explained that this recognition had been conceded in a spirit of international friendship and fraternity because the Government of Manchukuo had become firmly established and that it was filling all the requirements of international law for recognition.

The San Salvador press later published news despatches alleged to have come from Geneva stating that the League of Nations was considering the expulsion of El Salvador from membership in that organization because of its action in recognizing the administration of Emperor Pu-Yi. While the Salvadoran Foreign Minister stated that this rumor was unfounded, he said that El Salvador had acted within its rights as a sovereign nation and in the interests of better relations among the peoples of the world.

Several of the local dailies took advantage of the alleged intention of the League of Nations to expel El Salvador, to strongly criticize it as a useless and ineffective body and recommended that this country withdraw from membership on the ground that it was expending money for an unnecessary luxury which might involve El Salvador in international difficulties.

This Republic is apparently the first Latin American State to recognize the new Manchurian Government. I might remark confidentially that this hasty action was undoubtedly prompted in some degree by the fact that the present administration had been deprived of recogni-

tion for a long period of time by the other Central American countries and the United States.

Respectfully yours,

FRANK P. CORRIGAN

893.01 Manchuria/1102 : Telegram (part air)

The Consul at Geneva (Gilbert) to the Secretary of State

GENEVA, May 25, 1934—2 p. m.
[Received May 26—8:55 a. m.]

95. Japanese Consul General here informs me that he has received official notification from his Government of Salvador's recognition of "Manchukuo". He states that he understands that thus far this is the only act of any Government which Tokyo construes as constituting formal recognition (Consulate's 858 Political, March 28,²⁷ page 5).

It may be noted incidentally that Salvador was not represented in the extraordinary Assembly which on February 24, 1933, voted on the nonrecognition recommendations.

GILBERT

893.01 Manchuria/1128

The Counselor of Legation in China (Peck) to the Secretary of State

NANKING, May 28, 1934.
[Received July 3.]

SIR: I have the honor to recall that on March 1, 1934, Henry Pu Yi was constituted so-called Emperor of "Manchoutikuo".

There was a great deal of pressure exerted by various individuals in the National Government and in China generally to induce the National Government to take some action in connection with this event which would prevent any increase in the stability of the newly organized regime in Manchuria following from the creation of an "Emperor". It was feared by some Chinese politicians that unless the National Government took some additional action, it might be regarded as giving tacit recognition to the "Emperor". The idea seems to have been seriously broached of sending a military expedition against Manchuria, on the ground that Henry Pu Yi's assumption of office was an especially flagrant traitorous act. However, there were counter charges that this proposal was made with full knowledge on the part of the originators that it would be folly to attempt to punish "Manchukuo" since this would amount to waging war against Japan, and that the proposal was not honestly made,

²⁷ Not printed.

but was merely a device to embarrass the Chiang Kai-shek-Wang Ching-wei regime.

In spite of these considerations, the National Government found it advisable to issue a circular statement on March 11, 1934, recounting the diplomatic and military measures taken to resist Japanese encroachments and repudiating any significance which might be attached to the inauguration of the so-called "Emperor". On the same day, March 11, 1934, the National Government, in recognition of the demand referred to above that a punitive expedition be launched against "Manchukuo", issued an order to those government organs directly subordinate to the National Government, directing that those Chinese traitors who supported the bogus organization be "forcibly dealt with and severely punished according to the Law Governing Emergency Punishment of Crimes Endangering the State and the Regulations Governing Punishment of Robbers and Bandits".

There are enclosed herewith a copy of the National Government's circular of March 11, 1934, and a copy of the National Government's instruction of March 11, 1934, with translations thereof made in this office.²⁸

Respectfully yours,

WILLYS R. PECK

793.94/6647

The Chief of the Division of Far Eastern Affairs (Hornbeck) to the Counselor of Embassy in Great Britain (Atherton)

WASHINGTON, May 29, 1934.

MY DEAR RAY: Referring to the memorandum of your conversation on April 24 with Sir Victor Wellesley, copies of which were forwarded under cover of your letter of that date to me,²⁹ I note the statement in the last paragraph that "private interested opinion has never fully understood the exchange of notes effected between the United States Secretary of State and Mr. Hirota at the time Ambassador Saito took office. Also why, if since an exchange of notes was to be made, England was not privately advised beforehand. Also certain opinion here professes to find the wheat and cotton loan of the United States to China violates the Consortium Agreement of 1920."

1. With regard to the exchange of messages between the Secretary of State and Mr. Hirota, the facts—so far as we know them—are as follows:

On February 21, Mr. Saito, who had a few days previously presented his letter of credence, called on the Secretary and left with him

²⁸ None printed.

²⁹ Not printed; see telegram No. 196, April 24, 8 p. m., from the Ambassador in Great Britain, p. 131.

a statement bearing the legend, "Informal and personal Message from Mr. Hirota, Minister for Foreign Affairs, as Telegraphed to Mr. Saito, the Japanese Ambassador." The Secretary, having received this statement, felt, in accordance with usual practice and procedure, called upon to make a reply. This reply was, on March 3, 1934, handed by the Secretary to Mr. Saito. The question of publication of the notes was not raised until some time later, when Mr. Saito, referring to a conversation at Tokyo between Mr. Grew and Mr. Hirota, endeavored to make an (imaginary) American proposal for publication the basis for an agreement to proceed with publication. It is clear from the record, however, that the first move toward publication of the notes, as well as toward initiation of the correspondence, came from the Japanese.

So far as the Secretary of State, the Department and the American Government were concerned, they took no initiative in the matter. There was presented to them a communication from the Minister for Foreign Affairs of a foreign government, and the natural course of action was that reply should be made. The exchange of notes represented no new *démarche* on the part of the American Government. If anyone should have informed the British Government beforehand, it would seem logical that Japan, as the initiator, should have given that information.

If an opportune occasion should arise, we would have no objection to your informing the British Foreign Office, in strict confidence, in regard to the facts of the matter as set forth above.

2. With regard to the American wheat and cotton credit to China, I think that you are aware of the fact that the principal purpose of the American Government in granting this credit was to aid the domestic price situation and to remove from the American market surplus stocks of cotton, wheat and flour. With regard to the question whether the extension of that credit is in conflict with the provisions of the Consortium Agreement of 1920, attention is invited to the text of the Agreement, Section 2 thereof, which reads in part as follows:

"This Agreement relates to existing and future loan agreements which involve the issue for subscription by the public of loans to the Chinese Government."

The cotton and wheat credit was not in fact a "loan" to China nor did it involve "subscription by the public". It is our understanding that representatives of the various national banking groups that are members of the China Consortium have expressed views indicating that they do not regard this transaction as being in conflict with the provisions of the Agreement.

It is of course true that in concluding the Consortium Agreement of 1920 the interested banking groups (American, British, French and

Japanese) were assured of the full support of their respective governments and that they did not contemplate encountering competition from the concerned governments in the granting of loans to China. We are aware of the fact that it has been contended by Japan, and by others, especially British officials, that the cotton and wheat credit violates the spirit, if not the letter, of the Consortium Agreement.

We do not desire that the Embassy take an initiative in the matter of discussing with British officials the question of the cotton and wheat credit. If, however, this question should be presented to the Embassy, the Department would have no objection to the Embassy pointing out tactfully and orally the points mentioned in the first paragraph of section 2 of this letter.

Sincerely yours,

STANLEY K. HORNBECK

793.94/6710 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, May 31, 1934—6 p. m.

[Received May 31—2:40 p. m.]

293. While I feel due consideration should be given to Simon's statement set forth in your 213, May 27 [25], 7 p. m.³⁰ (textually reported in the Embassy's despatch No. 722 of May 23³¹) I do not feel the sum total of all other pro-Japanese statements should be added together and taken as an indication of a new fixed policy towards Japan. England's policy is in the making and its determination will in the first instance be timed by the results of the present Geneva deliberations on the European situation. When the European situation clarifies the Cabinet can more frankly face the Far Eastern situation. For the rest, England's policy vis-à-vis Japan is influenced by two schools of thought, equally important: (one) seeking cooperation with the United States; and the other which considers that in 1921 Great Britain had elected to forego the advantages of a Japanese alliance in the hope of pursuing a joint policy with the United States, but that this expectation had been disappointed by the insistence of the United States upon disassociating itself from even the appearance of joint action during the years 1925 to 1930 when British interests were singled out for attack by Chinese nationalism; although we were later willing to

³⁰ Not printed; it repeated telegram No. 98, May 23, 3 p. m., from the Ambassador in Japan, which referred to Sir John Simon's statement in Parliament and reported certain alleged pro-Japanese remarks of British officials (793.94/6701).

³¹ Not printed; see telegram No. 265, May 18, 4 p. m., from the Ambassador in Great Britain, p. 185.

seek British cooperation in defense of the Manchurian thesis with which the American Government had more particularly identified itself.

In my opinion since England today has not clarified her opinion with regard to Japan but nevertheless on her own initiative has sought these preliminary naval conversations and has informally expressed a hope that no attempt be made to open the Japanese issue before the forthcoming naval conversations, I have let Mr. Davis³² know that I consider any attempt to raise the Far Eastern problem before he reaches London might be prejudicial to the very objective we seek. I venture to repeat what I have said in former telegrams that at this moment we can well afford to wait and let the British carry the initiative further in these preliminary conferences which they have sought.

Repeated to Mr. Davis.

BINGHAM

793.94/6748

The Counselor of Legation in China (Peck) to the Secretary of State

NANKING, June 8, 1934.

[Received July 3.]

SIR: I have the honor to enclose herewith a memorandum³³ of a conversation held by me with Mr. Ariyoshi, the Japanese Minister.

The Department will note that in the course of a general conversation I casually introduced the matter of through railway traffic and postal arrangements with Manchuria and that the tenor of the Minister's observations was that these matters were merely a part of the armistice agreement of May 30 [31], 1933, and should be attended to by the military authorities of Japan and China. He expressed the opinion that they were no concern of the two Governments and bore no relation to the question of recognition of "Manchukuo".

Respectfully yours,

WILLYS R. PECK

893.01 Manchuria/1127

The Ambassador in Japan (Grew) to the Secretary of State

No. 825

TOKYO, June 12, 1934.

[Received July 2.]

SIR: With reference to the Department's instruction No. 38, March 26, noon, I have the honor to inform the Department that at the time

³² Norman Davis, American representative to the preliminary naval conversations at London in June.

³³ Not printed.

of the rumors that the Emperor of "Manchoutikuo" would visit Tokyo in the coming autumn, several of my colleagues consulted their respective governments in order to ascertain the attitude which they should assume in the event of such a visit. I now learn that the Belgian Ambassador and the Dutch Minister have recently received substantially identical instructions to the effect that if invited by the Emperor of Japan to a reception or other function in honor of the Emperor of "Manchoutikuo" they should accept and attend such function because issued by the Emperor, but that they should decline to attend functions given by any other officials including the Minister for Foreign Affairs. They were also directed to avoid any action or attitude which might be interpreted as implying an intention on the part of their respective Governments to recognize "Manchukuo".

According to press reports it is now unlikely that this projected visit will take place before next spring. In accordance with the Department's instructions the Embassy will not fail to consult the Department before such a situation develops.

Respectfully yours,

JOSEPH C. GREW

893.01 Manchuria/1131

The Ambassador in Poland (Cudahy) to the Secretary of State

No. 325

WARSAW, June 28, 1934.

[Received July 16.]

SIR: With reference to my despatch No. 214, March 16, 1934,³⁴ and to informal comment thereon under date of June 12, 1934,³⁵ I have the honor to report that a member of my staff was yesterday informed by Mr. Antoni Jażdżewski, Chief of the Far Eastern Section of the Ministry of Foreign Affairs, that the Polish Government has no intention of recognizing "Manchukuo" and that the matter has not even come before the Ministry for consideration in the six months that he has there been on duty. Mr. Jażdżewski was Counselor of the Polish Legation at Tokyo when he was called to the Foreign Office in Warsaw to assume direction of the Far Eastern Section. He reported for duty in December last.

Mr. Jażdżewski stated that although the Polish Government is well aware that Japan would like to have it accord recognition to "Manchukuo", it has no intention of doing so for the following reasons: "first, because we have no important interests in that territory, and secondly, because we could not be the first to extend recognition".

³⁴ Not printed.

³⁵ Not found in Department files.

Asked what the attitude of the Polish Government would be if it were approached in the premises after "Manchukuo" had been recognized by at least one Power, Mr. Jażdżewski said that it would take the position that, as a member of the League of Nations, it could not accord recognition as long as the League's attitude toward "Manchukuo" remains what it is at present.

Mr. Jażdżewski said that he could shed some light on the report that was in circulation last spring (i. e., the report which is the subject of my despatch No. 214, March 16, 1934) to the effect that Mr. Michał Mościcki, Polish Minister to Japan, had stated that he believed that the Polish Government would accord recognition to "Manchukuo". He said that Mr. Mościcki had been approached in the railway station at Harbin by a Japanese journalist who solicited an interview. Mr. Mościcki declined the request, said Mr. Jażdżewski, but nevertheless the journalist wrote a story of an entirely fictitious interview with the Minister, and in it ascribed to the latter the statement with regard to recognition that was brought to the attention of the Department in my despatch under reference.

Mr. Jażdżewski does not believe that war threatens between Japan and the U. S. S. R. He added that he would even go so far as to say that war between the two Powers within the next year or two is improbable. Neither Government is prepared for it, or desires it, he said. The Japanese forces in "Manchukuo" have all that they can do to consolidate their position and to administer the area. They desire to have no new obligations imposed on them. As is well known, he remarked, Soviet Russia earnestly desires peace so that its internal development will not be interrupted.

Respectfully yours,

JOHN CUDAHY

894.8591/2 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, June 29, 1934—11 a. m.
[Received June 29—12:36 a. m.]

137. Department's instruction No. 517, May 11, 1934.³⁶ Kobe reports that since March of this year there has been a concentration of more than 400,000 gross tons of Japanese shipping in home waters largely taken from deep-water runs but this is for the most part a normal seasonal trend due to transportation of lumber from the northern islands, carrying supplies to the fishing fleets, et cetera. The new large and fast motor freighters are still on deep-sea runs.

GREW

³⁶ Not printed, but see letter of May 11 to the Secretary of the Navy, p. 175.

893.71 Manchuria/65

The Secretary of State to the Postmaster General (Farley)

WASHINGTON, June 29, 1934.

MY DEAR MR. POSTMASTER GENERAL: There is enclosed a copy of the recommendations adopted on May 16, 1934,³⁷ by the Advisory Committee on the Far Eastern situation of the League of Nations with regard to a question raised by the British Government affecting postal traffic in transit through Manchuria. The Advisory Committee has expressed confidence that this Government will be prepared to comply with the recommendations, and it has requested that the American Government inform the Secretary-General of the League of Nations of its decision in the matter.

This Department understands from informal discussions between officers of this Department and the Post Office Department that mail matter originating in the United States and destined for Manchuria and mail matter originating in Manchuria and destined for the United States passes through Japan; that payment of balances is effected through Japan; that no question of payment by the American postal authorities to the "Manchukuo" postal authorities for transit charges has arisen, for the reason that no mail originating in the United States is sent in transit through Manchuria; and that no occasion has arisen for direct relations between the postal authorities of the United States and "Manchukuo".

If the foregoing understanding is correct, this Department would be disposed to inform the Secretary-General of the League of Nations that no occasion has arisen for direct relations between the postal authorities of the United States and "Manchukuo"; that the American Government does not anticipate that occasion will arise for the American Postal Administration to enter into relations with that of "Manchukuo"; and that, if any action affecting Manchuria becomes necessary for the maintenance of adequate postal services, the American Postal Administration would be prepared to conform such action to the recommendations of the Advisory Committee.

I should be pleased to be informed whether the foregoing statements represent the views of the Post Office Department and to receive such further comment as you may care to make with respect to the Advisory Committee's recommendations.

Sincerely yours,

For the Secretary of State:
WILLIAM PHILLIPS
Under Secretary

³⁷ Not printed.

793.94/6745 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, June 30, 1934—1 p. m.

[Received June 30—9: 15 a. m.]

283. Agreement for the institution on July 1st of through traffic on the Peiping-Mukden Railway was announced June 28 by Chinese and Japanese. The agreement provides for the despatch of one through passenger train daily from either terminal under the management of a Sino-Japanese concern for the Oriental Travel Service with headquarters at Shanhaikwan.

No strong adverse Chinese reaction to the announcements has appeared as yet. Announcement of the agreement, which was apparently arrived at some time ago, was delayed, it is believed, until the officials of the central government responsible for it felt confident that no serious opposition would accompany it. It is expected that announcements of agreements with regard to restoration of postal facilities, establishment of customshouses and other pending problems will be made hereafter at moments which are regarded as propitious by all concerned.

JOHNSON

CHAPTER III: JULY 1-SEPTEMBER 30, 1934

Unlikelihood of Soviet-Japanese war during 1934; Minister Johnson's report on China, July 11; American reply to the League of Nations with regard to postal traffic in transit through Manchuria, July 19; report on construction of fast Japanese merchant fleet, August 14; Japanese aims in North China; renewed tenseness in Soviet-Japanese relations over Manchuria, August 23; establishment of Chinese customs posts along southern "Manchoukuo" border, September 10; Minister Johnson's review of changing Japanese policy toward China, September 14; Soviet-Japanese agreement on purchase by "Manchoukuo" of Chinese Eastern Railway, September 25

793.94/6746 : Telegram

The Consul at Tientsin (Acheson) to the Secretary of State

TIENTSIN, July 2, 1934—10 a. m.

[Received July 2—2: 45 a. m.]

Following message has been sent to Legation, July 2, 9 a. m.:

"1. Through rail traffic Peiping-Mukden resumed yesterday as scheduled. Bomb exploded in a third-class coach of first northbound express at point just north of Tangku killing several Chinese but first through train from Mukden arrived this morning without untoward incident and went on to Peiping.

2. Shortly expected further steps in tacit recognition that non-Chinese regime of some permanence exists in Manchuria are effectua-

tion of arrangement for postal relations described in my despatch of June 25³⁸ and establishment now definitely planned of five additional Chinese customs stations along the Great Wall mentioned in my despatch June 29³⁸ as reported under contemplation. While agreement as to postal arrangement is reliably stated to have been reached date of inspection has not been determined. According to authentic information the new customshouses will be set up within 3 weeks under supervision Chinese Commissioner stationed at Peiping who has already arrived in that city for the purpose of organization."

ATCHESON

761.94/765

The Ambassador in Japan (Grew) to the Secretary of State

No. 880

TOKYO, July 2, 1934.

[Received July 23.]

SIR: During the past year the Embassy has fortnightly reported the progress of events in the relations between Japan and the Soviet Union in an effort to keep the Department currently apprised of the development of such controversies as those involving the Chinese Eastern Railway, incidents on the Soviet—"Manchukuo" border, the fisheries in Soviet territorial waters, and the yen-ruble exchange rate. All of these questions have defied settlement up to the present, have given rise at one time or another to complications of a provocative, occasionally bitter nature, and have tended to obscure the underlying causes of conflict between the two dynamic powers of the Far East. It is not the object of this despatch to discuss these basic factors, but rather to interpret their imprint on the general situation and to appraise once more the possibility of a second Russo-Japanese war. Such was the purpose of my confidential despatch No. 670 of February 8, 1934,³⁹ supplementing my confidential letter of October 6, 1933, to the Under Secretary of State.⁴⁰

In discussing the likelihood of a conflict I have previously adduced three potential incentives, namely: (1) the collective force of continual irritating incidents, or even some individual incident; (2) the increasing menace of the spread of communism southward from Outer Mongolia along the western boundary of "Manchukuo", and the aversion to and apprehension of communism which exists in Japan; and (3) the possibility that Japan recognizes in Soviet Russia a permanent obstruction to Japanese plans or ambitions for eventual further political expansion and is determined that this obstruction must be removed at the most advantageous moment. It will be noted that these

³⁸ Not printed.

³⁹ *Ante*, p. 38.

⁴⁰ *Foreign Relations*, 1933, vol. III, p. 421.

potential incentives presuppose on the whole that any conflict would originate through a considered decision of the Japanese Government, barring the possibility of complications brought on by irresponsible elements.

On June 22 the Belgian Ambassador, Baron de Bassompierre, who has had some thirteen years experience in Tokyo, and whose opinions for that reason, if for no other, merit consideration, came to see me, evidently impressed by the contrasting theory that a conflict might at any moment be initiated by the Soviets. An informant in whom he placed confidence had become convinced, as the result of observations in Manchuria, that such an attack was imminent. Baron de Bassompierre further attached significance to the statement of a Soviet official to the Polish Minister that the Soviet Union no longer wished the conference for the sale of the Chinese Eastern Railway to succeed, and he also considered important a blunt question reportedly asked the Soviet Ambassador by the Foreign Minister on June 16. The question was, "Does the Soviet Union wish to fight Japan?" Without commenting, at this juncture, on the negative reply which the Minister received, rumors of an imminent Soviet attack have attained sufficient currency in Tokyo to merit a brief discussion of this supposition. The matter is also brought to the attention of the Department in the belief that similar rumors may have reached Washington and in order to invite the comment of the Embassy in Moscow where Soviet leaders are said to be convinced of the inevitability of war.

Presumably, a Soviet attack could occur only if the members of the Soviet government, notably Stalin, should become convinced that a conflict was unavoidable and should conclude that the Soviet forces had reached a degree of preparedness relatively greater than that of the Japanese. At a luncheon on June 26 members of my staff received from the Counselor and a First Secretary of the Soviet Embassy an implication of the Soviet feeling of the inevitability of war.

On the other hand, several factors tend to invalidate the suggestion of the Belgian Ambassador. In the first place the Japanese do not expect a Soviet attack. The Military Attaché of this Embassy, on returning from his recent trip in Manchuria, nowhere found indications of anticipated trouble or preparations for imminent hostilities, and in conversation with the Kwantung Army staff officer in charge of Russian affairs was given the distinct impression that the Kwantung Army viewed the recent succession of border incidents as more irritating than dangerous. This officer further stated that he believed these incidents to be the work of irresponsible elements and not of the Soviet army high command. Inasmuch as the thoroughness of the Japanese intelligence service has been amply demonstrated, the likelihood of a surprise attack seems negligible. In the second

place reference is made to the attached memorandum⁴¹ of a conversation between my secretary, Mr. Parsons, and Mr. Philip Adler, a correspondent of the *Detroit News*, who has recently travelled from Moscow over the Trans-Siberian Railway. Incidentally, Mr. Adler told the story of a Soviet acquaintance, an officer in the Far Eastern Red Army, to whom he mentioned that prior to leaving Detroit he had made a wager on the outbreak of war between Japan and the USSR before summer. The officer replied that Mr. Adler had come closer to winning his bet than he realized because, although due for furlough in April, leave had been cancelled, and for a month, until approximately the 25th of April, the frontier troops had lived in daily expectancy of the outbreak of hostilities with Japan. Mr. Adler had only lately heard that this officer had just been allowed to take his leave. Finally no information has reached Tokyo to the effect that Soviet Russia has abandoned or is likely to abandon her policy of remaining at peace with the world in order to concentrate on her vast internal problems.

To revert to Japan and the three potential incentives to war, it is probable that the collective force of continued irritating incidents no longer constitutes so serious a threat to peace. A chronic appendix is less likely to lead to an operation than an acute one. The recent fring on "Manchukuo" ships in the Amur and the shooting which resulted in a bullet striking the Japanese Consulate at Habarovsk were incidents of a provocative nature which at certain times might have produced or might have been made the excuse for a general outburst of national feeling in Japan. On the contrary they were not made the basis of propaganda nor did the newspaper accounts provoke an abnormally severe wave of anti-Soviet feeling save for the pseudo-riot produced at the Soviet Embassy* by six indignant fanatics.

The second potential incentive to war, communism, while feared and hated by Japanese leaders, is not a problem of immediate gravity. Nevertheless, as recently as June 21, the vernacular papers in Tokyo reported that during the examination of one Masaru Kato, an alleged communist, it was revealed that a former First Secretary of the Soviet Embassy, Moise Galkovitch by name, had regularly supplied materials and money to aid the publication of a magazine called the "Soviet Friend". Wholesale arrests of "communists" continue to be announced from time to time with the lifting of press bans, and a recent patriotic propaganda film *Daigorei* (The Great Order) conjures up an approaching national crisis, relying largely on long scenes depicting Soviet military preparations accompanied by spoken diatribes against

⁴¹ Not printed.

*Embassy Despatch No. 835, of June 14, 1934. [Footnote in the original; despatch not printed.]

the "poisoned fangs" of the Soviets. But these things too are chronic, not acute.

There remains then the third potential incentive to war, the possibility that Japan recognizes in Russia an obstruction which must be removed at the most advantageous moment. In view of the pressing problems which Japan must face both international and domestic, and in Manchuria, it is open to question whether such a moment could arrive within the next two years. According to observations of the Military Attaché, the new port of Rashin in Korea is only in the preliminary stage of development while that of Seishin has but limited capacity. The Korean approach to Manchuria is considered indispensable in case of war. Secondly the new railroads of Manchuria are believed to be carrying no war materials and in fact but little freight of any kind at present, while the Kwantung Army is apparently settling down to the task of consolidating Manchuria rather than preparing for imminent hostilities. The technical aspect of the situation in Manchuria, therefore, precludes the likelihood of an imminent Japanese attack, as does the formidable nature of Soviet defensive preparations.

The situation in Tokyo militates even more strongly against war. First of all, General Hayashi, the Minister of War, is a man of practical sense and is well aware that the Japanese military machine has not yet reached the zenith of its combat efficiency. He also apparently wields great influence with all military factions and, in comparison to that mystical firebrand, General Araki, is an influence for peace.

In the second place, the last months of the Saito Cabinet, which have witnessed a series of political crises, have revealed that the pacific influences around the Throne have regained their position in large measure as the source of political power in Japan. The Genro, Prince Saionji, with Count Makino, Baron Hayashi, Admiral Suzuki, and Baron Ikki have kept the Saito Cabinet in office for months despite a storm of criticism and the all but open opposition of the army and navy. A war with Soviet Russia would now almost certainly require their consent, a consent which would not be forthcoming.

In the third place the nation is confronted with the approach of those problems which General Araki propagandized as "The National Crisis of 1935-1936". The people as a whole will be concerned with naval problems, with the development of the already acute trade rivalries, with an intensified agrarian problem which the catastrophic drop of silk cocoon prices this year clearly indicates, and with the triangular relations between Japan, "Manchukuo" and China—or perhaps more properly, North China.

In the fourth place Japanese history has shown that the process of expansion which commenced after the Meiji Restoration has pro-

gressed by waves of violent action succeeded by necessary periods of consolidation and recuperation of the national energies. Beginning with September 18, 1931, the nation has been kept in an abnormal, at times fanatical, state of mind for a longer period, perhaps, than ever before. The reaction, as already reported,† has come. It should be the more thorough for having been delayed by artificial stimulants.

In conclusion, the Foreign Minister continues to negotiate the immediate points at issue with Soviet Russia. No less than three conferences are at present in session, one in Tokyo for the sale of the Chinese Eastern Railway, a second in Moscow for revision of the yen-ruble exchange rate, and a third in Heiho in regard to the "Manchukuo"-Soviet waterways. There is no indication which has so far come to light in Tokyo that attempts to settle these problems through diplomatic channels will be abandoned. Yet, Japan is certainly committed to continental Empire, she faces Russia once more along the Amur, and, already she has crossed the Hsingan Range separating Manchuria proper from the vast plains of Mongolia and Siberia. These plains, it will be remembered, are the region in which Communism is spreading southward towards Japanese spheres of interest, carrying with it not only an ideology abhorrent to the Japanese but the threat of economic and political predominance which the Japanese must some day face or else retreat. Nevertheless, at the present writing, I believe that this eventual conflict, which appears probable, will be delayed for a period of years which it is now premature to estimate. The likelihood of war in 1934 appears definitely to have passed, barring always the emergence of unforeseen, unpremeditated factors. What may happen in 1935 it seems to me unwise to predict. The Saito Cabinet is about to fall. The new line-up, if important changes occur, may be significant.

The incidents and developments of the past two weeks are being outlined in the Embassy's monthly political report for June, No. 869, July 2,⁴² to be despatched in this pouch.

Respectfully yours,

JOSEPH C. GREW

893.71 Manchuria/63 : Telegram

The Consul at Tientsin (Atcheson) to the Secretary of State

TIENTSIN, July 3, 1934—4 p. m.

[Received 9 p. m.]

My April [July] 2, 10 a. m. Following message has been sent to Legation:

"July 3, 3 p. m., my July 2, 9 a. m.

†Embassy's Despatch No. 736 of April 6, 1934. [Footnote in the original; for despatch, see p. 644.]

⁴²Not printed.

1. From authentic confidential source I learn that postal relations with 'Manchukuo' have been partially resumed and that Siberian mails and Japanese mails from Manchuria are now arriving Tientsin and Peiping on through trains. Forwarding through Chinese postoffices of mails for Siberia and beyond expected within few days under arrangement whereby Chinese Postoffice Administration will pay Japanese Government for transportation across 'Manchukuo' and Japanese Government will hold payments in trust on theory that 'Manchukuo' may later become member postal union.

2. Transit negotiations now proceeding in Peiping between Ho Ying-chin and high Japanese officials who arrived on first through train with view to arranging for despatch of mails destined for Manchuria outside railway zone and delivery mails therefrom without penalty postage. Japanese said to be forcing 'Manchukuo' mail issue chiefly because of interest in restoration money order facilities involving movement of several hundred thousand dollars weekly.

3. Repeated to the Department as of July 3, 4 p. m."

ATCHESON

893.113 Manchuria/4

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] July 5, 1934.

The French Chargé d'Affaires said that information had come to his government to the effect that the "Manchukuo" authorities were undertaking to buy arms and ammunition abroad. He said that his government took the position that, in view of the Postal Convention of 1933,⁴³ it would be impossible for French arms and ammunition to be shipped to "Manchukuo". He said that his government was basing their refusal upon this Convention. The Chargé asked me whether the Department had any knowledge of attempted purchases in this country, to which I replied in the negative and that, in my opinion, any such sales would not take place.

WILLIAM PHILLIPS

893.01 Manchuria/1143

The Military Attaché in Japan (Crane) to the Chief of the Military Intelligence Division, War Department (Smith) ⁴⁴

No. 7393

[Tokyo,] July 5, 1934.

1. The undersigned left Tokyo on May 30, 1934, via Kobe and Dairen for Manchoukuo visiting the following points of interest in

⁴³ Presumably a reference to the report on June 14 by the League of Nations Assembly Advisory Committee appointed pursuant to the Assembly resolution of February 24, 1933; see League of Nations, *Official Journal*, Special Supplement No. 113, p. 10. For text of the resolution of February 24, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 113.

⁴⁴ Copy transmitted to the Department by the War Department; received July 31.

the order named: Mukden, Harbin, Tsitsihar, Peian, Harbin, Hsinking and Kirin and returned to Tokyo June 24, 1934 by way of Seishin, Keijo, Fusan and Shimonoseki. All travel was by rail except from Kobe to Dairen and from Fusan to Shimonoseki which was by boat.

2. An application to the Japanese War Office for permission to inspect units of all branches of the service in the Kwantung Army serving in the Kwantung Leased Territory and in Manchoukuo was refused but permission was given to inspect one regiment each of infantry and field artillery of the Army of Chosen stationed at Ryusan in the outskirts of Keijo. The same action had been taken on requests by the British and French Military Attachés to inspect units of the Kwantung Army.

3. The time available for travel in Manchoukuo was limited by the funds available so under the circumstances it was decided to visit accessible points of importance in a military way due to the distribution of the Japanese Army and to travel over as many as possible of the new railways of northern Manchoukuo. The time element precluded a trip to southwestern Manchoukuo, which moreover was deemed much more readily accessible to the Military Attaché in Peiping. The official visit of Prince Chichibu to Manchoukuo during the first half of June absorbed the complete attention of the Japanese Army from Hsinking southward so that the new capital, location of the Kwantung Army Headquarters, could not be visited until after the Prince's departure and even then General Hishikari was in Dairen with Prince Chichibu. General Kawashima, Commander of the Chosen Army, and the Commander of the 20th Division of that Army were absent, unfortunately, on inspection trips. Commanding Generals of the 3d and 16th Divisions, members of their staff, the Chiefs of Staff of the Kwantung Army, members of the Intelligence Section of the General Staff Kwantung Army, the Commanding General of one Independent Railway Guard unit (six battalions) and local representatives of the Special Service Section Kwantung Army (Tokumu Kikan) were interviewed under pleasant circumstances. It was apparent after a couple of calls that members of the Special Service Section would talk more freely than officers of divisions and were, on the whole, better informed on conditions and developments due, no doubt, to the character of their respective duties and the very recent arrival of the 3d and 16th Divisions in Manchoukuo.

4. Special Service Section officers were notable in a number of respects. As personal representatives of the Chief of Staff Kwantung Army under whom the Tokumu Kikan operates to plan and supervise all phases of the development of Manchoukuo, these officers were not under the Commander of troops in their area although their relations seemed to be intimate and friendly. General Doihara and other officers of the section were uniformly intelligent, keen, and well

informed General Staff officers and, without exception, had been Manchuria specialists for years. Offices of the Tokumu Kikan were usually inconspicuous with a small staff of military and civilian personnel.

5. The following impressions were gained from Japanese officers mentioned in paragraph 3, American and European consular officers, newspaper correspondents and businessmen and from personal observations:

a. The Japanese Army proudly accepts the credit for what it considers the improved condition of Manchuria as compared to conditions prior to the incident of September 18, 1931. Officers rarely refer to the Manchoukuo Government and, when they do, admit freely that the functioning of that Government depends on Japanese in its employ. Neither Japanese nor foreigners think that the population of Manchoukuo as a whole has any particular interest in the Government of the country. Individuals want peace and security so that they may live and work without fear of interference but what Government provides that condition is immaterial to the vast majority of people. Japanese officers accentuated the determination of the Army to establish and maintain a clean, effective government free from graft, that will protect the people and give them practical education. Higher education, except for a few students particularly qualified to benefit by it, was not favored and the United States and Japan were pointed out as examples of countries with more highly educated people than is good or useful.

b. Japanese have little confidence in the Manchoukuo Army or police force, believing that soldiers and police alike lack any deep sense of loyalty to their country. Efforts to inculcate patriotism are being made in schools and elsewhere but progress is slow. Estimates of how long it will take to produce reliable, patriotic Manchoukuo troops varied from ten years to three generations. The certainty with which men of all ranks now receive their prescribed pay has had a very favorable effect on the trustworthiness of enlisted men who were accustomed to having most of their pay retained by their superior officers. On the other hand superior officers find it a hardship to have to try to meet their expensive obligations from their prescribed pay. Great difficulty is being experienced by the Japanese in doing away with nepotism in military and other government services.

c. Lack of confidence in the loyalty and efficacy of Manchoukuo troops is indicated by the custom of having the military guards on railway trains composed of detachments of Manchoukuo and Japanese soldiers of about the same strength. A similar practice is followed in the railway police squad which accompanies every passenger train of the Manchoukuo Government Railways—Japanese compose half of each squad. On the North Manchuria Railway (C. E. R.) trains police squads consist of Russians and Manchus. On the South Manchuria Railway military and police guards are entirely Japanese.

d. The Japanese Army feels that excellent progress has been made in the extermination of banditry. All large bandit groups have been broken up and only in eastern Kirin where concealment is afforded by densely wooded country are small bands active. The usual seasonal

increase in banditry is expected during this summer but the present outlook is for far less activity than during the same period last year. Credit for this improvement is given to vigorous bandit extermination campaigns and to the present system of holding localities responsible that bandits are neither housed nor fed. Ten households are grouped under a leader for mutual protection and supplied with prescribed weapons. All other weapons are required to be surrendered and are paid for by the government at prices ranging from 10 yen to about 30 yen. Household groups protect themselves, assist police and troops in operation against bandits and in case it is discovered that anyone in a group has fed or otherwise aided bandits all members of the group are fined. With the decrease in the size of bandit groups troops of Japanese divisions have been withdrawn from scattered posts in outlying districts and concentrated in regimental or larger garrisons while anti-bandit operations have been turned over more and more to the Japanese Consular Police and Independent Railway Guard Battalions and Manchoukuo police and troops. Of course Japanese divisional units are still employed against bandits when it is advantageous.

e. The secrecy surrounding the composition and distribution of the Japanese forces in Manchoukuo is nearly as strict there as in Tokyo. No mention is made of the numerical designations of divisions or component units; neither officers nor men of such units wear the customary numerals on their collars; units are referred to by the name of their commanders and the exact size of units rarely is published. The only numerical designations in use are those of Independent Railway Guard Battalions, of which there are 18. The presence in Manchuria of the 3d, 7th and 16th Divisions was confirmed but nothing could be learned of their organization, strength and equipment. It was learned that Japanese aviation was organized into five battalions, probably of two squadrons each, numbered from 9 to 13 inclusive and commanded by colonels or lieutenant colonels. The limited information obtained on the distribution of units will be incorporated in a report under 6180—Distribution of Troops. In general, the distribution previously reported is approximately correct. Japanese railway police employed by the South Manchuria Railway Company and by the Manchoukuo Government Railways were much in evidence at stations and on trains throughout the extent of those lines. These men are young Japanese Army Reservists and have the same individual equipment as Japanese infantrymen, but wear a slightly different uniform. Another similarly armed force of Japanese noted in all cities was the Consular Police. The strength of Railway and Consular Police could not be learned accurately but an estimate of 10,000 by an American is believed to be reasonable. The members of both police forces were better armed and presented a much more military and effective appearance than Manchoukuo troops or police. The presence in Manchuria of such large armed Japanese police forces of trained men naturally would be a great assistance to the Kwantung Army in time of war by relieving it to a considerable extent of responsibility for the protection of railways and the maintenance of order in cities and towns.

f. The following railroad lines were traversed:

- (1) South Manchuria Railway (Dairen—Hsinking).

- (2) North Manchuria Railway (Chinese Eastern Railway) (Hsinking-Harbin-Tsitsihar Station).
- (3) Manchoukuo Government Railways (Tsitsihar-Peian-Harbin and Hsinking-Kirin-Tunhua-Tumen).
- (4) Chosen Government Railways (Tumen-Seishin-Keijo-Fusan).

The South Manchuria Railway was an excellent line in every respect and was the only one in condition to support heavy, high speed traffic.

The North Manchuria Railway was obviously run down. Trains ran slowly over a fair roadbed.

The Manchoukuo Government Railways were unexpectedly good. The rolling stock was in good condition, one first class train and one mixed passenger and freight train ran in each direction, schedules were adhered to strictly, stops were brief, roadbed was fair to good, speed was slow. No double tracking was seen. On the Tsitsihar-Peian-Harbin line there was a single siding at every station, or about every 13 kms., and two or more sidings at the nine most important stations. On the Hsinking-Kirin-Tumen line stations were about 12 kms. apart, all had at least one siding and most had two or more sidings. Sidings seemed to be uniformly about 500 or 600 yards long. On the older sections much work had been done recently improving bridges and relocating the line to decrease grades and eliminate curves. On the Tsitsihar-Peian-Harbin line, passing through absolutely flat and gently rolling rich farm land, sand ballast was used, while from Hsinking eastward to Tumen ballast was of gravel or, to a lesser extent, crushed rock. The latter line is designed to carry heavier traffic than the former.

Every wooden bridge and other bridges of importance are protected by one or two sand bag, brick, or concrete pill boxes. All trains carry armed railway police and detachments from special railway guard battalions. On the South Manchuria Railway police and guards are Japanese; on the North Manchuria Railway police are half Russian and half Manchoukuo, military guards Japanese and Manchoukuo; and on the Manchoukuo Government Railways police and guards are both part Japanese, part Manchoukuo. Police averaged about 10 men per train. Guards vary in strength from about 10 men on quiet lines to at least 20 men in disturbed areas. On the Hsinking-Tumen line, only, every train, both passenger and freight, includes an armored box car. Armored trains, consisting of a locomotive, with steam up and five or six armored cars, were distributed along the Manchoukuo Government Railways at intervals of about 100 kms. None were noted elsewhere.

g. The new ports of Seishin and Rashin in northeastern Chosen, on the most direct line between Japan and Manchoukuo, were inspected. At Seishin the breakwater of concrete blocks was complete in outline and work was in progress placing the top layer of blocks. A stone and concrete quay has space for five ships of about 3,000 tons each. Six fireproof warehouses have been completed (five for which space is available on the waterfront and one in a parallel line), at least one more in a parallel line is under construction and space is available between tracks for several additional ones. The tracks indicate that a total of about 10 warehouses in two lines will be built. Double tracks ex-

tend along the land side of both lines. No provision seems to have been made for handling cargo lightered ashore from ships anchored in the harbor. The harbor, while small, has excellent facilities for handling a few small ships. A tremendous amount of work is in progress at Rashin, but living quarters for South Manchuria Railway employees on the job are practically the only permanent structures completed. The low ground, formerly rice fields, at the head of the bay is being filled in with rock and dirt carried by many narrow gauge railways from hills in rear. In places the fill is as much as 10 feet and it must average five feet. Water front construction had not advanced far enough to give any idea of the facilities to be provided there. The tunnel for the railway to connect Rashin with Yuki is expected to be completed late in 1934. Considering the project as a whole, it is difficult to visualize it reaching a useful degree or [of?] completion during 1935.

h. Anticipation of war with Soviet Russia this year or next was not admitted by any Japanese officer interviewed nor were any signs seen or heard indicating preparations for such a war. Everyone was absorbed in Manchoukuo and its development. Irritation was expressed at annoying incidents along the Manchoukuo-Soviet border but irresponsible individuals and not the Soviet Army were blamed. The general impression gained was that the Kwantung Army is settling down to the job of making over Manchuria and is not particularly concerned with preparations for war in the near future. The only place visited where there was a feeling of tension was Harbin and there it was due to memories of kidnappings and not to fear of war.

i. The recognition of Manchoukuo by the United States was not mentioned by any Japanese.

6. The Kwantung Army, the Chosen Army and the office of the Governor General of Chosen were most generous with assistance in travelling and with entertainment.

WILLIAM C. CRANE
Major, General Staff

033.1100 Rogers, James H./76: Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, July 6, 1934—4 p. m.
[Received July 6—8: 55 a. m.]

148. For Morgenthau⁴⁵ from Rogers.⁴⁶ After a few days in Manchuria a very superficial view of economic situation yields one conclusion on which I am confident; viz, the economic set up is effectively designed to keep complete control of key industries in the hands of Japanese Government. This is accomplished as follows: in each

⁴⁵ Henry Morgenthau, Jr., Secretary of the Treasury.

⁴⁶ Prof. James Harvey Rogers, of Yale University, on a mission to the Far East for the Treasury Department.

important industry is being organized a government-sponsored company, controlling interest being subscribed by one or more of the following groups—South Manchuria Railroad, Mitsui, Mitsubishi, and/or certain leading Japanese companies in related industries. Since cooperation between most of these interests and the Japanese Government is almost complete, direct government stock subscription is usually unnecessary although sometimes present.

Other companies desiring to organize in any of these key industries must receive special government permits which to date have rarely been granted even to Japanese firms. Hence the companies thus controlled by Japanese Government are virtually monopolies and since what constitutes key industries is open to redefinition from time to time almost any important economic activity can be brought under similar control.

American oil companies are being subjected to discriminating import duties and quotas are operative. Among representatives of American business and banking as well as among consular officials and foreign newspapermen the opinion seems unanimous that American and most other foreign business will in this way be squeezed out in a very few years—even more completely than has occasioned in Japan.

GREW

893.7793 Manchuria/14

The Minister in China (Johnson) to the Secretary of State

[Extracts]

No. 2831

PEIPING, July 10, 1934.

[Received August 6.]

SIR: I have the honor to supplement my telegram No. 283 of June 30, 1 p. m., reporting that Chinese and Japanese authorities announced on June 28 that an agreement had been reached for the institution on July 1 of through passenger traffic on the Peiping-Mukden Railway.

Summary:

Marking the successful end of more than one year of effort of certain Chinese officials to overcome on the part of influential Chinese factions opposition to agreement, the resumption of through traffic was marred only by the explosion of a bomb on the first train out of Peiping. It is supposed that in the not distant future announcements will be made of agreements with regard to other questions relating to North China and "Manchukuo". A "diplomatic" success for Japan and an augury of further peaceful penetration into China (reinforced by the threat of military action), it is also a success on the part of

General Chiang Kai-shek and those other officials who believe in the necessity of a policy of conciliation of Japan.

Significance of the agreement:

Publishing and putting into effect the agreement successfully, without important Chinese objection, indicate that those officials in favor of a policy of conciliation of Japan have silenced officials opposed to it. This lessens the threat, for the time being at least, of internal warfare and facilitates Japanese peaceful penetration into China. It is a "diplomatic" victory for Japan and seems to have been urgently desired not so much for economic reasons as for the purpose of convincing Western powers that there is taking place a gradual *rapprochement* between China and "Manchukuo" and Japan. Supposedly, within the near future, other agreements, with regard to such questions as the establishment of customs houses along the Great Wall, through freight train service, and postal facilities will be announced. It is not at all unlikely that agreements with regard to these and other questions relating to North China and "Manchukuo" have already been reached by the principal officials concerned and are awaiting a propitious moment for publication.

Respectfully yours,

NELSON TRUSLER JOHNSON

893.71 Manchuria/66

The Acting Postmaster General (Eilenberger) to the Secretary of State

WASHINGTON, July 11, 1934.

MY DEAR MR. SECRETARY: The receipt is acknowledged of your letter of the 29th ultimo (file 893.71-Manchuria/61 [65], enclosing copy of the recommendations adopted on May 16, 1934, by the Advisory Committee on the Far Eastern situation of the League of Nations with regard to a question raised by the British Government concerning postal traffic in transit through Manchuria.

You make certain comments as to your Department's understanding of the postal relations between this Department and the Postal Administration of "Manchukuo" and ask to be informed of this Department's views as to the tenor of the reply, tentatively outlined in your letter, to be made to the Secretary-General of the League of Nations.

Since the informal discussions between officials of our two Departments there have been received additional reports concerning the international mail transit statistics of October 15-November 11, 1933, which indicate that the question of payment for transit charges is likely to arise, not for transit service performed for this Department

by the Postal Administration of "Manchukuo" but for service performed for the latter by the Postal Administration of the United States. It is indicated that the total annual amount due this Department will be small, however, and may not exceed \$500.

While no occasion has arisen as yet, it is pointed out that there exists also the possibility that claims for indemnity may arise in the future on account of the loss, rifling or damage of registered mail sent to or received from "Manchukuo".

In view of the situation outlined above, it appears probable that occasion will arise for the Postal Administration of the United States to enter into relations with that of "Manchukuo", and it will, therefore, be agreeable to this Department if, as you suggest, the Secretary-General of the League of Nations is informed that, should any action affecting Manchuria become necessary for the maintenance of adequate postal services, the American Postal Administration would be prepared to conform such action to the recommendations of the Advisory Committee.

In this connection it is desired to point out that the international transit statistics of October 15–November 11, 1933, previously referred to, are governed by the provisions of the Universal Postal Convention of London,⁴⁸ as are all matters concerning the settlement of claims for indemnity for the loss, rifling or damage of articles contained in the registered mails exchanged with foreign countries generally. Should any relations with "Manchukuo" become necessary, substantially the same technical procedure could doubtless be followed without reference to the Convention.

Very truly yours,

C. B. EILENBERGER

893.00/12785

The Minister in China (Johnson) to the Secretary of State

No. 2828

PEIPING, July 11, 1934.

[Received August 6.]

SIR: I have the honor to refer to my telegram No. 11 of January 5, 1934, 1 p. m.,⁴⁹ reviewing political developments which occurred in China during 1933, and to submit a similar review of developments during the first six months of 1934.

The outstanding problems confronting the Central Government during the first six months of 1934 were (1) relations with Japan; (2) relations with the Southwest; and (3) the campaign against the Kiangsi communist forces.

⁴⁸ Signed June 28, 1929; 46 Stat. 2523, or League of Nations Treaty Series, vol. CII, p. 245.

⁴⁹ *Foreign Relations*, 1933, vol. III, p. 490.

The principal events of this period were (1) the return to China of Marshal Chang Hsueh-liang (January) and his appointment to a post in Central China under General Chiang Kai-shek (February); (2) suppression of rebellion in Fukien Province (January); (3) rebellion in the Northwest of General Sun Tien-ying (January) and its suppression (March); (4) transfer of more than 100,000 of Marshal Chang Hsueh-liang's troops from North to Central China (March to June); (5) initiation by General Chiang of the "New Life Movement" (March); (6) inauguration of an "autonomous" government in Inner Mongolia (Chahar and Suiyuan Provinces) (April); (7) departure from Peiping of General Huang Fu, Chief of the Peiping Political Affairs Readjustment Committee, and his conference with General Chiang Kai-shek and Dr. Wang Ching-wei (April); (8) conference of leaders of the Southwest with representatives of the Central Government (June); and (9) announcement of agreement with Japan to reestablish on July 1st through passenger traffic on the Peiping-Mukden Railway (June).

During these six months the fundamentals of China's political and economic situation have not altered. As previously, however, there were developments indicating a growing understanding on the part of some of the country's leaders of its needs. But until there is evidence that these leaders intend effectively to implement this understanding with action, there will be little reason to view the present situation in China with other than pessimism. It might also be recalled that the masses were subjected during the years 1925 to 1929 by the leaders of the Kuomintang to a pleasant stream of propaganda to the effect that they, the people, were unconquerable and that they, with the help of the Kuomintang, would get back all rights and privileges lost by treaty in previous years. The result of this is that now it is well nigh impossible for any leader to turn the thoughts of the people in other directions, no matter how much the leader may understand the needs of the country. Nor are the leaders of China of a calibre to admit the failure of the Kuomintang program of those years.

I. Military and Political developments:

General Chiang Kai-shek has continued to consolidate his position as the dominant military figure, directing at the same time the chief political, economic, and financial activities of the Central Government. His prestige, enhanced at the expense of the debilitated Kuomintang, was indicated by the perfunctory progress of the Fourth Plenary Session of the Central Executive Committee of the Kuomintang (in January), and was primarily due to his unexpectedly rapid suppression, early in the year, of the rebellion in Fukien Province, which had a salutary effect not only on politicians but also on those of China's

military satraps who are antagonistic to him. His authority in provinces other than some of the provinces of the Yangtze Valley continued to be merely nominal, with the exception of Fukien Province through which his control was extended to the northeast border of Kwangtung Province. Military leaders in those areas of nominal control, however, seemed less inclined to risk a frontal clash with him and more disposed to enter into discussions of problems either with General Chiang direct or with his representatives. A number of military leaders in North China journeyed to Central China to confer with him and, in the latter part of June, conferences were held in the Southwest between militarists of that area and representatives of General Chiang. This increasingly cooperative attitude was due, it may be presumed, primarily to realization on the part of these semi-independent militarists that their selfish ambitions could not be successfully promoted in the face of Japan's menace both to North and to South China. But there was little reason to believe that, with the arrival of a moment regarded as propitious, the ambition of these generals and their jealousy of General Chiang might not again take form in action against him. The more conciliatory attitude on the part of the Southwest was reported to have resulted in a promise of cooperation against the communist forces in Kiangsi and Fukien Provinces, a cooperation which would seem to be necessary if this long-continuing campaign is to be successfully concluded. In outlying areas, the ineffective direction and the tenuous control of affairs by the Central Government remained the same, with the possible exception of Inner Mongolia (Chahar and Suiyuan Provinces) where a so-called autonomous government was established, an innovation which cannot yet be evaluated.

II. *Economic and financial developments:*

Little relief was extended to the masses of China suffering from excessive taxation, the cupidity and dishonesty of military and civilian officials, the exploitation of the people as a market for opium, and continued neglect of measures to overcome such natural disadvantages as flood, aridity, and difficult communication. Until such fundamental ills are remedied, the loyalty of the people to the governing classes, approval of their activities, and the removal of the danger of subversive movements cannot be anticipated.

There were indications once more that at least some of the officials realized the need of reforms, but those reforms which they initiated continued in an elementary stage; and their significance depended upon future developments. They included the Second National Finance Conference, which passed resolutions looking toward reform of taxation; General Chiang's "New Life Movement", which places more emphasis upon the evils of tobacco than on the evil of opium; some

work on roads, sanitation, and irrigation; the establishment of the China Development Finance Corporation for the purpose of organized economic development of China; and some discussion of ways to develop the Northwest. In no instance was there assurance that these reforms would be implemented with action of substantial significance.

III. *Foreign Relations:*

a. Japan: During this period it became evident that further aggression by the Japanese military was at least in abeyance pending the outcome of Japan's efforts to obtain its ends in China by "diplomacy". Although these aims were not definitely known, they were believed to include economic and financial expansion in North China, which would eventuate in political dominance, improved trade conditions with China as a whole, and preeminence (at least) among foreign powers in extending "assistance" to this country. The announcement, without serious repercussion, of agreement for the resumption of through passenger traffic on the Peiping-Mukden Railway, indicated the acquiescence of China's leaders to the policy of procrastinating in conceding to Japan's demands to a point just short of precipitating action by the Japanese military, while at the same time efforts should be made to build up China's powers of resistance. In the relations of General Chiang with other ambitious military leaders, described above, it was evident, perhaps for the first time, that at least some of the militarists deemed it expedient to defer their personal ambitions to the Japanese menace.

b. Western nations: The question uppermost in the minds of Western observers during the period under review has been whether China would not turn less and less to Western nations for aid in economic (and military) restoration in view of Japan's increasingly frank disapproval of such cooperation. Certainly the general attitude of the Chinese during the first half of the year in their relations with Western powers has been less *intransigent* than usual as a result of the Japanese threat.

Respectfully yours,

NELSON TRUSLER JOHNSON

893.01 Inner Mongolia/27

The Ambassador in Japan (Grew) to the Secretary of State

No. 894

TOKYO, July 18, 1934.

[Received August 6.]

SIR: I have the honor to refer to my despatch No. 793 of May 18, 1934,⁵⁰ on the subject of Soviet-Japanese Relations in which were out-

⁵⁰ Not printed.

lined the terms of an alleged Sino-Soviet agreement concerning the improvement of communications facilities by road and also by radio in Inner Mongolia. It has not been possible up to the present to confirm the existence of this agreement but, nevertheless, several reports have reached Tokyo, notably on June 14 and 23, to the effect that work has started on the route between Urga and Kalgan. These reports stated that the provincial governments of Chahar and Suiyuan had been instructed by the Nanking Government to cooperate with the Soviet Consul at Kalgan in supervising the construction work. The persistence of the reports is cited as evidence that activity of this kind may indeed be going on. Consequently the following brief discussion is submitted in the belief that this matter in particular and the course of events in Inner Mongolia in general are of importance to the development of Japanese continental policy.

Since the action of the Japanese military in September 1931, there has been no direct line of communication between China and Soviet Russia save by caravan routes partially adapted to motor vehicle traffic. The construction of a modern motor road between Kalgan on the Peiping-Suiyuan Railroad and Urga would provide a direct line of communication with facilities for quick travel between China proper and Siberia over a route shorter than the former detour via Manchurian railways.

The interest of Soviet Russia in this project is of significance in that it indicates that there has been no change in the basic policy towards China of the régime which has successfully alienated the vast regions of Sinkiang and Outer Mongolia and which for a time retained the dominating voice at the councils of the Kuomintang, the focal point of Chinese politics. Perhaps the word "Imperialism" is inapplicable to Soviet Russia but, in regions where Soviet penetration has not been opposed by the military force of Japan, China has had to bear the impact of Soviet encroachments approaching imperialism. The development of the Urga-Kalgan route would facilitate the penetration of ideas, materials, and, if need be, armed forces into Inner Mongolia and North China.

To the Japanese military such a project must appear as a rival bid for influence in regions contiguous to "Manchukuo". The western flank of Manchuria is a region of great strategic importance in the event of a Soviet-Japanese war, and it is open to question whether the Japanese would permit Soviet-Russia to enter the Suiyuan and Chahar regions unmolested, thereby extending Soviet influence along a third side of "Manchukuo". The Urga-Kalgan route could easily be cut by the Japanese, but such a step would cause a crisis between Japan and the USSR.

If we may believe that this route is now being developed, there follows of necessity an intensification of the rivalry of China, Japan,

and Soviet Russia for the favor of the Mongol inhabitants of Inner Mongolia. For the time being such rivalry as already exists (principally between China and Japan) facilitates the Mongol drive for autonomy. Considerations of this kind brought about in April of this year the organization of the autonomous government at Pailingmiao as a counter bid against Japanese concessions to the Mongols in the semi-autonomous "Manchukuo" province of Hsingan. Nevertheless the measures taken suggest that the net of competition is tightening around this region, presaging an ultimate conflict unless the momentum is arrested in the early stages by decisive action. Such action could most likely originate with the Japanese and, as mentioned in the paragraph above, would be critical. The region seems therefore one of the potential danger spots of the Far East. It would become so in fact with the completion of projects such as are envisaged by the alleged Sino-Soviet agreement.

It is hardly necessary to repeat that the arguments of this despatch are based upon information as yet unconfirmed and that the matter is in any event of large rather than immediate importance. To support this statement it is only necessary to remember that Soviet influence is as yet negligible in Inner Mongolia as compared with such influence in Outer Mongolia and that these two regions are believed to be definitely hostile to each other. Accordingly the despatch is submitted merely in the hope that it may provide a useful hypothesis for consideration with such other material as may appear.

Respectfully yours,

JOSEPH C. GREW

893.71 Manchuria/61

The Secretary of State to the Chargé in Switzerland (Williamson)

No. 2613

WASHINGTON, July 19, 1934.

SIR: Reference is made to your despatch No. 3382 (L. N. No. 2274), dated June 6, 1934,⁵¹ with which there was forwarded Circular Letter No. 92, addressed to the Secretary of State on June 4, 1934, by the Secretary-General of the League of Nations,⁵¹ and transmitting a circular of the Advisory Committee on the Far Eastern situation relating to the question of postal traffic in transit through Manchuria.

There are enclosed the original and a copy of the reply of the American Government to the communication above mentioned of the Secretary-General. It is desired that you forward to the Secretary-General the original of this Government's reply. In so doing, please inform the Secretary-General that this Government desires that the text of its reply be not made public or circularized among the states

⁵¹ Not printed.

members of the League before the assent thereto of this Government has been given.

Very truly yours,

For the Secretary of State:
WILLIAM PHILLIPS

[Enclosure]

*The Secretary of State to the Secretary General of the
League of Nations (Avenol)*

The Secretary of State of the United States of America presents his compliments to the Secretary-General of the League of Nations and has the honor to acknowledge the receipt from Monsieur Avenol of a memorandum, dated June 4, 1934, (No. C. L. 92. 1934) entitled "Postal Traffic in Transit Through Manchuria," with which there was transmitted a copy of the report adopted on May 16, 1934, by the Advisory Committee appointed by the Special Assembly convened in virtue of Article XV of the Covenant at the request of the Chinese Government. The memorandum expresses the confidence of the Advisory Committee that the American Government will be prepared to comply with the recommendations embodied in the report of the Advisory Committee, and it sets forth the request of the Advisory Committee that the Secretary General be informed of the decision of the American Government in the matter.

The American Government has taken note of the recommendations embodied in the report adopted on May 16, 1934, by the Advisory Committee. If any action affecting Manchuria should become necessary for the maintenance of adequate postal services, the American Postal Administration will be prepared to conform such action to the recommendations embodied in the report under reference of the Advisory Committee.

WASHINGTON, [July 19, 1934.]

761.94/763 : Telegram

*The Ambassador in the Soviet Union (Bullitt) to the Secretary
of State*

Moscow, July 20, 1934—5 p. m.

[Received 6 p. m.]

202. Litvinov said to me today that relations between the Soviet Union and Japan were continuing to improve. He said that he had no fear whatever of a Japanese attack in the near future and that negotiations with regard to the sale of the Chinese Eastern Railway were proceeding more favorably and amicably than in the past. He said

that the difference in the price asked by the Soviet Union and the price offered by Government of "Manchukuo" had now been reduced to a comparatively small sum and that he expected a successful issue of the negotiations although conclusion of the matter might take months as the Japanese were both hard and slow bargainers. He added that in spite of the temporary improvement in relations he felt that an eventual attack by Japan on the Soviet Union was inevitable.

BULLITT

125.0093 Manchuria/6

The Chinese Legation to the Department of State

AIDE-MÉMOIRE

The following is a paraphrase of a telegram from the Ministry of Foreign Affairs at Nanking:

It is reported from reliable sources that Japan intends to grant ostensible independence to the illegitimate régime in its international relations while actually it remains under the control of Japan.

There is a further move in contemplation. From April 1, 1935, foreign consular officers in the Eastern Provinces from countries which have not recognized the illegitimate régime will not be accorded recognition by the illegitimate régime and will not be permitted to perform their functions.

WASHINGTON, July 20, 1934.

125.0093 Manchuria/6

The Chief of the Division of Far Eastern Affairs (Hornbeck) to the Secretary of State

[WASHINGTON,] July 21, 1934.

MR. SECRETARY: This *aide-mémoire*,⁵² just brought to me by the Chinese Chargé, contains two statements (from the Nanking Government) on the basis of "is reported", the first of which has no particular meaning but the second of which should be noted with care: the second statement carries the suggestion that the Japanese may be planning to threaten exclusion from Manchuria of consular officers from states which continue to withhold recognition of "Manchukuo".

It is the feeling of this Division that, if the Japanese develop that idea and even if they carry it into execution, we need not let such moves worry us. For fifteen years we withheld recognition from Soviet Russia, we had no official representation in Russia, and it is doubtful whether we suffered much in consequence of those facts. Exclusion of our consular representatives from Manchuria would in itself cause us

⁵² *Supra*.

little inconvenience and little economic loss. We could at once establish a consular office at Vladivostok and perhaps one at Chita. Our expenses of representation would be cut down and we could use the officers and the balance of the funds thus released for strengthening other of our establishments in the Far East. Our trade with Manchuria does not run to high figures and would not be seriously injured.

S[TANLEY] K. H[ORNBECK]

893.01 Inner Mongolia/29

*The Acting Military Attaché in China (Constant) to the Chief of Staff, United States Army (MacArthur)*⁵³

[Extracts]

G-2 Report No. 8881

[PEIPING,] July 26, 1934.

In compliance with the regulations promulgated by the National Government on March 7th governing the formation of the Mongolian District Self-Government Political Affairs Council (see G-2 Report No. 8800), the Mongols have taken steps toward the formation of this organization. By reason of its central location the white and red walled temple group of Pailingmiao has been selected as the temporary capital. Later it is planned to erect suitable buildings near the temples for the "Meng Cheng Huai" as the government is known in Chinese. At the present time, however, the members, secretaries and other officials are quartered in the houses of the Lama priests who have moved to more cramped dwellings to make room for them. There are no buildings in Pailingmiao other than the temples and dwelling houses of the priests which are built in Tibetan style.

Here then to the accompaniment of Lama chants and the weird sounds of gongs, cymbals and horns, the new Autonomous Government of Inner Mongolia was formally established on April 23rd. At the head is Yun Wang (Prince Yun) the most venerable of the Mongol Princes. He will be assisted by So Wang and Sha Wang, all three belonging to the more moderate group. Following the establishment of the Council these princes went back to their banners leaving most of the details of organization in the hands of Te Wang (Prince Teh) of West Sunnit Banner. Te Wang is the acknowledged leader of the "Young Mongols" but is not believed to be as opposed to the more conservative elements as is generally thought.

While Te Wang did not secure a position as one of the heads of the new government, actually as Secretary he will be able to exert more influence than ever as nearly all administrative matters pass through

⁵³ Copy transmitted to the Department by the Chief of Staff without covering despatch; received September 6.

his hands. In addition to this he is acting head of the Defense Department and in actual charge of the training of recruits for the new Mongol Army which it is hoped to organize. If he plays his cards properly, he may well be the dominant figure in Mongolia, though he pulls the strings from behind the scenery furnished by the three elder statesmen mentioned above.

Te Wang apparently has the confidence of the older princes and it is quite evident from conversations with him and other Mongol leaders that there is a firm belief that the hope of the Mongol Leagues and Banners lies in a united and autonomous Mongolia. Despite their dislike of the Chinese for their methods of encroaching upon Mongol land and maladministration of former governors of Chahar and Suiyuan, the Mongols believe that there is vastly more chance of achieving their aims with China than by joining Manchoukuo. They fully realize, according to Te Wang, that should they make any agreement with Japan, the Japanese would not rest until Mongolia was a vassal state. However the Mongols are not slow to see the trading value of their position and by skillfully playing on the danger of Japanese aggression or intrigue in Inner Mongolia, the Mongols have succeeded in obtaining promises from the Nanking Government which satisfy nearly all their demands.

Under the regulations promulgated by Nanking (see G-2 Report No. 8800), Mongolia under the "Meng Cheng Huai" is given virtually the same powers as those of a province. The Council represents all of the sixty-seven banners in North China, Manchuria and Koko Nor and the administration of the Mongol territory is placed almost entirely in the hands of Mongols.

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Comments: The Mongolian Autonomy Council is just three months old. In that short time more progress has been made toward organization than has been seen in Inner Mongolia for many years. It is believed that all the Mongol leaders earnestly desire an independent Mongolia with as little supervision from outside sources as possible. They are bound to China by many ties and believe themselves capable of handling the Chinese politically and militarily as well if necessary. They are firmly convinced that any agreement with Japan will mean the end of their autonomy aims.

It is the belief of this office that while making the most of the Japanese angle as a trading factor with the Chinese, the Mongols will not join with Manchoukuo nor ally themselves with Japan while any other alternative presents itself. It is believed that Mongolia will retain its present status under nominal Chinese control unless actually occupied by Japanese troops, a thing which is neither believed probable nor possible at this time. Japanese efforts at economic and politi-

cal penetration may be expected but both will be far more difficult in Inner Mongolia than inside the Wall. Russian activity in Inner Mongolia is considered negligible.

It will be noted in the table showing membership of the Autonomy Council that the Jehol and Manchurian Banners are represented. These members came from Jehol and Manchuria but are not able to return there at the present time. Their communication with their respective banners is of course uncertain and intermittent as the Japanese are using every effort to dominate these Mongols. Further details concerning the Mongol Leagues and Banners will be found in G-2 Report No. 8724, "Tribal Elements of Inner Mongolia".

S. V. CONSTANT
Major, Cavalry (D. O. L.)

493.11 Shanghai/73

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

[Extract]

No. 9570

SHANGHAI, July 27, 1934.

[Received August 25.]

SIR: I have the honor to refer to Despatch No. 9424 dated April 13, 1934 from this Consulate General⁵⁴ (file 800/350 CV: Chc⁵⁵) outlining in detail the offer made by the local Japanese authorities to settle certain of the American claims resulting from the Shanghai Incident of 1932.

Pertinent figures covering claims against the Japanese Government presented for local settlement were as follows:

38 Claims grand total	US\$332, 152. 54
19 Claims disallowed for local settlement	US\$230, 266. 08
19 Claims recognized for local settlement	US\$101, 886. 46
Amount offered by Japanese for local settlement Yen 61,200 at US\$0.30	US\$ 18, 360. 00
Ratio of Amount offered to total amount of recognized claims	18.2%

A proviso to the granting of solatium insisted upon by the Japanese was that the recipients thereof would relinquish their total claim. The Department has anticipated and provided for the acceptance of such a condition in its cable No. 67 of March 27, 6 P. M.

Before accepting the Japanese offer for a local settlement this Consulate General endeavored, especially so because the Americans

⁵⁴ See footnote 12, p. 95.

⁵⁵ Department's file No. 493.11 Shanghai/69.

were being offered priority of settlement, to obtain figures showing the total amount appropriated by the Japanese Government for such settlement and if possible the amount allotted to each nation. Figures covering the total amount of claims filed had already been obtained from the British, Shanghai \$980,000 and the French, Shanghai \$780,000. It was the intention, if possible, to make a comparison between the appropriation or appropriations and the totals allotted for different nations to ascertain whether the American nationals were being offered a ratio at least equal to that of the others. The Japanese procedure of refusing to recognize most of the claims for losses occurring in Chinese territory made the claim totals by nations valueless. Further investigation was halted when it was learned that the Japanese appropriation was also to take care of claims filed by Japanese subjects residing in Shanghai and Manchuria. The total figures for claims presented by the latter subjects could not be obtained.

Under date of May 19, 1934 (See copy attached⁵⁶) the Japanese Consul General was notified of the acceptance by 16 of the claimants of his offer of solatium. A copy of his reply dated June 11 is also attached.⁵⁶ Of the 19 possible recipients the Standard Vacuum Oil Company, St. Luke's Hospital and John Van Almer were not included in the list dated May 19 as their acceptance of the offer had not been received. St. Luke's were hesitating in accepting because the solatium offered was a small percentage of its reported losses. However, before the receipt of 18 checks were acknowledged by this office June 19, 1934 (*Vide* enclosure⁵⁶) the Standard Vacuum Oil Company (Socony-Vacuum Corporation) and St. Luke's Hospital stated their willingness to accept. The amount of settlement in the case of the latter having been increased, through the efforts of this office, from Yen 500 to Yen 1700. . . .

Respectfully yours,

EDWIN S. CUNNINGHAM

893.00/12800

*The Consul at Hankow (Stanton) to the Minister in China
(Johnson)*⁵⁷

L. No. 554

HANKOW, July 27, 1934.

SIR: I have the honor to refer to a Reuter's despatch from Simla, dated July 18th, confirming the defeat of General Ma Chung-ying by forces under the command of General Sheng Shih-ts'ai, Garrison Commander of Sinkiang, and reporting that the Tungan forces were preparing to retire to Khotan from Yarkand and Kashgar, leaving

⁵⁶ Not printed.

⁵⁷ Copy transmitted to the Department by the Consul at Hankow in his despatch No. 483, July 28; received August 25.

the former Chinese governor in charge of Kashgar where all was reported quiet. This report followed one from Moscow, dated July 16th, to the effect that General Ma had been badly defeated by the provincial forces and had been disarmed by the Soviet authorities when he together with three officers and seventy cavalrymen fled across the border, near Irkenshtam, into Soviet territory about July 10th.

The defeat of Ma Chung-ying and the collapse of the independent regime established at Kashgar, gives General Sheng Shih-ts'ai a larger measure of control over that remote Province than the Chinese have exercised for many years. The credit for the defeat of Ma must be given entirely to General Sheng who appears to be a man of energy and some military ability, his Japanese military training undoubtedly having proved of value to him. The Chinese Government, while seemingly alive to the potentialities of the situation in Sinkiang, can be given little credit. It has actually done nothing beyond despatching emissaries to Sinkiang some of whom were appalled and intimidated by the chaotic situation, while others fished in the troubled waters and thereby added to the confusion.

Certain it is that General Sheng has received little if any material assistance from Nanking which appears to have supplied him with neither military supplies nor funds. It is equally certain that without arms and ammunition from an outside source, General Sheng would not have been able to defeat Ma Chung-ying. His principal source of supplies has undoubtedly been Soviet Russia, which in view of its large and growing commercial and economic interests in Sinkiang, presumably desires to see the situation stabilized in that Province and in all probability, would much prefer to have it under nominal Chinese control than to see it disintegrate into several semi-independent principalities subject to the machinations of the other interested Powers.

With General Sheng Shih-ts'ai exercising some real measure of military control over the major portion of Sinkiang, an unique opportunity exists for Nanking to take immediate and effective steps to consolidate its position in that Province and to institute an efficient administrative system composed of men who understand the racial, economic and political conditions obtaining in that region. The rehabilitation of the Province and the development and improvement of its commerce and communications are other matters calling for prompt and careful attention. It remains to be seen whether the Chinese Government will make the most of this unique opportunity or, as is more likely, merely breathe a sigh of relief and turn to the more personally interesting and profitable field of domestic politics.

As of interest in connection with events of the past few years in Sinkiang, there is enclosed a copy of an article⁵⁸ giving much useful

⁵⁸ Not printed.

information concerning politics and personalities in that Province. The article was received from Mr. Tamberg, the leader of the Oppenheimer Casing Company's motor expedition into Kansu and Sinkiang and is said by him to have been written by an Englishman who has followed events in Sinkiang very closely for many years.

Respectfully yours,

E. F. STANTON

741.61/428 : Telegram

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

Moscow, July 30, 1934—2 p. m.
[Received July 30—12:45 p. m.]

228. Continuing my 227,⁵⁹ the complete reversal of British policy with regard to the Soviet Union referred to in my 220⁵⁹ continues to manifest itself daily.

Litvinov said to me last night that Simon had recently made the following declaration to the Soviet Ambassador in London:

"Your Government is under the illusion that the British Government has desired and does desire war between the Soviet Union and Japan. We are absolutely opposed to a war between the Soviet Union and Japan and will do everything we can to prevent it. We shall give no support whatever to Japan in case an attack on the Soviet Union by Japan should be contemplated."

In commenting on this declaration of Simon, Litvinov said:

"For the first time since recognition by Great Britain we now have actual diplomatic relations. Until the present time neither myself nor Tchitcherin⁶⁰ has ever discussed any diplomatic question of any importance with the British. British Embassy here⁶¹ and our Ambassador in London has in reality been nothing more than a consul and has never discussed major questions with the British Secretaries for Foreign Affairs. Both in London and in Moscow we are now discussing all the problems of the world freely and in the most friendly manner."

Litvinov added that he attributed the reversal in British policy to fear of German aviation. He said that the German general in charge of aviation had recently expressed the opinion to a Soviet agent that German aviation was now stronger than the French. He added that he believed that in view of the development of aviation the British had definitely decided that Great Britain must be defended on the continent and that it was entirely possible that Great Britain would

⁵⁹ Not printed.

⁶⁰ Former Soviet Commissar for Foreign Affairs.

⁶¹ Text apparently garbled in transmission. It seems probable that this sentence should be combined with previous one and that phrase should read: "with the British Embassy here."

make or was attempting to make a sort of a deal with both Belgium and Holland for the use of their territory for advanced airplane defense in case of a German attack. Developing this idea Radek⁶² said that he believed that the British Government was attempting to persuade both Holland and Belgium to take the status of permanently neutralized states so that Britain might in that form guarantee the inviolability of their frontiers and behind the screen of such a guarantee enter into military conversations with them similar to the conversations between the British, French and the Belgians before 1914. Both Litvinov and Radek said that they believed that Great Britain had offered to guarantee the Dutch East Indies against a Japanese attack.

Radek commenting on the reversal in Simon's foreign policy said that in his opinion Simon had desired to establish close cooperation with Germany and Japan; that the development of German aviation and the horror in England at Hitler's murders had made cooperation with Germany impossible; that the Japanese threat to British interests in North China and Japanese dumping in British markets had made cooperation with Japan impossible. He then made a most important statement; that the next step of Soviet diplomacy would be to sign a non-aggression pact with Great Britain which would include a guarantee of the frontiers of India.

The delight of the Soviet Government in the reversal of the policy which Great Britain has followed since the revolution is universal and profound and I am deeply impressed (as reported in my No. 221⁶³) by the possibility that the major constellation in international affairs in the near future may be another *entente cordiale* between France and the Soviet Union.

BULLITT

761.94/766 : Telegram

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

Moscow, July 30, 1934—3 p. m.

[Received July 30—1:35 p. m.]

229. Continuing my No. 228 on the subject of the Far East, Litvinov said last night that he was no longer in the least worried with regard to the possibility of a Japanese attack and Radek stated that he was certain that there was no possibility of a Japanese attack either this year or next year.

Litvinov expressed the opinion that the change in England's attitude toward the Soviet Union had eliminated all chances of attack and

⁶² Editorial writer on the Moscow *Pravda*.

⁶³ Dated July 27, 5 p. m., printed in *Foreign Relations, The Soviet Union, 1933-1939*, section on 1934.

Radek more specifically said that the withdrawal of the possibility of British financial support for Japanese purchases of war supplies in his opinion made war in the Far East impossible. Litvinov added that he had private and authoritative information that the proposal of the Government of the United States to establish airplane bases on the Aleutian Islands had also had an immense deterrent effect on the Japanese; that the Japanese knew that they were and would remain feeble air men and were terrified of the possibility of air attacks in case they should start a war.

Litvinov said that he would be most delighted to see an American commercial aviation line established between Alaska and Siberia by way of the Aleutian Islands. I recalled our conversation on the subject (reported in my No. 102, July 23⁶⁴) and said that such a line could not possibly be commercially self-supporting. He answered that almost no commercial air lines were self-supporting and that the political effect of such a line would be worth any expense involved.

I should be obliged if the Department would let me know if there is the slightest possibility of any such line being established.

BULLITT

893.01 Outer Mongolia/5 : Telegram

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

Moscow, August 1, 1934—11 a. m.

[Received 12:20 p. m.]

236. In the course of a highly confidential conversation Karakhan⁶⁵ who has just returned from a mission to the Mongolian Republic made the following statement to me:

“I was sent to the Mongolian Republic because of the discovery of a most serious Japanese plot to overthrow the Mongolian Government and to replace it by a pro-Japanese Government. Several members of the Government, high officers in the Army and leading members of the Mongolian OGPU were in Japanese pay. Five members of the Government and various officers in the Army and members of the OGPU were decapitated. The position of the Government is now secure.

During my visit the Mongolian Republic again asked to be admitted to the Soviet Union. The Soviet Union refused the request as it has refused in the past a half dozen similar requests because we do not wish at this moment to frighten various foreign countries by an action which will certainly be called ‘Bolshevik imperialism’. We greatly prefer the present situation in Mongolia. We have our representatives in the Government, the Army and the OGPU and in reality completely control the Government. The Mongolian Government

⁶⁴ Not printed.

⁶⁵ L. M. Karakhan, former Soviet Assistant Commissar for Foreign Affairs.

a number of times has desired to introduce communism but in every case we have advised the Government to refrain from communist measures because in a country of nomads communism is an absurdity. There is but one factory in the whole of Mongolia, a textile mill with 700 employees. We hope that the Mongolian Republic will continue indefinitely as a 'petit bourgeois' state under our control."

BULLITT

893.01 Manchuria/1149 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, August 3, 1934—11 a. m.

[Received 11:50 a. m.]

335. British troops in summer camp at Shanhaikwan are accustomed annually to hold maneuvers north of the Great Wall in an area which was always regarded as part of Hopei Province. While holding maneuvers there last month the British Military Attaché received a written communication from Colonel Giga, Chief of the special mission of the Kwantung Army at Shanhaikwan; concurrently head of the "Manchukuo" Foreign Affairs office at Shanhaikwan, asking that thereafter they should obtain the permission of the Kwantung Army before holding maneuvers north of the Great Wall (which the Japanese regard as the southern boundary of "Manchukuo"). Basing their position on the protocol of 1901⁶⁶ and related agreements and the fact that the area concerned has been regarded as part of Hopei Province and not part of Manchuria, the British military authorities are reported to have no intention [of] accepting Japanese position but to have replied to effect that they would be glad to supply the Kwantung Army with a schedule of intended maneuvers as a matter of courtesy. The matter rests here for the time being. British apparently anticipate that Japanese will not press their point.

It is understood that French and Italian forces in summer camps at Shanhaikwan received similar communications from Colonel Giga but so far have taken no action.

American forces in summer camp at Chinwangtao are not involved in the matter and, with the Legation, will carefully abstain from being drawn into the controversy.

It is feeling here that Japanese military needlessly and tactlessly created a difficult situation which although it will probably be settled amicably will not increase good will towards Japanese or effect any improvement in the international status of "Manchukuo".

JOHNSON

⁶⁶ *Foreign Relations*, 1901, Appendix (Affairs in China), p. 312.

793.94/6766 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, August 3, 1934—4 p. m.
 [Received August 3—12: 14 p. m.]

338. The First Secretary in charge of the Japanese Legation here informed an officer of this Legation this morning in confidence that he has been officially informed by Japanese authorities in Central China that General Huang Fu, who has been absent in Central China since early April, has decided not to resign and will resume his duties at Peiping by the latter part of this month. Japanese Secretary of Legation stated that Huang's decision to return was largely influenced by the outcome of recent informal Sino-Japanese conversations at Dairen, which dealt only with questions of administration of the demilitarized zone and which resulted in settlement satisfactory to both sides as follows:

- (1) replacement by Chinese police of "Manchukuo" forces now guarding the Manchu tombs near Malanyu;
- (2) control of undesirable Japanese and Koreans in the demilitarized zone by a system of permits of residence; and
- (3) promise of Japanese to withdraw their forces remaining south of the Great Wall as soon as quarters north of it are ready.

Those questions which remain unsolved include,

- (1) the number and arms of Chinese police to be permitted in the demilitarized area, and
- (2) the disposal of certain renegade Chinese forces in Chahar.

Although the concessions made by the Japanese military are slight, they have apparently helped (together with the urgings of Chiang Kai-shek and Wang Ching-wei) to convince Huang Fu that his return to Peiping may improve Sino-Japanese relations. The leniency of the Japanese military would seem to arise from the belief that minor concessions will so improve the feeling of the Chinese that subsequent agreement with regard to questions of a more important character will be facilitated. Huang Fu's return should do much to maintain the present calm in Sino-Japanese relations.

Tokyo informed by mail.

JOHNSON

693.0023/60 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, August 7, 1934—4 p. m.
 [Received August 7—10: 55 a. m.]

345. The Legation is reliably informed that a Chinese customs office will be opened about the middle of August at Kupehkow near the

Great Wall and that subsequently preparations for opening customs-houses at five other passes will be made; the primary purpose is to prevent smuggling. It is anticipated that revenues will be unimportant because poor transportation facilities render commerce under the passes of the Wall other than at Shanhaikuan difficult. No export duty will be levied and import duty will be charged only on goods not of Manchurian origin in order to indicate that Manchuria is still a part of China.

JOHNSON

894.8591/5

Report by the Vice Consul at Kobe (McClintock) ⁶⁷

[Kobe, August 14, 1934.]

THE STRATEGICAL VALUE OF JAPAN'S NEW MERCHANT FLEET

Since October, 1932 there have been laid down in Japanese dockyards thirty-one of the fastest merchant vessels in the world. Twenty-seven huge motor freighters have either been ordered or built for the trade to New York alone which are the fastest cargo ships on any ocean. These Japanese vessels operate to the Pacific Coast at a speed greater than that of any transpacific liners under the American flag save only four. Japan has fifty-four merchant vessels in the Pacific trade which are capable of speeds of eighteen knots or over. The United States has twenty-five such ships. There is no freighter in the American register which can even approximate the speed of these Japanese cargo vessels. There is no unit of fleet train in the United States Navy which they could not leave far astern. While American Navy tankers lumber along at from 12 to 14 knots and American naval supply ships have a maximum speed of 12 knots, the Japanese Navy has at its disposal potential tankers and supply vessels of 18 knots. In a Pacific conflict involving two large fleets, both remote from bases, the possession of fleet train capable of keeping up with the combatant units might mark the difference between victory and defeat.

While this paper is concerned with the military and naval implications of the new Japanese merchant fleet, it must be recognized at the beginning that the primary impetus for the subsidized construction program which resulted in these new ships was more commercial than strategical. Japanese shipyards were at a low ebb of activity in 1932 when the Ship Improvement Law was passed and the merchant marine was burdened with an incubus of obsolete tonnage. Furthermore, the Osaka Shosen Kaisha had just shown the way to a new

⁶⁷ Approved by the Consul at Kobe; copy transmitted to the Department August 15; received October 4.

and lucrative trade by laying down huge 18 knot freighters for the silk trade to New York, which formerly had gone by rail across the United States. The other Japanese lines in the New York trade were quick to follow suit. The Ship Improvement Law, therefore, was the outcome of combined pressure from the dockyards, the steamship operators and the Navy, which saw in the building of the new fleet the significant possibilities of such potential units of fleet train.

The Ship Improvement Law which went into effect in October of 1932 provided for the subsidized construction of 200,000 gross tons of freighters in return for the scrapping by owners of 400,000 gross tons of vessels more than twenty-five years old. The subsidy paid by the Imperial Government was ¥54 per gross ton for vessels of 18 knots and over, ranging down to ¥48. Although not so provided in the law, the propelling units of all the ships laid down under its terms were diesel motors, with the exception of one vessel fitted with geared turbines.

Although the Ship Improvement Law of 1932 contemplated a two year program terminating in 1935, there was such a rush of applicants for subsidy that the project was brought to completion within eighteen months. The results of the law may be summarized as follows:

<i>Line</i>	<i>No. of Ships</i>	<i>Unit Tonnage Gross</i>	<i>Global Tonnage Gross</i>	<i>Total Subsidy Yen</i>	<i>Speed Knots</i>
Nippon Yusen Kaisha	6	7,300	43,800	2,365,000	18
Mitsui Bussan Kaisha	6	6,233	37,400	1,978,000	18½
Toyo Kisen Kaisha	4	7,300	29,200	1,460,000	16
Osaka Shosen Kaisha	3	4,400	13,200	660,000	16
Kokusai Kisen Kaisha	3	6,966	20,900	1,128,600	18½
Iino Shoji Kaisha	2	9,937	19,875	1,073,000	18
Kinkai Yusen Kaisha	2	4,400	8,800	440,000	16
Takachiho Kisen Kaisha (O. S. K.)	1	6,800	6,800	340,000	18
Shimatani Kisen Kaisha	1	4,600	4,600	220,000	15
Azuma Kisen Kaisha	1	4,185	4,185	209,250	16
Shinko Kisen Kaisha	1	6,400	6,400	320,000	16
Yamamoto Kisen Kaisha	1	4,150	4,150	207,500	16
Total:	31		199,310	¥10,401,350	

All of the vessels built as indicated above were motor cargo ships with the solitary exception of the *Takachiho Maru*, constructed osten-

sibly for the "Takachiho Kisen Kaisha" which was in reality Osaka Shosen Kaisha. This vessel, although receiving a subsidy of ¥50 which called for 16 knots, is capable of 18 knots on geared turbines and is engaged in the express service to Formosa. Two tankers were included in the subsidized construction program—those built for the Iino Shoji Kaisha. This firm has relations of peculiar intimacy with the Japanese Navy and its home office is at Maizuru, the principal naval base on the Sea of Japan. The writer would regard these two phenomenally swift tank ships as having been built at the direct instance of the Imperial Navy.

The six express freighters for Nippon Yusen Kaisha and the Mitsui Bussan fleet of equal speed will be allocated to the Atlantic Coast trade, carrying silk out and cotton home. The three 18½ knot Kokusai ships will join the present fleet of four 18 knot freighters in the same run. The four Toyo Kisen boats will be operated by Yamashita Kisen Kaisha of Kobe in the transpacific trade. The vessels built for Osaka Shosen Kaisha and Kinkai Yusen Kaisha, a subsidiary of N. Y. K., will be devoted to the near-seas service. The other vessels listed are for general trading.

Mention must be made of the New York express fleet composed of eight large motor freighters which Osaka Shosen Kaisha brought out between 1930 and 1933. All are of approximately 8,500 gross tons, powered by M-A-N, Sulzer and Burmeister and Wain diesels and capable of a sea speed of 18½ knots. These vessels maintain a fortnightly service to New York of a 28 day passage, although they have made and can make the trip in 25 days. *Kinai Maru* of this remarkable fleet established a record in 1930 between Yokohama and Los Angeles of 11 days, 6½ hours, which is faster than the transpacific time of any American mail liner under subsidy from the United States Government. The eight O. S. K.'s would provide army transports or navy supply vessels unrivalled on any ocean.

One other fleet of swift diesel-driven ships which operates transpacific is that of the new Kobe shipping firm, Daido Kaiun Kaisha. Its five vessels were not built under subsidy, nor do they earn a service subsidy from the Ministry of Communications, but they are recently built and are capable of a sea speed of 16 knots.

It should be pointed out that the gross tonnages indicated above underestimate the actual carrying capacity of the ships. These vessels are powered by motors and many are of the shelter deck type, with the result that the gross tonnage is lower in proportion to the actual deadweight carrying capacity than might otherwise be imagined. For example, the newest Kokusai freighter, *Kiyozumi Maru*, has a gross tonnage of nearly 7,000, but her deadweight capacity is 10,000, as calculated by Lloyd's Agent at Kobe. Like her sisters, *Kiyozumi Maru* is capable of 18.75 knots.

Such is the new fleet of Pacific merchantmen evoked by the construction bounty policy of the Japanese Government. The ships are astounding because of their combination of size and speed. One other astounding thing is that so little inducement resulted in such phenomenal results. The subsidy of ¥54 per gross ton for a vessel of 18 knots amounts to only 12.6% of the cost per gross ton. It is an actual fact that Kokusai Kisen Kaisha was quoted lower figures by British yards than Japanese yards could offer. It was only the policy of the Government to prohibit the importation of foreign-built ships, plus this very modest bounty of ¥54 per ton which made the differential favorable to Japanese yards. The American Jones-White Act⁶⁸ provided our own ship owners with 75% of the cost of construction in the form of loans at the lowest rate of interest ever offered by the Government. The Japanese law gave but 12.6% of the cost of these new ships.

It is the opinion of the writer that the primary reason for the construction of this great new fleet was the desire of the Japanese steamship companies to take over the trade between East Asia and the Atlantic Coast of the United States. Nippon Yusen Kaisha, Osaka Shosen Kaisha, Kokusai Kisen Kaisha, Kawasaki Kisen Kaisha and Mitsui Bussan Kaisha have divided the American silk trade between them. They have encroached vastly upon the trade between America and the Philippine Islands. Within a year there will be twenty-seven Japanese motor freighters in the trade through the Panama Canal, each carrying up to 10,000 deadweight tons at a speed never before approached by cargo ships. All are able to do between 18 and 19 knots. There are but two American vessels in service to the Orient which could even keep up with these ships. There are no other freighters in the world as fast.

The fact therefore emerges that, conceded the point that the principal reason for such a fleet was commercial, these ships have remarkable strategical value. It was perhaps only a coincidence that the subsidized construction program was to have been completed in 1935, when the so-called "Crisis of 1935" was to be expected. It is perhaps another coincidence that the continuation of this program, calling for the building of 500,000 gross tons of new ships over a five year period, is scheduled to start in 1936, when there will supposedly occur the "Crisis of 1936". It is no coincidence at all that the Japanese Navy has been indefatigable in urging the adoption of these construction programs and that the Japanese Army has strongly seconded its demand.

⁶⁸ Approved May 22, 1928; 45 Stat. 689.

The Japanese Navy has felt the need of faster units of fleet train. Most of the Japanese tankers of the *Notoro** and *Shiretoko* class can not do better than 12 knots. Only one Japanese Navy tanker can make 15 knots—the *Kamoi* of 19,550 displacement tons. The Navy's two colliers have a speed of 12½ knots; its destroyer tenders can make between 13 and 16 knots. In other words, faced with the possibility of extensive fleet action remote from bases, the Japanese Navy found that its fuel and supply ships could not keep up with the fleet. An identical situation, incidently, faces the American Navy. The difference is that the Japanese Navy now has available cargo ships of large tank capacity which can keep up with the fleet. The American Navy has tankers of the *Rapidan* class that can not move more swiftly than 10½ knots and tankers of the *Brazos* class that can scarcely better 14 knots. Most of our supply ships make 11 knots. The American freighters in the transpacific trade, many of them receiving fat subsidies, could not do better than 15 knots on a flat sea with a following wind.

The naval and military value of the new Japanese motor freighters will be made more evident upon examining their specifications. The twenty-seven express ships in the New York service of Osaka Shosen Kaisha, Nippon Yusen Kaisha, Mitsui Bussan Kaisha and Kokusai Kisen Kaisha, some of which are still building, are so nearly alike in dimensions and power that it is possible to quote approximate statistics on a fleet type. It must be borne in mind, however, that the eight O. S. K. ships are from 1,000 to 2,000 gross tons larger than the other vessels under reference. The following figures describe, therefore, the general type to which all twenty-seven ships conform.

Average gross tonnage	7,300
Average deadweight tonnage	10,000
Average length	450 feet
Average beam	60 feet
Average depth	39 feet
Average draft	28 feet
Average bale capacity	14,500 tons
Average deep tank capacity	1,000 tons
Propulsion units: 2-cycle, airless injection M-A-N's; 4-cycle Burmeister and Wains; 2 and 4-cycle Sulzers, all of around 6,500 to 7,000 i. h. p.	
Speed	18-19 knots
Cruising radius (est.)	15,000 nautical miles at 16 knots.

In profile these ships would for the most part appear as shelter deck vessels with raised forecastles and an unbroken sheer to the stern, except for a central house which consists of two decks surmounted by

**Notoro* is now an aircraft tender. [Footnote in the original.]

bridge and funnel. Cruiser and counter sterns appear to be about equal in number. There are a few three islander types in the fleet, notably the new M. B. K. boats.

It does not require a professional eye to discern from the above figures why such vessels are of value to the Japanese Army and Navy. The combination of great cargo capacity and large fuel and deep tanks with wide cruising radius and, above all, astounding speed, make these craft without peer for military and naval supply ships, transports or emergency tankers. Perhaps even more important would be the value of these ships in transporting food, fuel and munitions at express speed to a beleaguered country at war. These ships are as much a "life line" to an island Empire as certain of the continental "life lines" more generally associated with that term.

There is, however, one grave strategical defect which has been permanently built into these vessels. The greatest mineral resource of Japan is coal. The one fuel upon which Japan might rely during a period of extensive blockade is coal. Fast steamers can be transformed from oil burners to coal burners in a week, but a motor ship remains a motorship and can burn but one kind of fuel—oil.

There are beyond doubt immense supplies of oil in reserve for the account of the Japanese Navy. The recently passed Oil Control Act further increases the potential supply by its requirement that importers and refiners of petroleum must keep constantly in storage oil to the amount of half their annual importation. In other words, in the event of a blockade Japan would have a six months' supply of petroleum on hand before even touching its emergency reserve. These facts mitigate but do not remove a weakness which, in the writer's opinion, might easily be made fatal by the successful previous location and later destruction of oil reserves by aerial attack. Oil is stored in tanks or subterranean reservoirs and either is vulnerable to bombing.

The great defect of these extraordinarily swift ships is that they can not utilize the natural fuel of Japan. Proper strategy would indicate that the line for Japan to follow would be in the perfection of superheated steam giving impulse to geared turbines and motivated by pulverized or colloidal coal. Two fine Japanese liners are fitted for pulverized coal and utilize exhaust turbines, but no notice was evidently taken of *Nagoya Maru* and *Johore Maru*, for the Japanese yards have gone over practically entirely to the building of diesel motors. Irrespective of the question of efficiency of motor propulsion, the strategical weakness remains and should be remembered.

Another but far less important drawback to the strategical value of these new vessels is that most of them are to be placed in the trade to the Atlantic Coast of the United States. A sudden emergency in a certain quarter would cut off half these vessels on the eastern side

of the Panama Canal. There is consequently provided a highly interesting barometer as to conditions leading to peace or war in Japan. Certainly the Japanese General Staffs will not wish to lose a dozen valuable units of train if it can be avoided. Therefore, should there become evident a diminution of sailings of these new ships to the Atlantic Coast and a concentration in the Pacific it might be possible to see beyond the effect to the cause.

Despite such objections, however, and despite the fact that the Japanese deep sea services are if anything over-tonnaged and the coast-wise services greatly in need of new bottoms, the subsidized construction program of 1932 will not only be continued but greatly expanded.

Sponsored by the Saito Cabinet and vigorously urged by the dockyards, the shipping companies and the Navy, a plan was evolved for the laying down of 500,000 gross tons of new ships over a period of five years in return for the scrapping of an equivalent amount of obsolete ships. The Okada Cabinet took over the project from the preceding government in its entirety, although as approved by the joint commission representing the Government, the ship builders, the steamship operators and the Navy the plan calls for a reduction in the bounty to ¥48 per gross ton. It appears at this date that the approval of the Diet to the draft bill is an almost foregone conclusion. One significant change in the proposed new program is that it will provide for the construction of passenger liners as well as cargo ships. It is understood that the Navy is particularly interested in the building of fast liners which might be converted into merchant cruisers in the same manner as the American liners built under the Jones-White Act can be converted. If the five year building program is made effective by the Diet it will cost the Government ¥4,800,000 a year from fiscal 1935-36 for the succeeding five years, or a total of ¥24,000,000. 100,000 gross tons of new ships will be laid down each year.

Whereas the first construction program of 200,000 tons was of a commercial character, this second program is seemingly dictated by considerations of strategy. Most of the deep water trades operated by Japanese lines are served with tonnage laid down since the War. There is no crying need for new bottoms in the foreign trade. Nippon Yusen Kaisha will doubtless want several new liners for the European and Australian runs, but otherwise there is no particular place for new liner tonnage. It is certain that the Navy is not interested in the building of little coasting boats, although the Army would probably be pleased to see the construction of small ships suitable for operations across the Sea of Japan. The only remaining conclusion, therefore, is that the second and greater construction program will be more for military than for economic ends. It would be an interesting speculation to wonder if the Japanese Government is encouraging the

building of merchant ships as replacements for existing vessels which might presently be lost other than by shipwreck and storm.

Should Japan carry out the second construction program under the same terms as the first it would have more than seventy new merchant vessels of 7,000 gross tons and of the same excessive speed. As has been pointed out, there are already built or building fifty four commercial ships under the Japanese flag on the Pacific which can make 18 knots or over. In the event of conflict it is not difficult to perceive the uses to which this great fleet would be put. The three great Nippon Yusen Kaisha liners of 17,000 gross tons, with a reputed speed of 21 knots (the writer would not credit them with anything over 19) would serve as express transports or merchant cruisers. The three 11,600 gross ton N. Y. K. liners in the North Pacific service would be used for cruiser or transport work, as would the swift O. S. K. Dairen liners, *Ussuri Maru* and *Ural Maru*. The China Sea liners *Shanghai Maru* and *Nagasaki Maru*, the fastest ships in the merchant marine, would be used for convoy duty as converted cruisers. Such vessels as the old ex-Italian liners *Yamate Maru* and *Asahi Maru*, as well as the former German liner *Taiyo Maru* and the N. Y. K. South American motorship *Heiyo Maru* would be devoted to transport service. The thirty-one express ships built under the subsidized construction program, as well as the eight 18½ knot O. S. K. New York ships and the new fleet of Daido Kaiun would be allocated to purposes of fleet train and to the carrying of war supplies from abroad at maximum speed.

On the American side of the Pacific the picture is not so encouraging. While the Japanese Government subsidizes the construction of 19 knot motor ships, the American Government subsidizes three antique banana boats, built almost a generation ago and incapable of a speed in excess of 14 knots. While the Japanese merchant marine is implemented with freighters which can beat our passenger liners, the United States subsidizes cargo boats in the Oriental trade which could not better 15 knots even if towed. While the Dollar Line receives a subsidy of \$4,733,232 a year it finds it impossible to replace a fleet which is steadily deteriorating. In the event of conflict the only ships upon which the American Navy could rely would be the eight 535's of the Dollar Line, still able to turn out from 17 to 18 knots, the *Hoover* and *Coolidge*, which have made 22 knots, the three magnificent Oceanic liners, *Monterey*, *Mariposa* and *Lurline*, all of 22 knots, the Matson liner *Malolo* of 21 knots, the old and uneconomical *H. F. Alexander* of 21 knots, the three Panama Pacific liners of 20 knots, the four new Grace *Santas* of 17 knots and the three new United Fruit liners on the West Coast run, which could do 18 in a pinch. We have no fast cargo ships per se. We have no fast tankers. We have in the Navy itself no fast fleet train.

In summary, therefore, it will be perceived that in response to the demand of dockyards, shipping companies and the Imperial Navy the Japanese Government subsidized the construction of 200,000 gross tons of extraordinarily fast motor cargo liners. It appears probable that the program will be extended to the building of 500,000 additional gross tons in the next five years. With twenty-seven motor cargo ships built or building which can make from 18 to 19 knots and with a total of fifty-four ships on the Pacific capable of 18 knots or over, it has been seen that the Japanese Navy has been provided with unequalled potential fleet train. The new ships might instantly be used as supply vessels or tankers for a fleet, as transports for the Army or as a vital line of communications, an essential artery, bringing to Japan munitions, oil and supplies.

In the forthcoming negotiations between the great naval powers the strategical value of the new merchant fleet of Japan should not be forgotten.

893.71 Manchuria/72

The Secretary of the American Delegation at Geneva (Reber) to the Secretary of State

GENEVA, August 16, 1934.

[Received August 24.]

SIR: I have the honor to refer to the Note of July 19, 1934⁶⁹ addressed to the Secretary-General of the League of Nations containing the reply of the American Government to the League circular letter No. 92 of June 4, 1934,⁷⁰ transmitting a circular of the Advisory Committee on the Far Eastern situation relating to the question of postal traffic in transit through Manchuria.

The Acting Chief of the Political Section of the League informs me that the Secretariat hopes to publish a digest of the replies received to this circular in time to be circulated during the forthcoming session of the Assembly next month. It appears that the circular letter was addressed to States Members of the League not represented on the Advisory Committee and to the United States of America and the U. S. S. R. with the request that the Secretary General be informed whether these governments are prepared to comply with the recommendations embodied in the Report of the Advisory Committee. States Members of the League represented on the Committee received a copy of the Advisory Committee's Report under cover of a memorandum which did not call for a reply unless the particular govern-

⁶⁹ *Ante*, p. 223.

⁷⁰ No. 92 not printed.

ment did not accept the recommendations of the Advisory Committee. In the report which is to be published a description will be given of the two types of letters addressed to the governments with the explanation that governments represented on the Committee were not asked to reply unless they disagreed with the recommendations. Up to the present time no dissenting reports have been received from any of the governments. Those States which have replied, including Russia, have stated that they are prepared to conform to the recommendations of the Advisory Committee.

The Secretariat requests permission to include in its summary the reply of the American Government and would appreciate it if a telegraphic reply could be sent to this despatch in order that the summary may be published early in September.

Respectfully yours,

SAMUEL REBER

793.94/6783

The Minister in China (Johnson) to the Secretary of State

No. 2906

PEIPING, August 16, 1934.

[Received September 8.]

SIR: I have the honor to report the substance of a conversation which a member of my staff informs me he had on August 13, 1934, with an official of the Japanese Foreign Office with regard to Japanese intentions toward North China. The comments of this official impress me as the frankest (and at the same time as a responsible) exposition of Japan's aims in this regard which has come to my attention for some time.

The official is Mr. Hagiwara, one of the five officers of that section of the Bureau of Asiatic Affairs of the Japanese Foreign Office which deals with questions relating to China Proper. I am told that Mr. Hagiwara is a young man of above-average intelligence who is intensely interested in and has a thorough knowledge of conditions in the Far East. He left Tokyo on July 17 for a 45 day tour of Manchuria and North and Central China, in connection with his official duties.

Mr. Hagiwara stated that two plans with regard to the future of North China are at present the subject of deep discussion between the Japanese Foreign Office and the Ministry of War, the primary object of either plan being the safeguarding of the existence of "Manchukuo". The plan which the military are in favor of envisages a North China which would be practically independent but which would be nominally under the control of Nanking. (Mr. Hagiwara insisted that it would be more than "nominally" under Nanking, but was

unable to make clear in what respects it would be so.) Under this plan, according to Mr. Hagiwara, a situation would be created in North China which would be similar to that suggested solution of the Manchurian situation which foreign powers at one time urged following Japanese occupation of that area. Through this regime in North China, the Japanese would attain their ends with respect to China. The other plan (which inferentially may be considered as looked upon favorably by the Foreign Office) is to have North China come as effectively under the authority of the Nanking Government as is the territory in the Yangtze Valley. It is presumed that, if this were successfully carried out, the Japanese anticipate that, in return for their assistance in rendering it effective, the Nanking Government would give to the Japanese what they want.

Mr. Hagiwara stated that the aims of the Japanese with respect to North China are to obtain favorable settlement of such questions as through postal facilities via Shanhaikuan and the establishment of Sino-Japanese economic cooperation in North China, the latter including the development of cotton production and the building of two railways, namely one from Taku, below Tientsin, to Shihkiachwang, on the Peiping-Hankow line (which would render easier access to the Shansi coal fields) and one from Tsinan, the terminus of the Tsingtao-Tsinan line, westward to Shunteh on the Peiping-Hankow line. He stated emphatically that the Japanese were not at all interested in a westward extension of the Peiping-Suiyuan Railway, such an extension being regarded as unprofitable. They would, however, like to have air communication established between North China and "Manchukuo". Mr. Hagiwara said that the economic penetration of North China desired by Japan was no more than that described above, and that no Government in Japan could satisfy the people of Japan with anything less than that. He added that an area one or two miles in width along the "Manchukuo"-China border, where troops would not be permitted, would also be necessary and that, in case the second plan were put into effect, there would have to be some agreement with Nanking as to the number of Chinese troops which might be stationed in North China.

It was evident that Mr. Hagiwara regards the question of economic penetration into North China as of vital importance. With regard to what Japan expects to gain from "Manchukuo", he was pessimistic, saying that all that the Japanese hope to gain is enough to pay for the upkeep of the army there.

Mr. Hagiwara stated that the Japanese authorities would welcome the cooperation of foreign capital in the development of North China. When it was suggested to him that foreigners might hesitate about investing, believing that North China might go the way of "Manchu-

kuo", he replied that that would not occur, that the Japanese Government would guarantee that its ambitions with respect to North China were not political. When it was recalled to him that the Japanese Government had given similar guarantees at times during the period when the Japanese army was radiating outward from the Manchuria Railway Zone toward the boundaries of what is now known as "Manchukuo" but that those guarantees had failed, he admitted, with regret, that that was so, but insisted that in those instances the Government should have never given such guarantees as they could not be upheld, whereas now such guarantees could be safely given because the military was satisfied that "Manchukuo's" boundaries should not be extended south of the Great Wall.

When questioned with regard to his opinion as to whether the Nanking Government could give the Japanese what they want and survive, he replied that, if Japan does not receive what it wants (meaning the matters outlined above), then "we do not know what our navy will do. We do not control the navy." He admitted that the collapse of the Nanking Government as a result of Japanese pressure would very likely result in a chaotic situation seriously adverse to Japan's economic relations with China; but apparently he regarded this as less important than the effect in Japan of a failure to put through the Japanese program. He was emphatic in stating that political control of North China by Japan was not desired and in this connection said that at present the high positions in the Japanese Army are held by conservative military officers, the reactionary officers having been gradually replaced as a result of transfers effected during recent months. It was his opinion, however, that if neither of the above-mentioned plans were to succeed, then that part of the Japanese military—now a small minority—which would like to see North China a completely independent state might be able to make its desire effective.

Throughout the conversation Mr. Hagiwara exhibited a sincere desire to see the relations of Japan with China and of Japan with the United States improve. But it was evident that, regarding Japan's future as absolutely dependent upon Japan's "economic" expansion, he could not approve of any measures to improve those relations at the expense of what he regards as Japan's legitimate and necessary expansion. It was also evident that he was honestly unable to regard as reasonable the attitude of the United States toward Japanese expansion, a view which, as Mr. Hagiwara is an intelligent man, may be regarded as being shared by many other intelligent Japanese.

Before concluding this despatch, I should like to refer to the Legation's despatch No. 2557 of February 22, 1934,⁷¹ in which was given

⁷¹ *Ante*, p. 46.

information obtained from a well-informed Chinese source to the effect that the Japanese authorities had made one proposal and two threats to a "personal representative" of General Huang Fu. The proposal was that Japan would support Generals Chiang Kai-shek and Huang Fu in all ways necessary in return for certain concessions, and the threats were that, failing Chinese compliance with this proposal, the Japanese would attempt to put North China under the nominal control of a North China general and that, failing this, more strenuous action would be taken. The two plans and the possible alternative described by Mr. Hagiwara follow in general lines the proposal and two threats referred to. The fact that the Japanese Ministry of War is at present in favor of a North China only nominally under Nanking's control would seem to indicate that the Japanese military is becoming, or has become, convinced that a policy of cooperation with the Nanking Government will not bring about the desired results.

In view of what Mr. Hagiwara has said, it would seem probable that the conversations, which have been in progress at Kuling during the past few days between such high officials as General Chiang Kai-shek, General Huang Fu, and Dr. H. H. Kung, have been concerned, at least in part, with the attitude which the Nanking Government should adopt toward these plans. It would also seem probable that Japan's future course with respect to China will be considerably influenced by the outcome of these conversations.

Respectfully yours,

NELSON TRUSLER JOHNSON

500.A15a5/182

The Minister in China (Johnson) to the Secretary of State

No. 2907

PEIPING, August 16, 1934.

[Received September 8.]

SIR: I have the honor to report statements made on August 13, 1934, to a member of my staff by Mr. Hagiwara, an officer of the Asiatic Bureau of the Japanese Ministry for Foreign Affairs, now on tour in China, with regard to the Japanese attitude toward the next naval disarmament conference. It is thought that his views may be of interest as it is probable that they are also the views of other members of the Japanese Foreign Office.

Mr. Hagiwara stated that the reason why the Japanese are strongly opposed to the settlement of naval armaments on a ratio basis is wholly one of national pride. When he has, in friendly conversation with Japanese naval officers, asked them what ratio they feel would be adequate in case of a combined Anglo-American attack on Japan, they have replied that ratios would have no significance in such a case

and have countered with the rhetorical question of what difference in significance could, for example, a ratio of 10:7 or 10:6 have in such an eventuality. In short, it is the feeling of being placed in an inferior position by the employment of ratios which is repugnant to the Japanese. When asked what plan would be acceptable to them, Mr. Hagiwara replied that the abolition of battleships would be a satisfactory solution. This would avoid the need of ratios and would render each nation safe from attack. He added that it was incredible that, in case this plan were adopted, the Japanese would build large numbers of small vessels. When asked whether he believed that such a plan would be acceptable to Great Britain from the point of view of the requirements for the defense of her scattered empire, Mr. Hagiwara merely reiterated that this plan would be a satisfactory solution of the disarmament question.

Mr. Hagiwara stated that the Japanese are unyieldingly opposed to the introduction of political questions in connection with the next naval disarmament conference. This attitude, he said, has a sound basis in historical fact, having its origin in the conclusion of the Nine Power Treaty and the Shantung Settlement.⁷² The purpose of the powers, other than Japan, in drawing up the Nine Power Treaty, he went on to say, was twofold. One was to establish a sort of peace machinery, which had, however, failed to bring about effective cooperation among the powers with respect to developments in the Far East. The other was to prevent Japanese expansion, of which there had been unfortunate examples within the few years preceding the Washington Conference. The Japanese people are convinced that Japan must expand, and as the introduction of political matters into the naval disarmament conference of 1922 resulted in a blocking of this expansion, they do not wish to have a similar experience issue from the next conference.

With regard to the settlement of the Shantung question, Mr. Hagiwara said that it was a fatal error to have had this take place at Washington with foreign observers present. It ought to have taken place either in Japan or China without foreign observers. Although such an arrangement would have been disagreeable to the Powers because it would have brought results more favorable for Japan, yet this fact would have been greatly outweighed by the fact that China would not then have developed the conviction that, in case of difficulties with Japan, all she has to do to get what she wants at the expense of Japan is to obtain the participation of the foreign powers in a settlement. The Japanese people, Mr. Hagiwara concluded, are convinced that it was the method of the settlement of the Shantung

⁷² For treaty between China and Japan, signed at Washington, February 4, 1922, see *Foreign Relations*, 1922, vol. I, p. 948.

question which created this conviction in the Chinese and that this attitude on the part of the Chinese was the factor primarily responsible for the eventual seizure of Manchuria by the Japanese military. The effect of the Shantung Settlement on the Chinese has increased Japanese opposition to the introduction of political questions relating to China at the next naval disarmament conference.

Respectfully yours,

NELSON TRUSLER JOHNSON

893.71 Manchuria/71 : Telegram

The Consul at Tientsin (Atcheson) to the Secretary of State

TIENTSIN, August 17, 1934—3 p. m.

[Received August 17—10:30 a. m.]

My July 2, 9 a. m., July 3, 3 p. m.⁷³ and subsequent despatches.

1. Reliably informed first of new Chinese customs stations along Great Wall will be opened tomorrow, others to open shortly thereafter.

2. European and Siberian mails continue to be transported hither on through trains and accepted by Chinese postal agents at Shanhai-kuan but none other than mails for railway zone being despatched to Manchuria. Conference of Chinese Postal Commissioners at Nanking has been called for September 1, but no settlement of question of postal relations or questions relating to Luantung demilitarized area can be expected before Huang Fu's return to north with sufficient authority and backing to carry on conclusive negotiations.

3. Copy to Legation by mail.

ATCHESON

702.4193 Manchuria/7 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, August 21, 1934—4 p. m.

[Received August 21—9:05 a. m.]

372. Following from American Consul at Mukden:

"August 20, 11 a. m. Yesterday afternoon riding party consisting of Coghill, British Vice Consul, Ford, also British, and Rowsome, American citizen, were assaulted with poles by Japanese members of road construction gang. Ford was beaten, other two escaped injury. Coghill and this Consulate General this morning informed Japanese Consulate and asked that members of party be immediately allowed to identify assailants. The Japanese Consul General promised police investigation but refused identification until advised police report

⁷³ References are apparently to telegrams sent to the Legation in China; see telegrams of July 2, 10 a. m., and July 3, 4 p. m., to the Department from the Consul at Tientsin, pp. 203 and 208.

received. While the British Consul General is primarily interested in the case I propose to support their representations strongly as such manifestations of anti-Americanism by Japanese have been occurring with increasing frequency."

JOHNSON

741.9411/211: Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, August 22, 1934—9 p. m.
[Received August 22—10:20 a. m.]

183. My 179, August 17, midnight.⁷⁵ An unofficial English friend told member of my staff last evening that he had asked Kurusu, Director of the Commercial Bureau of the Foreign Office to explain about the rumored revival of the Anglo-Japanese Alliance. Kurusu replied that while he knew nothing about it himself he did know that something of the kind was going on. Kurusu said, however, that it would not be an open alliance, because the term "alliance" would be offensive, and that a term like "pact" would be used. The implication was that some kind of an agreement is being or has been negotiated in comparative secrecy.

The spokesman of the Foreign Office on being questioned by press correspondents on Monday gave a reply which might be regarded as evasive because he is reported to have stated that so far as he was aware no such Anglo-Japanese conversations are going on "at present."

As I am unaware whether the Department is cognizant of such rumored negotiations or in possession of pertinent information, I shall make no official inquiries unless instructed. The British Ambassador is absent from Tokyo but expects to return next week. I am inclined to believe that the negotiations, if any, are being or have been carried on in London.

Repeated to Peiping.

GREW

741.9411/211: Telegram

The Acting Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, August 22, 1934—7 p. m.

145. Your 179, August 17, midnight⁷⁵ and your 183, August 22, 9 p. m. The Department appreciates your prompt and informative telegrams. We have no other information except that contained in press despatches—among which are accounts of denials in London.

⁷⁵ Not printed.

The Department is confident that you will keep it informed of developments. In so doing, however, Embassy should avoid any action or gesture implying official solicitude.

PHILLIPS

741.9411/212: Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, August 23, 1934—6 p. m.
[Received August 23—6:48 a. m.]

188. Department's 145, August 22, 7 p. m. 1. Kato, who covers the Foreign Office for Rengo, told Fleisher today that when he and other Japanese newspaper correspondents asked Hirota concerning the rumors of a renewal of the Anglo-Japanese alliance Hirota said that in 1902 when the alliance was formed⁷⁶ he had advocated the inclusion of the United States and that his views in this respect had not changed. He added that in case the United States should be prevented by its traditional policy from now joining such an alliance no such alliance should be formed against the United States because the Minister felt that Anglo-American-Japanese friendship and cooperation were essential to the peace of the world and he wished to take no step which would alienate American friendship. The Minister apparently sent a direct reply to the questions of the correspondents regarding present Anglo-Japanese negotiations. No foreigners were present at the interview.

2. From reliable evidence I am convinced that the British Embassy in Tokyo knows nothing whatever concerning any current Anglo-Japanese negotiations or agreement.⁷⁷

Repeated to Peiping by mail.

GREW

761.94/780

The Ambassador in Japan (Grew) to the Secretary of State

No. 935

TOKYO, August 23, 1934.
[Received September 8.]

SIR: Since the drafting of my despatch No. 916 of August 3⁷⁸ Soviet-Japanese relations have again become tense as the result of events relating to the Chinese Eastern Railway.

⁷⁶ *Foreign Relations*, 1902, p. 514.

⁷⁷ The Counselor of Embassy in Great Britain, in a letter dated August 22, stated: "Although the Foreign Office had informed the press it was all nonsense, I thought it was worth while to make a *pro forma* inquiry of the Far Eastern Department today, and was told that the only matter under discussion between the Japanese Embassy and the Tokyo Foreign Office now was the Manchukuo oil question . . ." and that the rumored accord "was without the faintest horizon of foundation." (741.9411/214)

⁷⁸ Not printed.

On August 4 sabotage against the railway apparently recommenced with the arrest of the (Soviet) Assistant Station Master at Harbin who was accused of assisting bandits who wrecked a train on the eastern branch of the railway near Imienpo and exploded an ammunition car. After this prologue the scene shifted to Tokyo where on August 10 the Soviet Ambassador called once more on the Japanese Foreign Minister. The press reported that Mr. Yureneff had again refused, after reconsideration, the Japanese-drafted "Manchukuo" proposal of July 23, that he requested Mr. Hirota to submit a Soviet counter proposal to "Manchukuo", and that he listened to Mr. Hirota's suggestion that direct negotiations now be carried on without Japanese mediation. Later on the same day Mr. Ohashi, Vice-Minister of "Manchukuo", was called to the Gaimusho by Mr. Hirota and told of Ambassador Yureneff's call. Mr. Ohashi reportedly replied that "Manchukuo" would make no further concessions. The vernacular papers elaborated on these two interviews, as is customary in Japan, and declared that "official circles" were of the opinion that the Soviets wished to prolong negotiations until Japan had become involved in the "crisis of 1935-1936".

Then on August 12, the Tokyo *Nichi Nichi* published a sensational report from Moscow declaring that the Soviet press had published charges that Japan was planning to seize the railroad and provoke war in the Far East. A somewhat similar report from Habarovsk was published by three more Tokyo papers on the 15th. Meanwhile, however, the situation seemed to be developing ominously both in Tokyo and in Hsinking. On the 13th Mr. Ohashi, who has been a prominent "Manchukuo" delegate to the sale conference, made a final call on the Soviet Ambassador probably in the hopes of laying the responsibility for the failure of the negotiations on a Russian doorstep, and then left town on the following evening after making it clear that his action was not to be interpreted as final disruption of the negotiations. His statement terminated in a manner typical of the Japanese and "Manchukuo" propaganda on the subject, "What will happen in the Far East if the negotiations come to rupture? That must be left to God. But 'Manchukuo' always wishes to give her efforts for the peace of the Far East."

In Hsinking a statement of policy was issued at this juncture and was printed in Tokyo as follows:

1. The Manchukuo Government's reply to Japanese Foreign Minister Koki Hirota's final mediation proposal represents the final concession possible, while the Soviet counter proposal allows no further consideration.
2. In the event of a breakdown of the negotiations, the Soviet Government must bear the entire responsibility for the failure.

3. Should a breakdown take place, the Manchukuo Government will regard the CER as a commercial organization under her jurisdiction, and with this in view, will supervise and bring all matters related to the CER to a speedy settlement.

The meaning of this third point was made clear by reports which indicated that the accounts of all Soviet officials of the railway would be called for, that "Manchukuo" would demand equal rights in the employment of railroad labor, and that in general the administration of the railroad would be closely observed. On August 14 these threats were made good through the arrest of 19 Soviet officials of the road on suspicion of complicity in the recent accidents along the eastern branch of the line. On the 15th, in explanation of these arrests, a despatch from Harbin announced the discovery of an alleged "huge anti-Japanese, anti-Manchukuo plot". Yet, despite the detention of additional Soviet officials, there has been no cessation of the accidents along the bandit infested region between Weiho and Pogranichnaya since two more accidents are said to have occurred on August 14 and 18 in the neighborhood of Hengtaohotzu.

At this point, to the apparent astonishment and indignation of the Japanese, a report from Moscow reached Tokyo that the Soviets had published the details of the recent negotiations although Ambassador Yureneff and Foreign Minister Hirota had definitely agreed last March, it is said, that no details of the negotiations were to be given out. The terms of the various offers as published by the Soviets were not at first printed in Japan owing to a long standing press ban. Then on August 21 the press ban was lifted, the Soviet statement appeared in full, and the Japanese Foreign Office released a communiqué narrating the course of the negotiations and seeking, in its turn, to absolve the Japanese of all blame for the latest delay in reaching an agreement.

The two statements agree on all important points and reveal that there remains only the surprisingly small difference of ¥40,000,000 between the bid and offer price, "Manchukuo" having bid ¥120,000,000 and Soviet Russia having offered the railroad for ¥160,000,000. In addition "Manchukuo" is willing to pay ¥30,000,000 in discharge allowances to Soviet employees while Soviet Russia is willing to receive two-thirds of the purchase price proper in Japanese goods to be evaluated, it seems, in a manner as yet undecided. While it is too early to predict the effect in Japan of publication of the course of bargaining, tension should in the end be relieved. It is scarcely thinkable that war could break out between Japan and Soviet Russia on this issue with only a difference of ¥40,000,000 remaining. When it is remembered that the Soviet share of the railroad profit allegedly amounted to 7 million rubles (¥17,500,000 at the official Soviet rate)

last year* and that in normal years it is said to average around 15 million rubles (¥37,500,000), it does not seem as though the Soviet offering price of ¥160,000,000 is excessive especially when the political advantages to Japan and "Manchukuo" of a formal liquidation of Soviet interests are considered.

Before considering the reaction of the press, the Army, the Foreign Office, as well as the opinion of several of my colleagues, to the recent course of Soviet-Japanese relations, it seems best to enumerate the miscellaneous and ubiquitous petty irritants of the last two weeks. On August 1 from Harbin it was reported that the "Manchukuo" authorities had recently discovered that the Soviets had removed two boundary markers into "Manchukuo" territory and set sentries to guard them. On August 6 a version of the report of the chief of the Japanese Navy Office in "Manchukuo", Rear Admiral Shozo Kobayashi, was published and indicated that the Soviets not only had 25 gunboats, ten of them in the 1000 ton class, in the Amur River Squadron, but also had two airplane carriers, and 22 submarines (soon to be increased to 52) in the Far East. The report as published seems grossly exaggerated. Several days later the local press published a rumor that the Soviets had three destroyers on Lake Baikal. Furthermore reports have been published in the last several weeks that the Soviets were constructing a poison gas factory at Kulun in Outer Mongolia and that 110 Soviet planes have just been transferred eastward from Irkutsk to Chita. On August 9 a report was given prominence which stated that the residents of a "Manchukuo" border town near Heiho were mildly gassed by Soviet shells discharged in the course of maneuvers across the Amur. It was reported on August 15 that the Acting Soviet Consul General in Harbin had protested alleged indignities suffered by the Consul General, Mr. Slavutsky, who was proceeding to Moscow on furlough.

Little has been heard of the Soviet-"Manchukuo" waterway negotiations at Heiho lately. It now appears, however, that the optimistic reports which reached Tokyo some time ago were ill-founded and had to do only with the preliminary sessions of the conference. According to a report from Hsinking on August 14 the conference, in formal session, has been totally unable to agree on the phraseology and applicability of amendments agreed upon in the preliminary sessions.

One other report of some importance remains unconfirmed but can probably be relied upon. On August 15 the Japanese press published an article stating that the Soviets had agreed to accept the exchange rate of 32.5 sen per ruble for the last six months of the year unless—which is most unlikely—a revised rate should be agreed upon before

* Enclosure No. 1 to Despatch No. 793 of May 18, 1934. [Footnote in the original; despatch not printed.]

the beginning of 1935. Presumably the Soviets realized that there was little they could do to force the Japanese fisheries companies to pay additional installments for a higher exchange rate short of going to war. The Japanese had the naval force to control the fishing grounds and furthermore the fishing near Kamchatka has now been virtually finished for 1934.

The reaction in Japan to the recent course of Soviet-Japanese relations has been prompted in the main, of course, by the rupture of negotiations for the sale of the Chinese Eastern Railway. The press has devoted a great deal of space to the question, and for some days many of the Tokyo newspapers have given the Russian situation the place of greatest prominence. The editorial comment before the terms of the recent bargaining were published has been confined in general to a review of the case ending with an exhortation to the Soviets to be more "sincere". Two ideas stand out, first that the question is important to the "peace of East Asia" and second doubt as to whether Soviet Russia really ever intended to sell the railroad. On August 22, the day the terms of the various bids and offers were made public, virtually every paper in Tokyo commented editorially and took a serious view of the situation. Curiously enough there was no reference to the encouraging fact that the bid and offer prices are now only ¥40,000,000 apart, but there was universal condemnation of the bad faith of the USSR in publishing the facts and figures contrary to agreement.

The army has taken a hand in the situation through several statements given out by the War Office spokesman which indicate that the army intends to take a firm stand against "anti-Manchukuo intrigues by railroad officials and others". The War Office has also apparently seen an opportunity to link the Soviet attitude towards the sale of the railway with a list of 15 border incidents which have occurred since the beginning of the year as well as with a list of 13 accidents along the C. E. R. which occurred between April 17 and July 25. A War Office communiqué remarked that these thirteen accidents all occurred to trains carrying military supplies and charged Soviet officials of the railroad with directing the bandits who made the actual attacks. All 13 of the accidents enumerated occurred on the eastern branch of the railway, the least useful branch to the Japanese, and consequently relatively poorly guarded by Japanese and "Manchukuo" troops. Although the army is reported as being dissatisfied, as usual, with the attitude of the Japanese Foreign Office, there have been no threats as yet that the army will take matters into its own hands. Nevertheless General Hayashi reported at length on the border incidents at the meeting of the Cabinet which occurred on August 21 and, afterwards, in a press interview, stated that he deemed the question of such seriousness that all Cabinet members should be kept in touch with it.

The Foreign Office, as usual, has had an embarrassing time of it. Always in danger of interference at home the Soviets forced its hand by publishing the course of negotiations. Furthermore, up to the present, Japan is gaining little credit as mediator between "Manchukuo" and the USSR, and mediation was proposed by Foreign Minister Hirota. From day to day during the past two weeks the Foreign Office spokesman has been called upon to steer between Scylla and Charybdis, preserve Mr. Hirota's conciliatory policy and at the same time avoid the criticisms of the more violent chauvinists. This he has done by consistently decrying Soviet propaganda, denying all intimations that Japan might use force to settle the problem, and declaring on several occasions, notably August 17, that the Foreign Office had under consideration a general protest to the Soviet Government. On August 20 the Spokesman stated that publication of the terms of the recent negotiations was in direct violation of the agreement reached by Mr. Hirota with Ambassador Yureneff on March 5 and that the Foreign Office would protest the matter as soon as the publication was confirmed. Nothing further has been heard of this protest. Meanwhile Mr. Hirota is said to have expressed optimism all along at Cabinet meetings that the sale of the railroad will be ironed out in the course of time.

Several of my colleagues have expressed their views to me on this general subject recently. About ten days ago the Belgian Ambassador came to see me again and expressed again his great and increasing anxiety that the Soviets might attack the Japanese at any moment. He apparently had no factual basis for this opinion but had arrived at it after reflecting on the firm stand of the Soviets and the vast improvement in their political position in Europe. He was visibly relieved when I explained why I did not share his views and he later declared that he now agreed with me.

On August 17 the British Ambassador told me that, after thinking over the Soviet-Japanese situation, he had, on the occasion of his last conversation with the Foreign Minister expressed his opinion that Soviet Russia now held all the cards and that Japan would do well to recognize the fact. He told Mr. Hirota that if war should break out tomorrow, the world would consider Japan the aggressor. Russia, he declared, had played her hand well. Not only had she on the one hand improved her position through American recognition and by concluding non-aggression pacts with all her European neighbors, and by her preparedness in the Far East but she would be able to point out that Japan alone had refused to conclude a non-aggression pact and she would be able to produce the Hishikari documents which the world as a whole believed genuine. The Ambassador concluded by saying that in his opinion Japan would be foolish to attack the Soviets.

In reply Mr. Hirota laughed and remarked "There's no danger of that". The Ambassador also told me that a member of the Soviet Embassy had told one of his secretaries that if the Japanese should show signs of mobilizing in Manchuria that they, the Soviets, would not wait but would attack at once. In the opinion of the British Military Attaché the Japanese army has passed in certain respects the peak of efficiency which it reached several months ago. This last opinion is of course at variance with that held by the majority of Military Attachés who feel that peak efficiency has not yet been reached because the modernization program has not yet been completed.

I enclose with this despatch a copy of a letter ⁷⁹ received from the American Consul at Seoul in regard to a conversation he had there with Mr. Jourba of the Soviet Embassy in Tokyo. It will be noted that Mr. Jourba took the customary pessimistic view and spoke, as, apparently, do all Soviet officials in the Far East, of the inevitability of war.

Up to the present I do not feel inclined greatly to revise my own estimate of the situation. Several days ago in talking of the C. E. R. negotiations Mr. Babb of the Associated Press remarked to a member of my staff that both sides were playing a very dangerous game of bluff, that neither wished war, but that both were courting the risk of finding themselves in a position from which it would be impossible to escape save by war. Both sides of course were very anxious to shift responsibility for any trouble on the other. I agree on the whole with these statements and also with the remarks of the British Ambassador to Mr. Hirota. Mr. Babb further stated that in his opinion only the Soviets could initiate a war at the present time and that that is where the principal danger now lies.

It seems evident that the initiative has passed to the Soviets who, it should not be forgotten, are the ones who hold a large military force on or near the Manchurian frontier. I do not think they wish war but nevertheless they alone are prepared for a war in the immediate future. The Military Attaché of the Embassy assures me that no general Japanese offensive could be started without military indications here which could not escape him. Members of his staff are constantly conducting inspections in Japan and there is up to the present absolutely no indication of abnormal activity. Incidentally one officer who is on duty with a Japanese regiment has just reported that both officers and men in his regiment are off duty every afternoon in August. This does not sound like intensive military training. I shall continue, however, to follow the situation with the utmost care and will be on

⁷⁹ Not printed.

the alert to detect any change in Japanese policy which might follow on the recent developments in the Chinese Eastern Railway situation. It is nevertheless my present feeling in regard to this matter that after a suitable and typically oriental period of delay, common sense will prevail and that the gap of ¥40,000,000 will be successfully bridged.

Respectfully yours,

JOSEPH C. GREW

893.6363 Manchuria/51

The Minister in China (Johnson) to the Secretary of State

No. 2929

PEIPING, August 23, 1934.

[Received September 24.]

SIR: I have the honor to refer to a despatch, No. 921, addressed to the Department under date of August 6th by Ambassador Grew from Tokyo⁸⁰ on the subject of the oil monopoly in "Manchukuo".⁸¹

I desire specifically to comment upon the attitude of the British Ambassador to Japan on the question of recognition of "Manchukuo". There is of course a good deal of common sense in the British Ambassador's attitude, for there can be no doubt that the Japanese Government can make it very uncomfortable for American and British merchants in "Manchukuo" unless the United States and British Governments meet Japanese wishes in regard to that area. The extent to which the Japanese, and "Manchukuo" as a protégé of the Japanese Government, can carry this attitude is evidenced by what is going on in connection with the proposed establishment of a sales monopoly for kerosene oil in Manchuria. As I stated in my telegram No. 354 of August 11, 12 noon,⁸² on this subject, the attitude of the Japanese Government in refusing to intervene with its protégé on behalf of the rights of American citizens leaves the American citizen no recourse but to deal directly with the "Manchukuo" Government and salvage as much as he can from the wreckage which the proposed monopoly will make of his business in Manchuria.

The methods which the Japanese Government and its protégé, the "Manchukuo" Government, are prepared to use are amply illustrated by the way in which they are now dealing with Soviet interests in North Manchuria.

It is interesting to recall that when Japanese forces were approaching the Nonni River in the winter of 1931-32 it appears to have been assumed by every one that the Japanese Government had assured the Soviet Government that Soviet rights in North Manchuria would be

⁸⁰ Not printed.

⁸¹ For correspondence on this subject, see pp. 699 ff.

⁸² *Post*, p. 720.

respected. The status of Soviet Russia in North Manchuria to-day contrasts greatly with its status prior to 1930 or 31, and it is generally believed that the present situation is due to the fact that the Japanese Government, which has usurped the responsibility of protecting life and property in Manchuria, has failed or been unwilling to give complete protection to Soviet Russian life or property in that area. It seems to me that American merchants residing and doing business in Manchuria may well examine the fate of Soviet Russian interests in North Manchuria if they wish to discover the length to which the Japanese and "Manchukuo" may be prepared to carry things.

As regards the question of recognition, *de facto* or *de jure*, it seems to me that the present is no time to take any overt steps in either direction. There is no doubt in my mind that sooner or later the Government will have to take some cognizance of the existence of "Manchukuo", just as they have taken cognizance of the existence of Egypt. But for the present it seems to me that it is sufficient that American merchants be encouraged to take such action as they can in negotiating directly with the "Manchukuo" authorities, and that our consular representatives in Manchuria continue to have unofficial relations with the "Manchukuo" authorities in bringing to the attention of those authorities any matter relating to American citizens and their trade and their rights that needs protection. It is doubtful whether American consular authorities, in so bringing these matters to the attention of the local authorities, may appeal to the old treaties with China, but it is believed that under the general rights guaranteed to all peoples under international law it should be possible for the consular authorities to bespeak the protection and the care of American lives and property.

It does not seem to me that at the present time the question of formal recognition, *de facto* or *de jure*, arises. I have always been of the opinion that the obvious violation of the Nine-Power Treaty regarding principles and policies relating to China, and the violation of the Kellogg Pact,⁸³ effected by Japan's action in Manchuria in September, 1931, made it necessary for us as parties to these agreements to speak out in condemnation of that action. I have been of the opinion that to have remained quiet under the circumstances would have been an act of national cowardice. We could have done no less than we did do, and what we did leaves unimpaired our position in regard to the whole status of Manchuria and the status of the treaties involved.

I am of the opinion that the Nine-Power Treaty regarding principles and policies in China was an essential part of the agreements

⁸³ Treaty for the Renunciation of War, signed at Paris, August 27, 1928, *Foreign Relations*, 1928, vol. 1, p. 153.

which were arrived at at the Washington Conference. Without this agreement and the settlements which attended it at the Conference, it is unlikely that there could have been any agreement in regard to reduction of naval armaments, the goal which every one desired. To my mind, it therefore follows that a violation of the Nine-Power Treaty is a violation of all the agreements, or, to put it another way: if the Nine-Power Treaty, which was a settlement of present and future relations among the powers in matters respecting China, is to be abandoned or revised, then such abandonment or such revision must be considered in connection with abandonment or revision of the naval treaty. The two things should be considered together. It is important to the United States that they be considered together, for we consented to a reduction of our navy and to an abandonment of our recognized right to build and maintain strong naval bases in the Philippines only after we had obtained agreement among the powers regarding the open door in China and the abandonment of the Anglo-Japanese alliance.

It has always been my conviction that under the above circumstances we could not have done otherwise than to refuse to recognize the results which Japan attained by violation of the Nine-Power Treaty. Our position in this matter was necessary if for no other purpose than to maintain our record clear until the time comes for a new conference, either in 1936, or, if there is to be another conflict in Asia, at the end of that conflict, when all of these questions will have to be thrashed out once more and we can go into that conference with our position well known to every one.

For these reasons I am of the opinion that no change has occurred in the situation in Manchuria which would warrant our giving up our position and according recognition to the "Manchukuo" Government.

Respectfully yours,

NELSON TRUSLER JOHNSON

761.94/770 : Telegram

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

Moscow, August 24, 1934—3 p. m.
[Received August 24—10:40 a. m.]

269. Tass has issued text of protest by Soviet Ambassador in Tokyo to Hirota under date of August 22.

Note refers to recent arrest of Soviet employees of Chinese Eastern Railway and complains that the Eastern line has been deprived of its "leading staff" and operators hampered; that absurd accusations have been invented of organized attacks on Japanese military missions by

bandits, of sabotage, robberies and murders; and that these allegations were officially supported by the Japanese War Minister and officials of Ministry for Foreign Affairs. Moreover, Japanese Manchurian authorities had leveled similar accusations against official institutions and representatives of the Soviet Union in Manchuria, namely, Soviet Consul and Consulate at Pogranichnaya as well as commanding staff of Red Army in Far East.

Note states that Soviet Government regards these actions which coincide with virtual breaking off of negotiations for sale of railway as disorganizing the work of the railway and flagrant violation of treaty rights.

The note drew particular attention to official communiqué of August 17 in which Japanese War Office alleged "orders for the carrying out of train wrecks and attacks are issued by the Far Eastern Red Army" which was accused of supervising bandit detachments along the Chinese Eastern Railway through the medium of an actually nonexistent organ of Soviet employees on Chinese Eastern Railway. These statements of the Japanese War Office accompanied utterances of an aggressive nature in respect of the U.S.S.R. Soviet note describes foregoing as intensification of aggressive intention of "certain official Japanese circles". The note ends as follows:

"The Soviet Government holding the Manchurian authorities and the Japanese Government responsible for above actions has instructed me, Mr. Minister, to submit its protest to you. The Government of the U.S.S.R. trusts that the Japanese Government will draw the necessary deductions."

BULLITT

761.94/781

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

[Extract]

No. 149

Moscow, August 24, 1934.

[Received September 8.]

SIR:

The consensus among foreign observers in Moscow is that the negotiations have not been inspired by transparent sincerity on either side; have, indeed, been "Asiatic". The Soviet expression of willingness in May 1933 to dispose of its share of the Chinese Eastern Railway was presumably dictated by tactical considerations; by the desire to appease a menacing situation and to establish moral superiority vis-à-vis Japan.

The fact that the Japanese Government permitted the negotiations to be interrupted, when the discrepancy in the price had become relatively so small, is generally attributed to Japanese conviction that the railroad has been largely deprived of any real value by competitive railway construction; by the cynical belief that ladders are not necessary for ripe plums.

In respect of the potentialities of the present situation, I can only report my entire disbelief in any possibility, under present circumstances, that the U. S. S. R. would intervene in Manchuria in defence of the Chinese Eastern Railway by force of arms.

However prepared the Red Army may be to defend the Maritime Provinces from Japanese conquest, it would seem highly improbable that the Soviet Government would resort to war in connection with the present dispute. The Soviet Government, it may be recalled, has previously characterized the Chinese Eastern Railway as an imperial and capitalistic project in violation of Chinese sovereignty. The value of the railway has depreciated enormously, particularly its eastern branch. That Russia has not altogether abandoned the hope of eventually reestablishing Soviet influence in Manchuria may perhaps be assumed; and, in any attempt to regain her position there, the maintenance of rights to the Chinese Eastern Railway, even though inchoate, might be tactically advantageous, but certainly not worth the risk of war. Therefore, it is perhaps safe to surmise that Soviet readiness to make concessions in respect of the conditions of sale has been inspired largely by the desire to avoid a conflict with Japan at the present time, and, too, by realities as they affect the railroad.

The sincerity of the present Soviet policy of peace is based, of course, on motives of self interest. A conflict in the east would create dangers from the west; and the proposed Eastern Locarno is not yet in existence. Moreover, war, whether it ended in victory or defeat, would doubtlessly result in domestic political repercussions which the Kremlin would perhaps prefer to avoid. Last but not least, Soviet energy is centered chiefly in completing the Herculean task of agricultural collectivization and in carrying through the second Five Year Plan.

However, the tenor of the press and the text of the note of protest of August 22 indicate a stiffened policy towards Japan; a change which is not only designed to have an effect on the Japanese mind but also to arouse public opinion in the Soviet Union where only recently the term "fatherland", the ideal of patriotism, and the other attributes of nationalism have appeared for the first time since the revolution.

As for Japanese intentions, I am unable to report anything new. The Soviet attitude, as observed in Moscow, would seem to indicate that there is no apprehension of Japanese aggression against the Soviet

Union in the near future; hope is felt that the note should clarify the situation and that negotiations may shortly be renewed—perhaps this time with success.

Since writing the foregoing, a member of my staff has had occasion to see both Mr. Krestinsky,⁸⁴ who, in the absence of Mr. Litvinov, is in charge of the Narkomindel, and Mr. Mikhailski, an outstanding Soviet authority on foreign affairs.

Mr. Krestinsky declared that the note of August 22 had, of course, "aggravated" relations with Japan. He felt that it was impossible as yet to foresee the outcome. The Soviet Government had already noted with some concern that further arrests had been made. Perhaps, though, there had not been time since the delivery of the note for the Japanese to alter their policy in Manchuria. However, there was no danger of hostilities. He did not, however, convey the impression of being altogether sure that there might not be a *coup de main* against the railway.

Mr. Mikhailski described the note as the most energetic step since the publication by the Soviet Government of the alleged secret documents. Then, the Japanese became far less recalcitrant; it was hoped that the present note of protest would have an equally salutary effect. In any event, the note should provoke a "show down".

Respectfully yours,

For the Ambassador:

JOHN C. WILEY
Counselor of Embassy

861.77 Chinese Eastern/1322 : Telegram

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

Moscow, August 27, 1934—6 p.m.

[Received August 27—12:40 p.m.]

273. My 272, August 25, 5 p. m.⁸⁵ Soviet press publishes today Tass communiqué in reply to Japanese statement of August 21 and "Manchukuo" statement of August 23 concerning Chinese Eastern Railway negotiations in substance as follows: Japanese—"Manchukuo" statements reproduce exactly Soviet figures previously published and gave subjective and one sided interpretation. Declaration of "Manchukuo" that 170 million yen offered obtained by including 50 million indemnity to Soviet and "Manchukuo" employees in case of dismissal. Evident that dismissal or nondismissal of employees is question which exclusively regards new owners who would naturally

⁸⁴ Nikolai Krestinsky, Soviet First Assistant Commissar for Foreign Affairs.

⁸⁵ Not printed.

be expected to pay indemnity in case of dismissals, an expense under no circumstances to be included in the purchase price of the line.

The fact that the difficulties over the Chinese Eastern Railway have entered field of polemics has created the impression here that such tension as existed is somewhat relaxed.

BULLITT

861.77 Chinese Eastern/1324 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, August 28, 1934—4 p.m.
[Received August 28—1:45 p. m.]

389. Following telegram has been received from the Consul General at Harbin.

"August 27, 4 p. m. Following interruption of the negotiations in Tokyo regarding the sale of the Chinese Eastern Railway some 70 Soviet employees of the railway, consisting mainly of important station agents and traffic employees on the eastern section, have been arrested by Manchurian authorities on the charge of sabotage and plots against the "Manchukuo" government.

The Soviet-Chinese company general managers are at a deadlock over the replacement of some of the arrested employees and report that the matter has been referred to their respective Governments. There is considerable tenseness between the Manchurian and Soviet officials of the Chinese Eastern Railway here on account of the arrests. The arrested employees were men very important to the actual operation of the railway according to what the Soviet manager Mr. Rudy has told me. Today the Manchurian board president, Mr. Li Shao-ken, laughingly remarked to me that serious operating difficulties in the railway usually followed interruptions in negotiations with respect to the railway's sale. ["]

JOHNSON

793.94/6787

The Counselor of Legation in China (Gauss) to the Secretary of State

NANKING, August 28, 1934.
[Received September 24.]

SIR: I have the honor to enclose a memorandum⁸⁶ on an interview had by Mr. Hillis Lory, Professor of Political Science, Stanford University, California, with Dr. Wang Ching-wei, President of the Executive Yuan and Acting Minister for Foreign Affairs of the National Government of China.

⁸⁶ Not printed.

Speaking in strict confidence and not for publication, Dr. Wang stated that in event of war between Soviet Russia and Japan, China will not support either Power. Since taking over the portfolio of Foreign Affairs, both the Japanese and the Soviet Russians have approached Dr. Wang with proposals for Chinese support in event of a Russo-Japanese conflict, but he has turned a deaf ear to all such suggestions. China realizes that a Russo-Japanese war would again be fought principally on "Chinese soil" and would bring great hardship and difficulty, particularly in the North, but there would be nothing to gain from supporting either side. A victorious Japan would but continue its encroachment in China. Soviet Russia can best demonstrate its good intentions toward China by restoring Outer Mongolia and terminating Communist influence in Kiangsi Province.

Dr. Wang stated that he and General Chiang Kai-shek are definitely in complete accord on the policy of refraining from support of either Power in event of a Russo-Japanese war.

Questioned as to whether there has been any change in the Chinese attitude toward Japan on the Manchurian problem, Dr. Wang illustrated the Chinese position by stating that when a man with a sore arm is struck a heavy blow by an antagonist he may have to fold his arms for the time being but that this does not mean that he intends to suffer the injury indefinitely.

In reply to the suggestion that Japan's aggression in Manchuria may not be essentially different from the imperialist expansion of other Powers in the past at the expense of weaker States, Dr. Wang pointed out that Manchuria is Chinese territory with a Chinese population of 25,000,000 out of a total of 30,000,000, that there is no question of "race" involved in the Manchurian question, that the people of China are not content to allow Japan to seize a large area of Chinese territory, that Japanese ambitions do not extend alone to Manchuria but to all of China where Japan seeks domination similar to British domination in India, and that the Chinese do not wish to become "Indian Chinese".

Asked whether he shares the opinion held in some quarters that there has come about in the United States a change of attitude in reference to Japan and the Manchurian question, Dr. Wang asserted that he does not share any such opinion, that the United States may not feel that Japan's bad manners toward China should be corrected by resort to war, but that it does not follow that because the United States has failed by peaceful means to obtain a modification of Japan's aggressive attitude and a solution of the problems of the Pacific, the United States is disposed to acquiesce in Japan's aggression.

On the subject of the Communists in Kiangsi, Dr. Wang stated that recent military successes assure the termination of this menace. He

added that he regards the situation with satisfaction also from the point of view that the Communist movement is collapsing of its own weakness. The problem of the National Government is now one principally of reconstruction for the rehabilitation of the distressed people of the province.

As to relations between the National Government and the so-called "Canton faction", Dr. Wang asserted that Kwangtung and Kwangsi do not possess sufficient military strength and resources to attack the National Government; that, while the National Government might be certain of the subjugation of the two provinces by military force, he is unalterably opposed to any such measure and it will not be taken while he remains a member of the National Government; that he believes that the opposition to Nanking in the southwestern provinces can be overcome in time by demonstrating the success, ability and good intentions of the National Government in territory under its control; and that military expeditions for the suppression of rebellious factions have not been permanently successful in the past, hence his preference for peaceful measures for the solution of the problem of the Southwest.

Respectfully yours,

C. E. GAUSS

893.71 Manchuria/72 : Telegram

The Acting Secretary of State to the Secretary of the American Delegation at Geneva (Reber)

WASHINGTON, August 31, 1934—5 p. m.

166. Your despatch of August 16 in regard to the proposed publication of a digest of the replies received in regard to the question of postal traffic in transit through Manchuria.

Provided that other interested governments adopt a similar attitude, the Department is not disposed to raise objection to the publication of the reply of the American Government and suggests in this connection that the digest of our reply consist of or be based upon the phraseology of the last paragraph of the Department's memorandum reply of July 19.

However, the Department desires that the Minister seek an appropriate occasion to suggest orally and informally to the Secretary General that the method employed by the League in inviting an expression of opinion of the American Government (and making public the opinion expressed) in regard to matters of concern to the United States but under the jurisdiction of the League is not entirely satisfactory. The present procedure calls for no reply whatsoever from the governments represented on the Advisory Committee unless

a particular government is not disposed to accept the recommendations of that Committee, but does call for a definite reply from the governments which are members of the League but are not represented on the Committee and also from non-League governments such as the governments of the United States and the Soviet Union. As most of the other major powers are represented on the Committee, the United States and the Soviet Union are placed in the embarrassing position of being the only two such powers likely to have published a categorical approval or disapproval of the recommendations of the Advisory Committee—thus giving their replies in the eyes of the public an unwarranted degree of prominence. By way of suggestion, you might mention that a more satisfactory procedure might be for the League henceforth in such cases to circularize all interested powers, members and non-members of the League alike, requesting replies from all.

PHILLIPS

861.77 Chinese Eastern/1326 : Telegram

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

Moscow, September 2, 1934—6 p. m.
[Received September 2—5: 10 p. m.]

282. The Japanese Embassy here insists that the Russians have reopened negotiations for the sale of the Chinese Eastern Railroad and that Soviet reports of Japanese threats to seize the railroad are groundless and designed to arouse sympathy in the United States.

BULLITT

761.94/778 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, September 4, 1934—noon.
[Received September 4—5: 12 a. m.]

395. My telegram No. 390, August 29, noon.⁸⁷ Gauss forwards memorandum of a conversation with Soviet Ambassador at Nanking in which latter indicated anxiety regarding reported renewal of Anglo-Japanese alliance and expressed opinion that some important development had occurred in Japan's international relations which encouraged the Japanese Foreign Office abruptly to terminate Soviet-Japanese negotiations for the sale of the Chinese Eastern Railway when they had reached a point where an understanding might con-

⁸⁷ Not printed.

fidently have been expected. Soviet Ambassador regarded the present Soviet-Japanese tension as serious stating that there was danger that Japan might seize Chinese Eastern Railway thus creating a situation of great difficulty for Soviet Russia which does not desire to engage in war.

JOHNSON

702.4193 Manchuria/8 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, September 4, 1934—4 p. m.
[Received September 4—11:45 a. m.]

398. Department's 275, August 30 [31], 5 p. m.⁸⁸ Following from American Consul General at Mukden :

"September 3, 1 p. m. Referring to Legation's telegram September 2, 11 a. m., the Japanese Consulate General reported August 20th that Ford's assailant had been identified : that, however, he claimed having struck Ford only after the party had refused to turn back from the road which was under construction and closed and after Ford had struck him with a whip.

On August 23rd the British Consulate General and I made strong oral representation to the General pointing out that this story flatly contradicted the testimony of all the foreigners and that Ford carried no whip and requesting a thorough reinvestigation and appropriate punishment of the Japanese assailants. The affair is again under investigation and decision is understood to have been referred to the Kwantung army in whose employ the construction gang was working. There is every reason to believe that the authorities' report will again be unsatisfactory and that they will refuse to punish the offenders. In this event possible further steps would appear to consist in (1) diplomatic action or (2) the bringing of suit by Ford and possibly Rowsome. The British Consul General is awaiting instructions from his Legation which has detailed information on the case."

2. British Legation states that it has informed British Consul General [at] Mukden that it believes that no good purpose would be served by the institution of legal proceedings by the British Vice Consul against his assailant; that the Consul General should endeavor to bring about a satisfactory local settlement of the case failing which he should make full report to the British Ambassador in Tokyo for appropriate action vis-à-vis the Japanese Government. The British Legation adds that such instruction is of course subject to modification by the British Foreign Office to which report of the Legation's action has been made.

⁸⁸ Not printed; it requested a report of developments. See telegram No. 372, August 21, 4 p. m., from the Minister in China, p. 249.

3. I concur in the views thus expressed by the British Legation and with the Department's approval propose to instruct Consul Chase⁸⁹ to concert with his British colleague in efforts to bring about a satisfactory local settlement of the case failing which the matter should be referred to the American Embassy at Tokyo for appropriate representations to the Japanese authorities. The Department's instructions are requested.

4. In regard to general subject of attacks on foreigners by Japanese nationals in "Manchukuo" the Department is referred to the final paragraph of Consul Chase's despatch No. 946, August 2, 1934, to the Legation, copies of which were sent to the Department, and to the Legation's despatch No. 2901, August 11, to the Department,⁹⁰ expressing my qualified agreement with Consul Chase's views in the premises.

JOHNSON

702.4193 Manchuria/8 : Telegram

The Acting Secretary of State to the Minister in China (Johnson)

WASHINGTON, September 6, 1934—1 p. m.

280. Your 398, September 4, 4 p. m.

1. Department has not yet received despatches mentioned in paragraph 4 of your telegram under reference.

2. Department approves the Legation's proposal to instruct the Consul at Mukden to cooperate with his British colleague in efforts to bring about a satisfactory local settlement of the case. In case such efforts fail, Department desires to receive the views of the Embassy at Tokyo in regard to the question of the Embassy making appropriate representations to the Japanese authorities.

3. Please keep Tokyo fully informed.

MOORE

761.94/786

*Memorandum by the Ambassador in Japan (Grew)*⁹¹

[Tokyo,] September 7, 1934.

Chinese Eastern Railway.

In conversation today with the Soviet Ambassador I asked if there were any particular developments or facts concerning the negotiation

⁸⁹ Augustus S. Chase, Consul at Mukden.

⁹⁰ Neither printed; but see telegram No. 157, September 14, 7 p. m., to the Ambassador in Japan, p. 680.

⁹¹ Copy transmitted to the Department by the Ambassador in his despatch No. 962, September 7; received September 24.

for the sale of the Chinese Eastern Railway other than those which had appeared in the press which he might be willing to tell me. Mr. Youreneff replied that in spite of the Japanese statement that the negotiations had only been adjourned, they were in fact broken off *de facto*. He said that the termination of the negotiations had at least eliminated from the scene Mr. Ohashi who was an ignorant and obstructive element and had been brought into the negotiations only at the insistence of the Japanese military in Manchuria. He thought that Mr. Hirota was equally glad to get rid of him.

I asked Mr. Youreneff whether the failure to come to terms on the sale of the railway was not more a question of prestige and a desire to achieve a moral victory than a mere question of price because the Soviet demand and the "Manchukuo" offer were now separated only by the comparatively trivial difference of ¥40,000,000. The Ambassador replied that the Japanese were great bargainers where money was concerned and that Mr. Hirota when Ambassador to Moscow had haggled for a long time with the Soviet Government over a matter of a mere ¥500. I asked the Ambassador if there was any indication as to which party would take the next step in reopening the negotiations, to which he only replied that this could not at present be foreseen.

In this connection Mr. Youreneff expressed a high opinion of Mr. Hirota for whom he said he had genuine admiration. He said he considered him a very able and shrewd negotiator but a great deal pleasanter to deal with than Count Uchida who was merely a mouth-piece of the Japanese military.

General Relations.

The Ambassador said that he thought there was little danger of a Soviet-Japanese conflict at the present time. The Soviets were very strong in Siberia and Vladivostok and were prepared for any eventuality. Even if some inflammatory incident should occur, he thought it could be localized, especially because the Japanese Army in Manchuria was by no means in condition to take the offensive at present. He said he also considered Japan's military were much more in hand than during the regime of General Araki and that the Emperor and his entourage were very much stronger and much more able to dictate a sane policy for the nation. He thought that the recent withdrawal of Admiral Suetsugu from the command of the Fleet and his replacement by Admiral Nagano was a very important indication of this strength and presaged a desire for a conciliatory policy in the coming naval negotiations. Mr. Youreneff did not seem to know whether Admiral Suetsugu was to be given another assignment or not.

While the Ambassador avoided saying that he was either pessimistic or optimistic about the general situation, his remarks gave me

the impression that he was not particularly anxious as to the outlook at the present time but rather that he thought matters were improving.

Arrest of the C. E. R. Employees.

Asked about the significance of the arrest of a large number of the Soviet employees on the C. E. R., Mr. Youreneff did not seem to attach any great importance to the incident. He of course said that they were absolutely innocent of the charges against them and that on the contrary there was definite evidence that the sabotage complained of had been carried out from other quarters. He said it was particularly significant that the railroad cars carrying Japanese guns and other military equipment had suffered no damage.

Eastern Locarno Pact.

The Ambassador then turned to the situation in Europe and said that the Eastern Locarno Pact would undoubtedly go through but that it was not at all sure that Germany and Poland would participate therein. He thought that Poland was playing a very dangerous game and that her political intrigues might land her in a most embarrassing position especially if war should eventually break out between France and Germany. He felt that Poland was steering a very nebulous course and that her intentions were far from clear.

Soviet Russia and the League of Nations.

I asked the Ambassador if he felt that Soviet Russia's entry into the League of Nations was assured, to which he replied definitely in the affirmative. I asked about the reported objections of Switzerland, to which he answered that if Switzerland proves intransigent the other powers would simply move the League to Vienna—a step which they had seriously considered three or four years ago. This would have the great advantage of preventing any possibility of the *Anschluss* materializing and would be an important advantage to several of the great powers from many points of view.

Anglo-Japanese Alliance.

The Ambassador asked me what I thought about the rumors of an Anglo-Japanese Alliance. I told him what I knew about the rumors and said that while it was easy to build up an academic case to justify the rumors I had nevertheless no evidence whatever that they had any foundations in fact and that on the contrary I doubted if any definite negotiations for a *rapprochement* had taken place. The Ambassador said he agreed with me and that he also had no information but he thought that England's situation in the Far East at the present time might well give her cause for concern. He said he was inclined to think that the alleged unimpeachable source of Fabius'⁹² information

⁹² Jan Fabius, correspondent in Japan of the Amsterdam *Telegraaf*.

was the Foreign Office which had put the matter out as one of its customary "trial balloons". He asked me if I knew anything definite about the British Industrial Mission to "Manchukuo", to which I replied that I had no reason to believe that it had any political significance whatever. The Ambassador concurred.

Mr. Chevalier.

The Ambassador asked me if I happened to know Mr. Chevalier, a Belgian subject, who lives in Tokyo. I said I knew him but knew little about him. The Ambassador said he understood that he was trying to put through some kind of a deal for furnishing railway equipment, particularly rails, to the "Manchukuo" Government but he believed he was a poor man and did not think he had any particular backing.

J[OSEPH] C. G.[REW]

741.9411/216

The Ambassador in Japan (Grew) to the Secretary of State

[Extract]

No. 964

TOKYO, September 7, 1934.
[Received September 24.]

SIR:

According to the *Japan Advertiser* of August 30, 1934, Sir Robert Clive, the British Ambassador to Japan, called upon Mr. Hirota, the Minister for Foreign Affairs, on August 29, 1934, and said:

"Rumors are being circulated among British and American residents of Tokyo that the Anglo-Japanese Alliance is to be revived, and I wish to make it clear that I am not associated with such reports in any way."

The Minister for Foreign Affairs is reported to have replied that he likewise was not responsible for any part in spreading the rumors.

The Japanese Foreign Office, however, has not taken decisive steps to deny the rumors which have been current in Tokyo regarding the revival of the Anglo-Japanese Alliance. On August 20, 1934, in reply to questions put by foreign newspaper correspondents to the spokesman of the Foreign Office, Mr. Amau replied that no conversations were going on between Japan and Great Britain for a political understanding, as far as he knew. He added that he could not understand the causes of the rumors, unless they were connected with the visit to "Manchukuo" of the business mission sent by the Federation of British Industries, the purpose of which is purely economic.

Although the Japanese Foreign Office has made no definite pronouncement regarding the rumors of a renewal of the Anglo-Japanese Alliance, or the establishment of an understanding between the two countries, the Tokyo *Nichi-Nichi* of August 26, 1934, published an article purporting to give the views of the Foreign Office in regard to the conclusion of any such pact. The *Japan Advertiser's* translation of the *Nichi-Nichi* article is as follows:

"The Foreign Office may find it necessary at some future time to forestall official or unofficial proposals for agreements of the kind being talked about at present by making a public statement of its attitude. If it does so, it will make the following points:

1. Japan's policy toward China was made perfectly clear to the world when she served notice of withdrawal from the League of Nations. Japan will settle political problems with China from its own standpoint and only in direct negotiations. That principle was called to the attention of the Powers in the London naval talks last month.

2. Such military and political agreements as those embodied in the Anglo-Japanese Alliance are things of the past, and Japan, with autonomy in national defense, cannot afford to repeat the folly of serving as a "watch-dog" in China for other Powers.

3. Should any Power desire or find it necessary to enter into a political or economic agreement with Japan, it should first of all extend *de jure* recognition to Manchukuo and revise all existing treaties and agreements in order to fit them to the new situation in the Far East. Unless this is done, Japan will not consider political or economic cooperation with it.

4. If any proposal is made for dividing China into zones for political or economic activities or for a convention regarding markets in China, Japan will not listen unless the Manchukuo question is settled beforehand.

5. If any power, abandoning its policy of impeding Japan's relations with China, proposes a gentlemen's agreement to avoid mutual competition, Japan may give the matter some consideration, for it is the fixed policy of Japan to respect the open door and equal opportunity in China as widely as practicable."

All of this may or may not have been designed to indicate to Great Britain the terms upon which Japan would consider a revival of the Anglo-Japanese entente. The *Nichi-Nichi* is in touch with the younger, more chauvinistic element of the Army and the Foreign Office, and the opinions given may be only those of this element.

The rumors of an understanding between Great Britain and Japan, which have been current in Tokyo since last May, appear to have emanated largely from Dutch sources. Thus, the Embassy's telegram

No. 98, May 23, 3 p. m.,⁹⁴ was in part inspired by a conversation with General Pabst, the Netherlands Minister to Japan. Likewise, the rumors which were recently circulated in Tokyo were started on August 17, 1934, by Jan Fabius, the correspondent in Japan of the Amsterdam *Telegraaf*. Mr. Fabius claimed to have learned from an unimpeachable source that negotiations between Great Britain and Japan had been concluded and that announcement of the alliance or understanding would be made simultaneously with the visit of the British Industrial Mission to "Manchukuo". Under the agreement, the correspondent understood, Britain would recognize "Manchukuo" and give Japan a free hand in North China, in return for which Japan would recognize British freedom of action in central Asia. Britain would also support Japan's claim for naval parity and Japan would restrict exports of Japanese goods to British Empire markets. The Dutch are undoubtedly nervous in regard to their East Indian possessions, and are watching closely for any indication of a bilateral or multilateral agreement which will strengthen Japan's hand in the Far East.

Respectfully yours,

JOSEPH C. GREW

693.0023/59 : Telegram

The Consul at Tientsin (Atcheson) to the Secretary of State

TIENTSIN, September 10, 1934—10 a. m.

[Received 11:20 a. m.]

My August 17, 1 [3?] p. m. and subsequent mail despatches.

1. New Chinese Maritime Customs stations at Great Wall passes have been officially opened as follows: Kupeikou August 22nd; Yiyuankou August 29th; Lengkou August 30th; and Hsifengkou September 6th; Chiehlingkou will open in few days.

2. Press reports that Ministry of Finance has ordered establishment of consolidated tax offices at the passes and that "Manchukuo" passport office has been set up at Kupeikou.

3. Official Chinese sources state confidentially that Huang Fu definitely plans to return to Peiping by September 20th although he has failed to obtain transfer of General Yu Hsueh-chung who is in key position as chairman Hopei Province and Commander of 51st Army and is a forceful opponent of Japanese hegemony in North China.

4. Copy to Legation by mail.

ATCHESON

⁹⁴ Not printed; see footnote 30, p. 198.

793.94/6793

The Minister in China (Johnson) to the Secretary of State

No. 2975

PEIPING, September 14, 1934.

[Received October 6.]

SIR: I have the honor to refer to my despatch No. 2972 of September 13, 1934,⁹⁵ and previous despatches with regard to Japanese policy toward China and to comment on the seeming inability of the Japanese authorities to initiate and sustain any given policy in their relations with this country.

As the Department knows, Japanese policy with regard to China has vacillated during the past several decades between an extreme of conciliation as exemplified by the so-called Shidehara policy and an extreme of aggression as evidenced by the so-called Twenty-one Demands of 1915 and the seizure of Manchuria in 1931. These vacillations have been the outcome of differing points of view among the authorities in Japan with regard to the method of solving Japan's population and economic problems. The one view, which has had as its principal supporters Japanese militarists, regards political domination of China in part or in entirety as the solution; the other, which has had as its principal supporters certain modern-minded liberals, sees friendship with China as the solution. The liberals have believed that a friendly China would result for Japan in the opening up of sources of supply of raw materials and the development of markets for Japanese manufactures and that these would make possible the industrialization of Japan to a degree which would solve the problems of population and economy. The militaristic group, still influenced by European theories of the latter part of the 19th century, has believed that these problems could best be solved by empire.

Following the Twenty-one Demands and the immediate years thereafter which were characterized by efforts to ensnare the Chinese through unsound loans, the Japanese military went into an eclipse for a period and liberal civilian statesmen came into prominence. A policy of friendship for China was followed. This failed however to rouse sufficiently reciprocal friendliness on the part of the Chinese, in part because this policy of friendship had characteristics of the aggressive policy. The Chinese failed to realize the wisdom of being satisfied with a part of what they wanted from Japan; so, holding out for all, the Chinese lost the four northeastern provinces.

Although one has sympathy for China, in the long view (and the Chinese think in decades and centuries instead of in years as do the

⁹⁵ Not printed.

Japanese), it seems inevitable that China will eventually become a great nation, though decades may pass before that is accomplished. The real tragedy, however, is Japan. Rising in a few decades from feudalism to a position of first rank among the nations, Japan now seems embarked definitely on a course which can end—though it may be decades hence—in a decline into unimportance. Brought to astonishing heights by its rapid adoption of Western methods, it has begun a descent from those heights by a continued employment of those methods which within a few years of their adoption had become obsolete.

It is, in my opinion, essential that Japan, if she is to continue to be a great power, must solve satisfactorily her relations with China in order to solve her own problems of population and economy. These relations can be solved satisfactorily only through gaining the friendship of China. It is possible that, given opportunity for a few more years, the liberals who were in power in Japan prior to the Manchurian incident might have brought about a situation through which Japan would have found in China great sources of materials for her factories and great markets for the produce of her factories, thereby industrializing Japan to the point of solving her population and economic problems. Japan, after all, had little to lose by adhering to a policy of trying to be friends with China. There was no military expense involved; anti-Japanese feeling in China would have gradually died away, notwithstanding temporary setbacks because of the inability of the Chinese to treat with any country with consistency and honesty. Until September, 1931, Japan had a chance to attain the role of China's paramount buyer and seller, a position which no other power could have assailed because of geographical proximity.

The Japanese military, or a part of them, for various reasons already well-known, decided that a policy of conciliation had too many disadvantages, both for Japan and for themselves. So they began on September 18, 1931, an action which resulted in the wresting from China of the four northeastern provinces.

This seizure was completed in the spring of 1933. Since that time there have been indications that the pendulum was swinging again, this time away from military aggression toward a kind of conciliation. It appeared that some of the Japanese in authority were in favor of establishing a policy through which their ends in China (limited on the surface at least to economic penetration) would be gained by "diplomacy". This was said to be a policy of support of General Chiang Kai-shek (or the National Government), as a result of which China would achieve greater unity and increased stability and Japan would obtain greater markets and increased sources of raw materials.

The resignation of General Araki from the post of Minister of War and the appointment of Mr. Hirota as Minister for Foreign Affairs were two of the developments which were regarded as earnest of change in the direction of an enlightened policy, although it seemed inevitable that the new policy must fall far short of that policy which was followed by Shidehara. The successful establishment of such a policy depended (1) on Chinese acquiescence and (2) on the conviction of the reactionary Japanese elements that such a policy would succeed and would be best for Japan's interests. The institution on July 1, 1934, of through traffic on the Peiping-Liaoning Railway without embarrassment to the National Government from any part of China indicated that the first point had, for the time being at least, been attained. That the second point may not have been attained is indicated by the recent report (my despatch No. 2972 of September 13, 1934) that the military have succeeded in obtaining the acceptance of the Japanese authorities of a policy of dealing regionally with China and of non-support of General Chiang Kai-shek outside of the Yangtze Valley.

Whether or not this report of a policy of conciliation again being quashed is true, I doubt whether it is a fundamentally vital factor in the situation. I cannot but feel that the Japanese have committed during the past three years so many wrongs against China that these, when added to the wrongs committed prior to the Manchurian incident, have created a situation which makes it impossible for Japan to gain the friendship of China through any policy, regardless of its degree of liberality. It is perhaps possible that a complete reversal of Japanese policy, including a return of Manchuria to Chinese sovereignty, might have its effect, but it is doubtful if a situation will develop within Japan whereby a Japanese government could do this and survive.

In other words, Japan seems now to have reached a point in its relations with China where there is no policy which Japan can adopt which holds out promise of bringing to Japan what is requisite if she is to continue as a first class power. So it scarcely matters whether the reactionary military forms Japan's policy toward China or whether the so-called liberals do.

It is easy to understand the opposition of the Japanese military to a policy of conciliation of China. During recent months the Japanese have seen indications of an extension of the power of General Chiang Kai-shek, of efforts toward economic rehabilitation, of effective increases in military strength. The Japanese have reason to believe that if these developments are allowed to continue, China will eventually attempt to liquidate her problems in foreign relations, primarily the problem of Japanese aggression. It is not surprising, therefore,

that at least a part of the Japanese military would prefer a disunited and militarily weak China, even though Japanese liberals may point out that this will mean disturbed conditions which will adversely affect Japan's economic future. A Japanese military, which thought the seizure of Manchuria would solve Japan's population and economic problems, now sees that they were mistaken. This does not prevent them from believing that the solution lies in sinister activities in China south of the Great Wall. During the past few months they have apparently given "diplomacy" its chance, and the results have been few.

When the military took Manchuria they created a situation from which there seems to be little possibility of turning back without dire consequences to Japan and from which there seems to be little possibility of going forward without dire consequences to Japan. There was only one policy which could have solved Japan's internal problems, and that was friendship with China. The action of the Japanese military in Manchuria brought that policy to an end and has made impossible a genuine and effective return to it.

Respectfully yours,

NELSON TRUSLER JOHNSON

861.77 Chinese Eastern/1346

The Consul General at Harbin (Adams) to the Secretary of State

No. 18

HARBIN, September 14, 1934.

[Received October 22.]

SIR: I have the honor to report information and impressions which I have received on the subject of the Chinese Eastern Railway since my arrival in Harbin on August 18, 1934.

Informed people in Harbin, regardless of nationality, appear to be uniformly of the opinion that Japan is determined to erase Russian interest and influence in the Chinese Eastern Railway in the near future. The only question connected with the taking over of the Chinese Eastern Railway by Japanese interests appears to be the one of method.

The vicious campaign of vilification which the Japanese controlled press in Manchuria is aiming at Russia, the utter indifference of the Japanese garrisons toward bandit attacks upon the eastern section of the Chinese Eastern Railway, the wholesale arrests by Japanese gendarmes of Russian railway employees, the construction contemplated and already undertaken in Harbin by the South Manchuria Railway, and many other things, all point to the correctness of the local opinion, and indicate that Japanese patience is wearing thin over the protracted negotiations for the sale of the railway. Recent American visitors and local businessmen who have talked with high Japanese and "Manchukuo" officials in Hsinking report that the question

of seizing the railway under the theory of the State's right of eminent domain is seriously occupying the minds of those controlling "Manchukuo."

Leaving aside the political aspects of the matter and considering it purely from the standpoint of efficient transportation, there seems to be no doubt that the taking over of the Chinese Eastern Railway by the Japanese would be beneficial to Manchuria. The South Manchuria Railway will of course operate the Chinese Eastern Railway in the event of its acquisition by the Japanese, and the gauge will no doubt be changed to conform to the gauge of the South Manchuria Railway.

Locally, however, the transfer of the railway from Russian to Japanese control would cause much suffering and probably some lawlessness. There are about eight thousand Russian employees of the Chinese Eastern Railway in Manchuria. A large Russian community is dependent directly or indirectly upon these eight thousand employees and upon the railway. It is a foregone conclusion that one of the first steps which the Japanese would take would be to discharge practically all Russian employees and replace them with Japanese. That is foreshadowed by the agreed upon provision for the indemnification of discharged Russian employees in the interrupted negotiations covering the sale of the railway. Many of these Russians are not in a position to return to Soviet Russia, and their absorption into other occupations in "Manchukuo" is, under prevailing conditions, utterly out of the question. In no occupation connected with the extensive development that is occurring in Manchuria are Russians given an opportunity. They are segregated from the main stream of development and activity with a definiteness that is startling.

With respect to the absorbing question of whether or not Russia would undertake a military defence of her rights in the Chinese Eastern Railway in the event of the seizure of that property by "Manchukuo", the general consensus of local opinion seems to be that Russia would not at this time risk a war with Japan for the sake of the Chinese Eastern Railway.

As the Department is aware, railways owned by and under the control of the South Manchuria Railway Company completely circle and blanket the Chinese Eastern Railway, excepting the western section extending from Anganghsi to Manchuli and the eastern section extending from Harbin to Suifenho (Pogranichnaya). For some time past the servicing of Vladivostok by traffic on the eastern section of the line has been vitally interfered with by almost incredibly frequent bandit attacks upon trains. These attacks have made exporters and importers afraid to risk shipment over the eastern section. The diverted traffic goes out through the Japanese ports of the Liaotung Peninsula and Korea. As an indication of the existing conditions, the following statistics of disturbances on the eastern section are given.

These statistics were published in the Harbin *Nichi-Nichi* (Japanese), issue of August 22, 1934, and have been verified by consultation with Chinese Eastern Railway officials. The period covered by these statistics is from January 1, 1934, to August 8, 1934:

16 trains overturned,
 41 cases of destruction of rails,
 91 attacks upon railway stations,
 116 persons carried away as captives,
 42 trains looted,
 railway telephones cut 18 times,
 46 persons killed,
 102 persons wounded,
 31 incendiary fires on railway bridges.

The rolling stock loss of the Chinese Eastern Railway in the above mentioned disturbances was 21 locomotives and 207 wagons.

The western line, extending in the direction of European Russia, is comparatively quiet, but the smooth operation of this section does not interfere with the Japanese plan for the development of Dairen and the Korean ports of Seishin, Rashin and Yuki, partially at the expense of Vladivostok.

It will thus be seen that the Chinese Eastern Railway is of very little economic importance under the existing conditions, its value having been largely destroyed by Japanese railway construction and by other Japanese activities. Russia would suffer principally in loss of pride and prestige in the event of the seizure by "Manchukuo" of the railway. The general opinion here is that the men in charge of Russian affairs are too practical to go to war with Japan at the present time with so little of material value at stake. It is said that particularly is this so in view of Russia's present need for the concentration of her energies upon the execution of plans for internal industrial development.

Respectfully yours,

WALTER A. ADAMS

893.01 Inner Mongolia/30

The Minister in China (Johnson) to the Secretary of State

[Extracts]

No. 2976

PEIPING, September 15, 1934.

[Received October 6.]

SIR: I have the honor to report that the relations of the Mongol leaders of Inner Mongolia (Chahar and Suiyuan Provinces) with the Chinese authorities are increasingly unsatisfactory because of the continuing failure of the Chinese to live up to the terms of the agreement with regard to the autonomous government which was established in Inner Mongolia in April of this year.

The grievances of the Mongols at present are that (1) the Chinese have failed to pay to the Mongols any of the promised monthly subsidy, reported to be \$50,000; (2) the Mongols are suffering so from the depredations of Chinese bandits that many have found it necessary to build defence works around their yurts; (3) the northward movement of Chinese settlers into Mongol territory reportedly continues; and (4) the Chinese treatment of Mongols as inferiors has not been remedied.

The present situation appears to be equivalent to inviting the Mongols to throw in their lot with the Japanese who are supposed to be actively at work among the Mongols. According to information obtained from an American resident of Peiping who recently spent several days with "Duke" Larson, a Swedish national who has lived many years among the Mongols and who is believed to have their confidence, it is the opinion of "Duke" Larson that before many months the Mongols may engage in actual warfare against the Chinese because of their dissatisfaction. He believes, however, that the Mongols will probably not attempt to enlist Japanese assistance until after they begin hostilities as the Mongols feel that they will be in better position to bargain with the Japanese if they initiate hostilities by themselves.

Although it may be thought that the Chinese would not find it difficult to subdue the Mongols because of the Chinese superiority in aerial armaments, military action on the part of the Chinese would have three grave disadvantages; (1) the Chinese would be dealing with a spirited people who would probably carry on a kind of guerilla warfare difficult of suppression from the air; (2) the Chinese would, by such warfare, completely alienate the Mongols and drive them definitely over to the Japanese; and (3) Chinese military action would invite Japanese interference and invasion on the excuse of defending the boundaries of "Manchukuo" from disturbance.

Respectfully yours,

NELSON TRUSLER JOHNSON

761.94/790

The Ambassador in Japan (Grew) to the Secretary of State

[Extract]

No. 979

TOKYO, September 18, 1934.

[Received October 6.]

SIR:

In general a reading of the foregoing editorials, which are quite representative of the Japanese press, impresses the writer as indicat-

ing that, consciously or not, there is crystallizing a feeling that European matters are, at times, of vital interest to Japan and directly affect Far Eastern questions, her wishes to the contrary. Since the Manchurian incident in September 1931 the attitude has been cultivated in Japan that isolation and independence from the intrigues of Western European nations were to be desired. The withdrawal of Japan from the League of Nations was in line with this ideal of "glorious isolation". The present event, the entry of Soviet Russia, a potential enemy of Japan, into that same League may well tend to hasten the reaction from this visionary policy and to induce a more practical attitude towards events taking place in Europe. Such a result would probably be in line with the wishes of important elements in the Foreign Office and of the Emperor's closest advisers. Perhaps it is premature to venture generalizations of this nature from the evidence thus far apparent, but I believe, nevertheless, that the admission of the USSR to membership in the League will provide one more restraining influence, as did American recognition, in the conduct of Japan's relations with Soviet Russia.

Respectfully yours,

JOSEPH C. GREW

702.4193 Manchuria/10 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, September 21, 1934—3 p. m.

[Received September 21—1:35 p. m.]

425. Reference the Legation's telegram No. 409 of September 11, 11 a. m.,⁹⁶ following telegram has been received from American Consul General at Mukden:

"September 20, 3 p. m. Referring to my telegram of September 10, 2 p. m., the Japanese Consul General has finally replied in writing to the memorandum of my British colleague and myself of August 23rd concerning the Coghill-Ford-Rowsome case. His communication encloses the police report of investigator which completely ignores the testimony of the three foreigners placing upon them primary blame for the incident and is distinctly discourteous in tone. It is manifest that the local Japanese authorities are definitely unwilling to take any action against the assailants.

I am reporting in full by despatch suggesting advisability of diplomatic representations. My British colleague has taken similar action."

2. Legation is of the opinion that if perpetrators of this deliberate attack on foreigners go unpunished by Japanese authorities frequent

⁹⁶ Not printed; it reported the carrying out of Department's instructions (see telegram No. 280, September 6, 1 p. m., to the Minister in China, p. 269).

repetition of such attacks may be expected in Manchuria and North China.

JOHNSON

861.77 Chinese Eastern/1336 : Telegram

The Chargé in Japan (Neville) to the Secretary of State

TOKYO, September 25, 1934—5 p. m.

[Received September 25—10 a. m.]

212. My 211, September 24, 11 a. m.⁹⁷ The Minister for Foreign Affairs informed me today that the news of the sale of the Chinese Eastern Railway, for 170,000,000 yen was correct. He said that a few details connected with physical transfer of the road and the settlement of financial matters remained, but the basic question had been agreed upon.

Thirty million yen of the 170,000,000 represents retirement allowances for the old Russian personnel and some other obligations of the railway which the "Manchukuo" authorities would assume. Approximately one-third of the remaining 140,000,000 would be paid in cash as a lump sum or in installments, while the rest would be paid in kind, the Japanese and "Manchukuo" authorities setting up a credit for Soviet purchases in Japan and Manchuria.

Repeated to Peiping.

NEVILLE

702.4193 Manchuria/11 : Telegram

The Chargé in Japan (Neville) to the Secretary of State

TOKYO, September 28, 1934—2 p. m.

[Received September 28—4:17 a. m.]

216. Reference Department's telegram No. 280, September 6, 5 [1] p. m. to Peiping. Rowsome incident.

1. British Embassy here instructed to make representations concerning Rowsome incident because of "discourteous and unsatisfactory nature" of Japanese Consul General's reply to representations made locally by the British Consul General.

2. The Embassy has been asked by the British Embassy what action the Embassy proposes to take in the matter.

3. In view of the fact that Rowsome appears [to] have escaped physical attack and was unmolested expecting [*except?*] insofar as he was a member of the group turned back by the Japanese workmen

⁹⁷ Not printed.

I feel no useful purpose would be served in undertaking formal representations in this case, especially in view of the fact of the British Government's representations on behalf of their nationals involved.

4. However, as the attitude of the Japanese Consul General at Mukden appears to have been discourteous and unsatisfactory I believe this fact might be brought informally to the attention of the Foreign Office here, and at the same time the opportunity might be used in a discreet manner to ascertain the unofficial views of the Japanese Government in the matter.

5. Does the Department wish to authorize me to approach the Foreign Office in the above sense?

Copy my mail to Peiping.

NEVILLE

741.9411/217

The Chargé in Japan (Neville) to the Secretary of State

No. 989

TOKYO, September 28, 1934.

[Received October 22.]

SIR: I have the honor to refer to the Embassy's previous despatch No. 964 of September 7, 1934, and telegrams relative to the rumored revival of the Anglo-Japanese Alliance. As of interest in this connection there is hereto appended a translation of statement made by Foreign Minister Hirota in the House of Representatives Budget Committee on January 30th of this year.⁹⁸ This statement, made many months before the rumor was first heard, is of some significance inasmuch as in it the Foreign Minister clearly expressed regret at the passing of the Alliance and stated, in effect, that he intended to cooperate with Great Britain in the spirit of the Alliance. This would appear to lend some weight to the Embassy's statement that "observers do not believe that there is a written alliance, but do believe that there is some sort of tacit agreement".

The only newspaper editorial comment on the rumored alliance to appear since my previous despatch was in the *Hochi* on September 1st. A translation is hereto appended.⁹⁸ The *Hochi* admits that there are good reasons for the talk about revival of the Alliance, but considers that a revival is impossible. At the same time it advocates Anglo-Japanese cooperation "to maintain peace in the Far East", and hopes that Japan and Britain will come to a closer understanding.

Respectfully yours,

EDWIN L. NEVILLE

⁹⁸ Not printed.

702.4193 Manchuria/11 : Telegram

The Secretary of State to the Chargé in Japan (Neville)

WASHINGTON, September 29, 1934—1 p. m.

168. Your 216, September 28, 2 p. m., paragraphs 4 and 5. You are so authorized.

Inform Peiping.

HULL

CHAPTER IV: OCTOBER 1—DECEMBER 31, 1934

Japanese trade negotiations with Netherlands East Indies; Litvinov's views on question of "Manchoukuo" and on nonaggression pact with Japan, October 10; British Ambassador's views respecting Japan, October 11; Ambassador Grew's report on unsettled problems between Japan and Soviet Union, November 1; Japanese expansion in "Manchoukuo," Chahar, and Hopei; attitude of the Department of State respecting defense of Shanghai's International Settlement, December 14; review of developments in China in 1934

800.51W89 U.S.S.R./139

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] October 1, 1934.

The Soviet Ambassador called this morning to take leave before returning to Moscow; he said he expected to be back by the end of October and felt confident that, in conversation with the Soviet officials, he could accomplish much more than by correspondence. I promptly expressed the hope that this would prove to be the result.⁹⁹

I took occasion to ask the Ambassador if he had any recent knowledge about the sale of the Chinese Eastern Railway; he had no details, but felt sure that the few remaining points would be settled before long. In reply to my inquiry as to whether he thought the Japanese had any ambitions with regard to Inner and Outer Mongolia, the Ambassador said he did not think so; he pointed out that there was nothing of value to Japan in that region; there was no mineral wealth; there was no population to speak of and he did not believe, therefore, that Japan would pay much attention to it; on the contrary he thought that Japanese eyes were directed towards the Chinese market. I asked him this question in view of the recent despatch from Bullitt,¹ reporting his conversation with the British Chargé d'Affaires just returned from London, who had indicated the British Government's belief that Japan might very likely extend its influence into Mongolia through Manchukuo and thus be persuaded to keep her hands off southern China.

WILLIAM PHILLIPS

⁹⁹ For correspondence relating to negotiations with the Soviet Union, see *Foreign Relations, The Soviet Union, 1933-1939*, section on 1934.

¹ Telegram No. 320, September 24, 9 a. m., not printed.

656d.9431/32

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] October 3, 1934.

Until 1930 the trade between Japan and Netherland East India was fairly evenly balanced, but in 1931, when there was initiated the present Japanese plan of commercial expansion, Japan's exports to Netherland East India were considerably increased without there being a corresponding increase in Japan's purchases from the latter area. The balance of trade in 1931 was approximately Yen 20,000,000 in favor of Japan. The disparity was further increased in 1932 and again in 1933, the balance of trade in favor of Japan in the latter year being approximately Yen 100,000,000. To indicate the rate at which Japan's exports to Netherland East India were increased, in 1931 its sales to Netherland East India were valued at about Yen 65,000,000, whereas in 1933 they were valued at Yen 160,000,000, a proportional increase of approximately 250%. On the other hand the exports of Netherland East India to Japan in 1931 were valued at about Yen 46,000,000, increasing in 1933 to only about Yen 56,000,000.

The first measure directed particularly against Japanese imports taken by Netherland East India was the laying down of quotas designed to protect only certain local industries, namely, the production of beer and cement. In the latter part of 1933 a quota was established upon imports of certain types of bleached cotton tissues, in supplying which Netherland manufacturers competed with Japanese manufacturers.

It was realized, however, by the Netherland Government that, owing to certain circumstances, it would be difficult and undesirable to restrict Japanese imports by the usual method of applying quotas, increasing duties, and so on. Netherland East India is primarily a "price market" and not a "quality market", the average income of the natives placing a premium on low-priced commodities rather than on commodities of good quality. In this connection, it must be remembered that certain types of Japanese goods, notably cotton textiles, are not of inferior quality and are offered for sale at substantially lower prices than those quoted by European manufacturers. It was found, furthermore, that a large proportion, if not a majority, of the retailers of foreign merchandise in Netherland East India are Japanese, and, therefore, committed wholeheartedly to the program of promoting the sale of Japanese goods. Thirdly, the nationalistic element among the natives began to show increasingly a disposition to oppose official measures calculated to benefit Netherland manufacturers at the expense of Japanese manufacturers.

The restrictive measures against Japanese imports applied by the Netherland East India Government resulted, in the summer of 1933, in Japanese representations being made at The Hague. After informal discussions between the Japanese and Netherland Governments over an extended period of time, the decision was finally taken by the two Governments that a conference to regulate the commercial relations between Japan and Netherland East India should be held at Batavia. Accordingly, representatives of the two interested Governments met at Batavia in June, 1934, and they are still in conference.

Due reportedly to the fact that an agreement was reached after the conference opened to keep secret its proceedings, the despatches that have been received from the field do not clearly reveal either the agenda or the results thus far achieved. The despatches indicate that the proceedings have been carried on with considerable show of acrimony on both sides, that neither side appears to be concessive in attitude, and that the imperious attitude of the Japanese delegates and of the Japanese press representatives accompanying the Japanese delegation has aroused considerable resentment among the Dutch, both official and commercial.

It is evident that the Japanese have been unable to offer the Dutch any satisfactory compensation for a Dutch undertaking to refrain from restricting imports of Japanese goods. The principal imports of Japan from Netherland East India are such raw materials and food-stuffs as rubber, petroleum, copra and sugar. It was suggested that Japan undertake to increase its purchases of sugar from the Dutch possessions, where the sugar industry has fallen into a dangerous condition. The Japanese have pointed out that Japan's sugar requirements are filled by the output of sugar in its own colony of Taiwan, and that if Japan were to purchase more sugar from Netherland East India it could only dispose of it in China and other areas which are at the present time important markets for Dutch sugar. It is understood that the Japanese have put forward some proposal in the direction of securing larger supplies of petroleum from Netherland East India; however, no conclusive information is available in that regard.

Press despatches and official reports together convey the impression that the proceedings thus far of the conference at Batavia have been a series of controversies unrelieved by substantial progress toward an agreement. The latest controversy was occasioned by an order of the Netherland East India Government restricting imports from Japan of china and porcelain ware, on the ground that the Japanese were endeavoring to monopolize the market. The Japanese delegation protested against the order as being a violation of an agreement between the two delegations that the *status quo* existing at the time when the conference opened should not be altered by restrictive measures. The

Dutch contended that Dutch and other foreign exporters to Netherland East India of porcelain and china ware doing business in Japan had been excluded from the quasi-official Japanese guild of manufacturers and exporters of those commodities. The guild replied by decreeing an embargo on exports to Netherland East India, the purpose of the embargo being apparently to arouse discontent among the nationalistic element in the Netherland East Indies against the Netherland authorities. The Dutch Government has made representations at Tokyo against the action of the guild, but it is reported that the Japanese Government has declined to entertain the protest on the ground that the responsibility for violating the agreement to maintain the *status quo* rests upon the Dutch.

The foregoing is a brief outline of the salient features of the conference, so far as they are known to the Division. They do not appear to warrant expectation that the conference will be productive of a fundamental adjustment of the commercial relations between the two countries. It should be borne in mind, however, that it is to the interest of neither country that the conference should end in a quarrel: Netherland East India is today Japan's third most important market, while it would seem important for the Netherlands to avoid the political repercussions of a quarrel with Japan over commercial relations. The fact that the conference has already been in session for almost three months tends to give color to the assumption that neither side is anxious to assume responsibility for a break-up of the conference.²

893.20/499

The Secretary of State to the Secretary of Commerce (Roper)

WASHINGTON, October 8, 1934.

MY DEAR MR. SECRETARY: The receipt is acknowledged of your letter of September 24, 1934,³ in regard to the participation, through the efforts of the Department of Commerce, of American nationals in instructing Chinese student aviators in aviation schools in China. You mention the participation of certain former or reserve United States Army officers and references to this matter in the hearings before the Nye Munitions Committee,⁴ and you inquire whether in the opinion of this Department any review of the situation would be made in the

² The Ambassador in Japan in his despatch No. 1089, December 10, 1934, reporting on the continuation of the conference at Batavia, stated: "On the whole, the prospects for the eventual conclusion of a trade agreement between Japan and the Netherland Indies appear to be more hopeful than they have been for several months past, if one can credit the reports published in the Japanese press." (656d.9431/37)

³ Not printed.

⁴ See vol. I, pp. 427 ff.

light of present conditions. You state that so far as you know this Government is entirely divorced from the activities of the Chinese aviation school except that certain former or reserve Army officers are employed as instructors at the expense of the Chinese Government.

Following the receipt of your letter, a careful review has been made of the records of this Department in regard to the participation of American nationals in aviation schools in China. That review indicates that this Department was approached in regard to the project which ultimately resulted in the establishing of a Chinese Government aviation school at Hangchow, China, and that the facts in regard to the action taken by and the attitude of this Department relating to that project are as follows:

Under date March 14, 1932, this Department received a telegram from the American Minister to China, who was then at Shanghai,⁵ transmitting the text of a message for the War Department from the American Military Attaché in China. The Military Attaché's message stated that he had been requested by a high official of the Chinese Government to obtain the services of a group of qualified Americans to organize and operate an air school where military aviators might be trained for the Chinese Government. This Department forwarded to the War Department, as requested, the Military Attaché's message. In reply the War Department informed this Department under date March 24, 1932, that that Department was not interested in sending an aviation training mission to China and that the contents of the Military Attaché's message had been referred to the Department of Commerce for consideration from the standpoint of civilian aviation interest. This Department thereupon informed the American Minister to China⁶ of the action taken by it and of the attitude of the War Department in reference to this subject. The Department also informed the American Minister of its opinion that it would be inadvisable for this Government to take any steps in connection with the sending to China of an aviation training mission while the then existing Sino-Japanese situation continued.

Under date April 11, 1932, this Department wrote to the Secretary of War⁷ stating that this Department was informed by the American Minister to China that, according to information received from the American Consul General at Nanking and from Mr. Howard, an American Trade Commissioner at Shanghai, the Chinese authorities were attempting to enlist, for the purpose of giving "advice regarding military air training", the services of United States Army officers at Manila who had accumulated leaves of absence which they could spend

⁵ *Foreign Relations*, 1932, vol. III, p. 582.

⁶ See telegram No. 121, March 29, 1932, 5 p. m., to the Consul General at Shanghai, *ibid.*, p. 643.

⁷ Letter not printed.

in China. This Department informed the War Department that it was of the opinion that, in view of the situation in the Far East, it would be inadvisable for this Government or any of its officers to be associated with plans of the Chinese Government in connection with "military air training". The War Department replied that instructions had been issued to the Commanding General, Philippine Department, to take such action as might be necessary to prohibit any officers of his command from accepting employment or giving advice or instruction such as mentioned. This Department so informed the American Minister to China.⁸

Under date April 17, 1932, the American Minister to China telegraphed⁹ that a high Chinese official was continuing his conversations with Trade Commissioner Howard in regard to civilian aviation and the Minister inquired whether the Department had any objection. Under date April 19, 1932, this Department replied¹⁰ that it had no objection to the Trade Commissioner discussing "civilian aviation" but that, in relation to plans of the Chinese Government in connection with "military air training", the Department's view, which was known to and concurred in by the War Department, was that, in view of the then existing situation, it would be inadvisable for this Government or any of its officers to be associated with military training.

So far as this Department was concerned, the next development in the situation occurred on May 31, 1932, when Mr. John Hamilton Jouett called at the Passport Division of this Department in regard to the issuance of passports to a number of American citizens who, according to Mr. Jouett's statement, held commissions as aviators in the United States Reserve Corps (either the Army or the Navy) and who planned to sail from San Francisco on or about June 15 for China, where they would work for the Chinese Government in connection with aviation. On June 1, 1932, this situation was discussed with Mr. Leighton W. Rogers, then Chief, Aeronautics Trade Division, Department of Commerce. Mr. Rogers stated that the group of American aviators was going to China to organize an aviation school for the Chinese Government to train Chinese cadets presumably in military aviation. It was pointed out to Mr. Rogers that the record of this Department indicated that this Department had expressed the view that, in view of the situation in the Far East, it would be inadvisable for this Government or any of its officers to be associated in any way with a project involving military as distinguished from civil aviation.

⁸ See telegram No. 145, April 19, 1932, 6 p. m., to the Consul General at Shanghai, *Foreign Relations*, 1932, vol. III, p. 702.

⁹ *Ibid.*, p. 696.

¹⁰ See telegram No. 145 to the Consul General at Shanghai, *ibid.*, p. 702.

Mr. Rogers stated that the Department of Commerce had transmitted messages to and from the Chinese Government and interested Americans; that the interested Americans had signed a contract; that the Chinese Government had advanced money; and that the interested Americans had made the necessary arrangements to leave for China. This information indicated that the matter had proceeded to a point where changes in the arrangements already effected could not readily be made.

As you know, this body of American aviators thereupon proceeded to China and organized and administered a Chinese Government aviation school at Hangchow to teach Chinese military pilots.

The original view of this Department in regard to agencies of the American Government or officers thereof assisting the Chinese Government in its efforts to conduct *military* aviation schools for the training of Chinese *military* pilots remains unchanged. We do not favor the rendering of American governmental assistance to such projects.¹¹

Sincerely yours,

CORDELL HULL

761.94/791 : Telegram

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

Moscow, October 10, 1934—5 p. m.
[Received 9:20 p. m.]

353. I called this afternoon to say goodbye to Litvinov. He expressed the opinion that the murder of King Alexander would cause great resentment in Yugoslavia against France and would tend to throw Yugoslavia completely into the arms of Germany. He expressed the hope that Herriot¹² might become Foreign Minister but the expectation that the Cabinet would fall.

With regard to relations between the Soviet Union and Japan, Litvinov said that since his return to Moscow he had examined with great care all reports from Japan; that they indicated that the Japanese Army could not possibly attack the Soviet Union at the present time; that he had no fear whatsoever of a Japanese attack in the foreseeable future. He added that the discussions with regard to the Chinese Eastern Railway were going normally and that the agreement would soon be signed. Litvinov stated that the Japanese were having much greater difficulty than anticipated in "Manchukuo" and that the Japanese Government had just informed him that it would

¹¹ This view was reaffirmed in a letter dated February 4, 1935, to the Secretary of Commerce (893.20/518).

¹² Edouard Herriot, former President of the French Council of Ministers.

be necessary to move an army corps up to the Siberian frontier in order to attempt to put down the Chinese irregulars.

Litvinov also stated that he had definite information that the Japanese were preparing a further advance into Inner Mongolia.

The Turkish Ambassador, who is very close to many members of the Soviet Government, informed me yesterday that in his opinion Litvinov was making a determined attempt to work out an entente with Japan but added that there was little real belief among the members of the Soviet Government that any friendly relationship reached with Japan would be more than a truce.

I therefore asked Litvinov if he had had any discussions with the Japanese directed toward the conclusion of a nonaggression pact. He replied that there had been no official discussions but that such discussions might follow the sale of the Chinese Eastern Railway to "Manchukuo". I asked him if the Japanese, in connection with any informal discussion which might have taken place, had asked for recognition of "Manchukuo". He replied that they had not, but that the question might come up if there should be discussions of a nonaggression pact. I asked him what his position would be. He replied that he believed that it would be advisable for all the nations of the world to recognize "Manchukuo" provided the recognition could be sold to Japan at the price of a Pacific pact of nonaggression and mutual assistance. He said that the eventual recognition of "Manchukuo" was inevitable; that either Germany or Poland would begin the process, and that all other nations would then have to fall in line; and that he believed that an attempt should be made to use recognition of "Manchukuo" to extort a pact of nonaggression and mutual assistance from Japan.

BULLITT

711.41/280

*Memorandum by the Under Secretary of State (Phillips) of a
Conversation With the British Ambassador (Lothian)*¹³

[Extract]

[WASHINGTON, October 11, 1934.]

(3) Lord Lothian talked at length about the British attitude towards the Far East; he did not present anything particularly new. He

¹³ Copy of this excerpt was transmitted on October 22 to the Chargé in China (No. 1492) and to the Ambassador in Japan (No. 619). (500.A15a5/205.) The conversation also dealt with personalities in the British Government and the war-debts problem. Copy of memorandum was transmitted in full on October 17 to the Ambassador in Great Britain (No. 585). (711.41/280.)

reminded me that the British public was not interested in the Japanese situation; that their vision was centered upon Europe and, especially, upon Germany; that the British could not hold the front ranks everywhere; that they were required to hold the front in Europe, in the Mediterranean, in the Suez Canal and in India, but there was a limit to their capacities. They could not, therefore, be expected to occupy a predominant position vis-à-vis Japan in the Far East. That, they felt, was something which came close to the responsibility of the United States. He spoke about the division of opinion in the British Cabinet on this point without mentioning any names, but left with me the impression that the British could not, even if they desired, exert "power" against Japan. There were too many other fronts that had to be maintained. Consequently, there was the possibility that if the Japanese offered the British some solution guaranteeing peace, etc., in the Far East and the "open door", the British might accept it without further ado. He admitted that this might be driving a wedge between the British and American Governments in the Far East and felt that it was a source of danger. More probably, however, the British Government would not commit themselves definitely to the Japanese until after the next meeting of the Imperial Conference, when the various dominions would be consulted. At this point he mentioned the attitude of Canada and that of Mackenzie King.¹⁴ He told me that Bennett¹⁵ had probably discussed the subject in London during his recent visit and he was confident that Mackenzie King, who was now in London, was discussing it. He told me that recently he (Lord Lothian) had been talking with Vincent Massey,¹⁶ who felt strongly the importance of cooperation between the British and American Governments in the forthcoming naval conversations. At the moment of this conversation there had been no suggestion of Mackenzie King proceeding to London; that within ten days Mackenzie King was on shipboard bound for London and that, therefore, some new development must have taken him over there. Lord Lothian thought that the British Government might have sent for him on the ground that having talked over matters with Bennett, it was important to discuss them with the probable new Canadian Premier. At any rate, Lord Lothian thought that Mackenzie King could be counted upon to urge the closest cooperation between the British and American navies should Japan undertake to drive a wedge between them.

W[ILLIAM] P[HILLIPS]

¹⁴ W. L. Mackenzie King, Canadian Liberal, Leader of the Opposition.

¹⁵ Richard Bedford Bennett, Canadian Prime Minister.

¹⁶ Former Canadian Minister at Washington.

894.002/253

The Ambassador in Japan (Grew) to the Secretary of State

No. 1019

TOKYO, October 20, 1934.

[Received November 3.]

SIR: I have the honor to refer to the Embassy's despatch No. 1005, dated October 10, 1934,¹⁷ on the subject of Japanese representation in Manchuria, and to report that, since that despatch was written, the dispute referred to on pages 6 and 7, between the civil police of the Kwantung Leased Territory and the Kwantung Army *Gendarmerie*, has developed to a point where it threatens the continued existence of the Okada Cabinet.

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The controversy is being waged around the War Office and the Ministry of Overseas Affairs, the latter department having jurisdiction over the civilian administration of the Kwantung Leased Territory. Both of these Departments have issued public statements explaining their positions, creating what the Japanese newspapers describe as "the battle of statements". The War Office contends that the civilian police should be placed under the command of the Kwantung Army because of the necessity for unified control, while the Department of Overseas Affairs bases its arguments on the ground that civilian administration should always be separate from military affairs. The newspapers have been rather non-committal in regard to the matter, and confine their comments to deploring the break-down in official discipline. The reactionary element, as is usually the case, supports the Army view, but, according to information which has reached the Embassy, a large section of the public is inclined to support the civilian view of the case. It is being asserted privately, according to one informant, that the Army is becoming much too arrogant and grasping, and that it is not working entirely for the good of Japan and Manchuria. It has personal reasons for wishing to control everything possible in Manchuria. Army officers, in the Japanese service, are usually retired when comparatively young, on small pensions, and they wish to create numerous positions in Manchuria under their control, in order that they may be able to step into these positions when they are retired.

The Army, however, is adamant in its demand that the original plan be carried out and that the Kwantung police be placed under the *Gendarmerie* commander. The Cabinet was forced to agree with the Army and announced on the 18th that there would be no deviation from the original scheme for reform of the administrative organs in

¹⁷ Not printed.

Manchuria. Immediately upon receipt of the news, a number of the civilian officials of the Kwantung Government resigned, and the Kwantung police is reported to be considering resignation en masse. The Kwantung Army has reported that it is prepared to take drastic action (presumably meaning the proclamation of martial law in the Leased Territory) if necessary.

The principal danger to the Okada Cabinet arises from the fact that the Cabinet cannot withdraw its plan for reforming the Japanese administrative organs in Manchuria without such loss of face that it will be compelled to resign. On the other hand, if the civilian police continue their resistance to military control, a situation will be created which will amount practically to a revolt against the military. Premier Okada, who is also Minister for Overseas Affairs, will have to assume responsibility for the insubordination of the officials of his Department, and will have to resign. Admiral Okada is in a most difficult position. As Premier he must carry out the plans of his Cabinet and enforce the reform of the administrative organs in Manchuria; as Minister for Overseas Affairs, however, he must present and uphold the principles for which the officials of his department are battling. General Hishikari, the Commander of the Kwantung Army, Ambassador to "Manchukuo", and Governor of the Kwantung Leased Territory, also is in an anomalous position. As a representative of the Army, he must support unification of control of Japanese administration in Manchuria under the Army; as a representative of the Foreign Office and the Overseas Ministry he must advocate civilian administration. General Hishikari is reported in the newspapers to have given up the situation as beyond his control, and to be preparing to resign.

The rumor is current in political circles in Japan that there is more in the present controversy than meets the casual eye. According to the rumor, the Genro, Prince Saionji, the Keeper of the Privy Seal, Count Makino, the Minister of the Imperial Household, Baron Dr. Ikki, and other officials close to the Throne, are dissatisfied with the Okada Government, principally because it has not been able to withstand the demands of the military. The Genro and other pacific influences wish to save the coming naval disarmament conference, if possible, but the Okada Cabinet was prevailed upon by the radical elements in the Navy to consent to Japan's abrogation of the Washington naval agreement.¹⁸ Likewise, the liberal element was opposed to the Army's plan to unify all Japanese administrative organs in Manchuria under the control of the Army, but the Okada Cabinet was forced or induced to agree to the Army's plans with but slight modification. Because of the difficult times ahead of the nation, careful,

¹⁸ Signed February 6, 1922, *Foreign Relations, 1922*, vol. 1, p. 247.

peaceful and friendly diplomacy is needed, but efforts along these lines are continually being frustrated by the violent views of the military, and Premier Okada has shown himself as virtually powerless in his efforts to curb the military. The present incident, therefore, according to the rumors, is being used to force the Okada Cabinet out of office.

The Teito *Nichi-Nichi* states that the Genro and other high officials are already secretly casting about in search of a suitable candidate for Premier. Viscount Ishii (formerly Foreign Minister and Ambassador to Washington), Viscount Saito (recently Premier) and Mr. Korekiyo Takahashi (recently Finance Minister) are mentioned as possible candidates.

Respectfully yours,

JOSEPH C. GREW

861.77 Chinese Eastern/1347 : Telegram

The Chargé in the Soviet Union (Wiley) to the Secretary of State

Moscow, October 31, 1934—noon.

[Received October 31—11:30 a. m.]

371. *Pravda* October 31st publishes Tass communiqué on present state of negotiations for the sale of the Chinese Eastern Railway. It states in substance the following:

An agreement has been reached with regard to the price which is to be 140,000,000 yen payable two-thirds in goods and one-third in cash. One-half of the cash payment is to be made upon signature of the agreement and the remainder during the course of 3 years. An agreement has also been reached with regard to the conditions of dismissal of Soviet employees and workers. The leading point upon which agreement has not yet been reached is the question of the guaranteeing by Japan of the financial obligations to be undertaken by "Manchukuo". Disagreement also continues in respect of the conditions for the delivery of the road, "Manchukuo" demanding that all rights to the road be transferred at the moment of signature but that the road itself should actually be handed over at a future date within 1 month after signature. The Russians object to operating a road to which they have no rights. "Manchukuo" furthermore insists on a checking of inventory which the Soviet Union, in view of the price agreed on, considers superfluous. Finally the Soviet Union still claims some of the property of the road on the grounds that it is the property of the Russian State not of the railway. This question is also still unsettled.

The communiqué which ends on an optimistic note is a rejoinder to Japanese press attacks. Full text is being forwarded by pouch.¹⁹

WILEY

¹⁹ Not printed.

761.94/800

The Ambassador in Japan (Grew) to the Secretary of State

No. 1030

Tokyo, November 1, 1934.

[Received November 20.]

SIR: For some years after the emergence of the Soviet régime Japanese policy towards Russia was limited, in its imperialistic tendencies, more by the restraining influence of third parties than by Soviet resistance. As recently even as the winter of 1931-1932 the Japanese discovered that the USSR was unwilling to risk the defense of the traditional Russian sphere of influence in North Manchuria. It was only in December 1932 that, in refusing to extradite the rebel General Su Ping-wen, the Soviets served notice that there were limits to their subservience to Japanese encroachment.

In the last two years Japanese policy has been confronted with progressively stronger, self-reliant opposition on the part of the USSR. The situation has altered profoundly. The USSR has secured her European frontiers through non-aggression pacts, she has improved her line of communication to the Far East, she has developed a military machine of undoubted strength in this region, she has in some measure resolved an economic crisis, she has been recognized by the United States, and she has secured admittance to the League of Nations.

There has as yet been no general realization in this country of the full significance to Japan of the altered situation. The army at first was inclined to underestimate the Soviet regeneration, Japanese army officers today still adopt an attitude of professional scorn when Russia's military strength is mentioned. In General Araki's time the Soviet "menace" was capitalized for political purposes to secure funds for the army. Certain elements in the army then advocated and possibly still advocate seizure of the Chinese Eastern Railway and the liquidation of Soviet interests in North Manchuria by condemnation and seizure. There has been, however, some disinclination to arouse a war psychology directed against the Soviets. On the other hand, since the advent of Mr. Hirota the Foreign Office has fully recognized that Japanese policy must be modified, that it is now necessary to compromise with Soviet Russia rather than mete out to her the treatment accorded to Japan's inferiors in power.

In addition to frequent lack of harmony between the civil and military branches of the Government Japanese policy has suffered from a failure to appeal to world opinion. The Soviets have outmanoeuvred the Japanese in the Chinese Eastern Railway negotiations. They have not only gained the time which they needed to achieve a greater degree of security but they have also continually forced the Japanese

on the defensive before the court of world opinion. Russia probably averted confiscation of her interests by her timely offer to sell the railway, she also focused public attention on the question by publishing the "Hishikari Documents" a year ago, and only lately she called into question Japan's intentions by revealing that negotiations had been broken off by Japan with only a difference of Yen 40,000,000 remaining between the bid and asked price. Moreover, in securing Mr. Hirota's active participation as "mediator", the USSR has successfully flouted the Japanese contention that "Manchukuo" is an independent nation. The failure of Japanese diplomacy to secure foreign approbation in the controversy with the USSR has been one of the principal factors which have deterred Japan from a war with Soviet Russia. Not many months ago Major General Doihara, chief military intelligence officer in Manchuria, admitted this fact to an American correspondent*. More recently Major General Isogai of the General Staff wrote in the *Gaiko Jiho* of October 11 that "The existing international situation is such that it will hardly be possible for Japan in case of war to hope for as favorable diplomatic circumstances as those she enjoyed in the past wars in which she was involved".

Were the Chinese Eastern Railway question the only important issue at stake Japan could afford to leave the definition of policy towards Soviet Russia in abeyance. However, as the Foreign Minister well realizes, there are many questions awaiting solution, the fisheries of Kamchatka, the oil fields of North Saghalien, the yen-ruble exchange rate, the delimitation of the "Manchukuo"-Soviet border, as well as certain minor problems which are likely to follow in the wake of the Chinese Eastern Railway Settlement. Still more important to Soviet-Japanese relations in the long run is the question of Japan's continental policy in regions such as Mongolia where her political interests have not yet been defined.

There have been rumors recently that all is not well with the autonomous government of Prince Teh Wang in Inner Mongolia.† It is known that the Nanking Government has not paid the monthly subsidy promised to this government at its inception last April and that there has resulted much unrest among the Mongols. These people naturally prefer the Chinese as less powerful overlords than the Japanese but the steady encroachment of Chinese settlers on Mongol land is of course, bitterly resented, especially as the frontier to Outer Mongolia remains closed with the result that the Inner Mongolians find themselves reduced to a slowly narrowing east and west corridor in Chahar and Suiyuan. Recently Teh Wang's chief of staff, Han Feng-

* Embassy's despatch No. 714, March 23, 1934. [Footnote in the original.]

† Embassy's despatch No. 894, July 18, 1934 and No. 761, May 3, 1934. [Footnote in the original.]

lin, disappeared in Peiping, and a significant report has appeared that he was executed for selling information to the Japanese. The Japanese, it seems, are losing no opportunity to extend their influence west and south from the "Manchukuo" Mongol province of Hsingan where frequent reforms and privileges are calculated to appeal to the Mongols both within and without the border. Recently a delegation of Hsingan Mongols has been feted in Tokyo. Last month in Peiping my secretary was told by a recent visitor to Kalgan that foreign residents there had been approached by Japanese agents who were apparently making an extensive survey of facilities for transporting gasoline and supplies in large quantities into the interior. It is also to be noted that General Isogai in the article quoted above, writes that "The Japanese Empire relies much on the resources of Manchuria and Mongolia, both in peace and war" and, in developing this theme, he quite ignores any political difficulties which might arise with respect to the exploitation of Mongolia.

In closing the Outer Mongolian border to the south it is quite possible that the Soviets believe that Inner Mongolia is soon destined to become a Japanese sphere of influence and that they wish to have their own interests clearly delimited in advance. Should the strained situation now existing in Inner Mongolia result in an insurrection, the stage is set for the Mongolian question to become acute. At that time it is likely that Soviet Russia and Japan will find each other face to face along a Mongolian frontier of great strategic importance.

The question then arises in what manner Japan can deal with Soviet Russia in the light of the latter's greatly improved position and reach a settlement of the foregoing problems. At present the danger of a military solution † appears slight. The army to be sure remains impatient and out of sympathy with the Foreign Office whose methods seem to it indirect and dilatory. Yet the "strong policy" which the army as a whole wishes the Foreign Office to adopt is now clearly ineffective in dealing with the Soviets who seem thoroughly conscious of the altered situation and of their own enhanced power. In a recent conversation with me the Soviet Ambassador seemed genuinely to believe that Japan's internal and external affairs are in a critical position and that the difficulties which the country faces may at any time cause a crisis. He is doubtless reporting in this vein to his Government. Accordingly such diplomatic pressure as Japan may from time to time attempt to exert would in all likelihood prove ineffective. There probably remains only one productive way of dealing with the Soviets, namely bargaining pure and simple. For Japan this involves

† See Memorandum of conversation attached. [Footnote in the original; memorandum not printed.]

two difficulties, first the question of "face", prestige, and second the difficulty of maintaining stable political conditions within the country when necessary concessions to foreign powers are revealed. These factors minimize the likelihood of any open *rapprochement*.

The situation in Japan at the present appears not so much favorable to a *rapprochement* as it does adverse to a war at the present time. Therefore, dictated by purely temporary expediency, further compromises and bargains may follow the example of the Chinese Eastern Railway settlement. Mr. Hirota has long been in favor of such a course, business leaders heartily endorse his point of view in the hopes of enjoying the present industrial boom to the utmost, and the army is preoccupied with the reform of Japanese administrative organs in "Manchukuo" as well as with its own modernization program and with securing budgetary appropriations for the next fiscal year. Furthermore the attention of the nation as a whole has been focused on the naval question, the difficulties of the agricultural classes appear likely to become an important political issue, and the question of national finances is causing considerable anxiety.

It is possible that the first problem with Soviet Russia to be tackled will be the "Manchukuo"-Soviet border. At present there is much talk about a permanent Border Commission and the establishment of a demilitarized zone similar to that set up by the Treaty of Portsmouth²⁰ for the Korean frontier. The Soviet side, which has constructed expensive fortifications along the Amur border, is believed to prefer a non-aggression pact and the retention of the fortifications. Unfortunately, however, the Japanese army will in all likelihood oppose a non-aggression pact as long as any excuse may be found to justify its position. A settlement more in line with the ambitions of each country and in accordance with the general trend of events would be a secret partition of Mongolia, Japan to be paramount in Inner Mongolia while guaranteeing the USSR's position in Outer Mongolia.

Nevertheless, should some sort of negotiated improvement in Soviet-Japanese relations take place it will involve artificial expedients and could scarcely preserve a static condition for many years. Both powers are expanding rapidly in East Asia, one motivated by 19th century imperialism vitalized with the patriotic fanaticism of the Japanese race, the other motivated by a cult which produces an equal degree of fanaticism. The two ideologies cannot compromise nor can a position of mutual trust be reached between these two peoples. Each is perfecting powerful trained military machines, and many leaders of each, it is believed, are convinced that an eventual struggle is necessary. As earnest of future difficulties the unification of Japanese

²⁰ *Foreign Relations*, 1905, p. 824.

administrative organs in Manchuria under a Kwantung Army officer and the recent pamphlet issued by the War Office exhorting the people of Japan to greater self-sacrifice and to a sterner patriotism are not calculated to allay Soviet suspicions. Nor is it possible to lose sight of the fact that periodically in Japanese history the Army has dictated the direction of foreign affairs.

Respectfully yours,

JOSEPH C. GREW

893.00/12882

*The Consul General at Tientsin (Lockhart) to the Chargé in China (Gauss)*²¹

No. L-808

TIENTSIN, November 1, 1934.

SIR: I have the honor to refer to the second paragraph of Page 4 of the political review for this consular district for September, 1934,²² in which reference is made to plans for the setting up of a "Reorganization Committee for the Demilitarized Zone", and, in that connection, to inform the Legation that the Commission for the Settlement of Affairs Pertaining to the War Zone was, according to local English and vernacular press reports, formally instituted this morning.

These reports state the members of this Commission to be:

Yin T'ung, Managing-Director of the Peiping-Liaoning Railway;
 Li Tse-i, representing the Readjustment Council;
 Yueh K'ai-hsien, Special Diplomatic Commissioner for Chahar;
 Chu Shih-ch'in, representing the Branch Military Council;
 Yin Ju-keng, Administrative Inspector for the Chi-Mi Area;
 T'ao Shang-ming, Administrative Inspector for the Luan-Yu Area;
 Hsu T'ung-hsin, representing the Hopei Provincial Government.

Three of these seven, Li Tse-i, Yin T'ung, and Chu Shih-ch'in, have been appointed to the Commission's Standing Committee.

The "General Principles Governing the Organization of the Commission for the Settlement of Affairs Pertaining to the War Zone" were promulgated on October 31, after having received the approval of the Executive Yuan at Nanking. A copy in translation of these "General Principles" is enclosed.²² It will be noted that the Commission is in effect empowered to deal with all matters of any importance which have arisen or may arise in the Demilitarized Zone for a period of six months; that it is appointed by and is subject to the Peiping Political Readjustment Council, of which General Huang Fu is the

²¹ Copy transmitted to the Department by the Consul General at Tientsin in his despatch No. D-664, November 1; received December 3.

²² Not printed.

Chairman; that its seat is in Peiping, in the quarters of the Political Readjustment Council; that by complexion it would appear to be definitely "pro-Huang"; and that its membership is recruited almost altogether from those officials of this area who were trained in Japan and who are known for their acceptability to the Japanese.

It would therefore appear that the establishment of the Commission for the Settlement of Affairs Pertaining to the War Zone gives General Huang Fu a large share of the power to deal with affairs in the Demilitarized Zone which he is reported to have sought during his recent visit to the South. Correlatively, by relieving General Yu Hsueh-chung, the Chairman of the Hopei Provincial Government, of all authority in the Demilitarized Zone, it effectively reduces his power throughout the Province, since there are few matters of any importance likely to arise in this area in the near future which do not relate to that Zone. It might be said that, in a sense, General Yu is being pushed back from the North and West into a very restricted area in and around Tientsin.

But the General is not without friends, and he has so far been able to disregard the continued intimations in the vernacular press, in Japanese propaganda sheets, and even those which by report have been conveyed to him in a more direct manner, that he should submit his resignation or accept a transfer to some inland command.

It is hoped that the Commission for the Settlement of Affairs Pertaining to the War Zone will be found to be well designed to meet the situation now existing in that Zone. At least there has been urgent need for some authority that might remove the confusion that has existed in that area since the signing of the Tangku Truce.²⁴

Respectfully yours,

F. P. LOCKHART

793.94/6812

The Chargé in China (Gauss) to the Secretary of State

No. 3127

PEIPING, November 9, 1934.

[Received December 1.]

SIR: With reference to recent despatches* from the Consulate General at Mukden containing information with regard to railway construction and other Japanese activities in Jehol Province suggestive of possible future forward movements of the Japanese military into Chahar or Hopei Provinces, I have the honor to submit, with comment, information available at Peiping in this regard.

²⁴ Signed May 31, 1933, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 120.

* Mukden's despatches to the Department Nos. 726 and 729 of October 20 and 25; and to the Legation, Nos. 972 and 973 of October 20. [Footnote in the original; despatches not printed.]

According to the above-mentioned despatches, reports have been received to the following effect: (1) The Railway approaching Chengteh (Jehol City) from the northeast will soon be completed as far as Hsiapancheng, which is 20 kilometres southeast of Chengteh. (2) A line is shortly to be constructed southwest from Hsiapancheng to Hsinlung, which is only 30 or 40 kilometres north of Malanyu (a pass in the Great Wall), which in turn is only slightly more than 100 kilometres from Peiping. (3) This line to Hsinlung is now referred to in Chengteh as "the main line", although Hsinlung is of no intrinsic importance unless the line be extended south of the Great Wall, while the line to be constructed from Hsiapancheng to Chengteh is now referred to in Chengteh as "a branch line" which is not to be completed for some time. (4) A railway is to be built from Chengteh to Dolonor, in eastern Chahar Province and a road, ostensibly a motor road but perhaps the road bed of a railway, is under rapid construction along the first quarter of the distance between the two cities. (5) Motor roads, which may also be the road beds of railways, are under construction north of Chengteh. These roads (or railways) will approach the Jehol-Chahar border considerably north of Dolonor. (6) Maps are on sale at Chengteh showing Dolonor and the immediate vicinity as part of "Manchukuo". (7) The Chief of the Japanese Military Mission at Chengteh has been transferred to Kalgan, the capital of Chahar Province. (8) The press in Manchuria publishes reports indicating, or intended to indicate, close relations between some of the Mongols of Chahar and "Manchukuo". (9) Gasoline has been ordered by Japanese for transportation to Dolonor and Kalgan. (10) General Doihara has recently visited Peiping and Tientsin.

The Legation concurs in the view that these developments indicate that a forward movement may be intended by the Japanese military. All of these developments, on the other hand, may have a quite different significance. The road work, for example, may be for the purpose of consolidating Japan's position within "Manchukuo" or may be preparation for a possible future conflict with Soviet Russia; the new military mission at Kalgan may be no more than a routine matter, as such missions are to be found in a number of Chinese cities; General Doihara is said by a liberal Japanese opposed to the Japanese military to have no longer the importance which he once had; the maps may be the work of patriots without influence; and some of these reports may be without foundation.

Nevertheless, the Legation feels that, whatever the significance of the foregoing developments, the Japanese military may make a move which will imperil Chinese sovereignty in one or both provinces in question. It is impossible to state whether such action may occur in the near or more distant future. It is doubtful whether the Japanese

military itself could make an accurate forecast in this regard. If and when the Japanese do make such a move, at least some of the developments described in the despatches of the Consulate General at Mukden will naturally play a part.

Local Chinese and Japanese opinion does not foresee any forward action on the part of the Japanese military in the immediate future. Even they, however, cannot be certain of the intentions of the ultra-reactionary junior officers of the Japanese military stationed in Jehol Province and at Tientsin. There are, for example, factors in the situation which are known to be highly irritating to the Japanese military. Such irritation might easily develop into some sort of an outburst which would alter considerably the present superficial tranquility.

There continue to be incidents between Chinese and Japanese which arouse the anger of the Japanese military. The most recent is that of the Japanese chancellor, Ikeda, of the Japanese Consulate General at Tientsin, attached to the Japanese Consulate at Kalgan for duty. Ikeda started out on October 26 northward from Kalgan in the company of Lt. Col. Matsui, Chief of the Special Military Mission at Kalgan, and Major Yamaguchi of the Tokyo General Staff. They were stopped at Changpei (10 miles north of Kalgan) by 19 Chinese soldiers. Ikeda, who speaks Chinese very well, approached the Chinese soldiers and asked what they wanted. According to the Legation's informant, who obtained his information from a member of the staff of the Japanese Consulate at Kalgan, Ikeda very probably used some impolite Chinese language. At any rate, one of the Chinese soldiers clouted him on the side of the head with a rifle, knocking him down and rupturing one of his eardrums. A Chinese officer appeared on the scene, the matter was temporarily adjusted, and the three Japanese proceeded on their trip. The Japanese military, however, have demanded a settlement, and the case is now under negotiation.

Another recent incident was the refusal of Chinese authorities to permit a body of Japanese—"Manchukuo" troops to pass through Malanyu, a pass in the Great Wall, in pursuit of some bandits who had fled southward through it. Although the Japanese concerned permitted themselves to be dissuaded from pursuit, this incident is said still to rankle in the minds of the Japanese military.

It is also understood that the settlements of the affair of the killing in August of this year by Chinese of six Koreans at Fushanssu and of the affair of the killing by a Chinese of Miyagoshi, a Japanese sutler to some of the Japanese troops in the demilitarized area (Legation's monthly report for September, 1934²⁵), were not so severe as some of the military desired. The terms appear severe enough to an observer.

²⁵ Not printed.

In the case of the Koreans, an indemnity of \$2,000 for each of the deceased was paid, although these Koreans, according to an official of the Japanese Legation, were probably undesirables, peddling narcotics. The terms of the settlement of the Miyagoshi incident were so severe that, according to reliable Japanese information, publication was withheld for three or four weeks at the request of the Chinese authorities. They have now been published with the exception, it is understood, of one of the clauses. They include an indemnity of \$10,000, the dismissal of two local magistrates, and provision for the punishment of the Chinese offender. (In this connection, information has been received from a Japanese source to the effect that the offender has been turned over to the Japanese for punishment. It is difficult to believe this report, but it cannot be entirely ruled out as impossible in view of the general temper of the Japanese military authorities in this area.) The unpublished condition will never, according to a statement made by the Japanese Assistant Military Attaché to a Japanese known to the Legation, be divulged as it would arouse too much indignation on the part of the Chinese people. The Legation has not yet learned what this condition is.

The flight of Japanese planes over Chahar on October 25 and the scattering over the town of Chihfeng of handbills which complained of "illegal acts" on the part of certain Chinese and which threatened retaliation is believed to have been caused by anger on the part of the military resulting from the accumulation of such incidents, as well as from their probable desire to remind General Chiang Kai-shek, who was at that time visiting Peiping, that the Japanese military is still a force to be reckoned with both north and south of the Great Wall.

The Legation has been informed by an unusually frank critic of the Japanese military, the representative of a Japanese news agency, that the Japanese military are very dissatisfied with the "conciliatory" attitude toward the Chinese authorities of Lt. Col. Shibayama, Japanese Assistant Military Attaché at Peiping and principal Japanese figure in negotiations over problems in North China affecting both countries. They feel that he gives in to the Chinese to such a degree that "he is rather an adviser to General Huang Fu than a Japanese military attaché". The civilian Japanese of Peiping regard Lt. Col. Shibayama as an exceptionally able and liberal Japanese military officer and believe that he is in frequent conflict with the Japanese military in Manchuria and at Tientsin. According to the press correspondent mentioned above, it is probable that the Japanese military will effect the transfer of Shibayama by the end of this year, having him replaced by a reactionary, ultra-patriotic officer.

The Japanese military are also dissatisfied with General Yu Hsueh-chung, the Hopei Provincial Chairman, and with some of his subor-

dinates. I am now informed that the Japanese military have come to an agreement with the Chinese authorities by which General Yu will retain his position while some of his subordinates distasteful to the Japanese military will be removed. According to my informant, the Japanese agreed to the non-transfer of General Yu because none of the possible successors suggested by the Chinese authorities were as satisfactory in the Japanese viewpoint as General Yu, unsatisfactory though he is. Although the Japanese military may have agreed to the retention of General Yu, it is doubtful if they are pleased with the arrangement.

The desire of the Japanese military to see Japanese interests develop North China economically in order that Japan may be helped financially is not being realized with any rapidity. As far as the Legation knows, the only important solutions reached in Sino-Japanese relations affecting North China have been the establishment of through passenger traffic on the Peiping-Liaoning Railway and the establishment of five Chinese customs houses and one sub-office at passes, other than Shanhaikuan, along the Great Wall. It is now understood that an agreement for the reestablishment of postal communications between Manchuria and North China will be made public in the near future. Japanese efforts to persuade the Chinese authorities concerned to use Japanese money for the construction of certain railways in North China (Legation's despatch No. 2906 of August 16, 1934) are said to have been unavailing so far. According to a usually reliable Japanese source, conversations in this regard are not now in progress as the Japanese have come to realize that the Chinese authorities cannot at present do anything definite in this regard without arousing such a clamor on the part of the Chinese people as to endanger the position of the Chinese authorities. The progress of Japanese economic penetration into North China does not appear, therefore, to be as yet very extensive.

Another indication of dissatisfaction with the situation is to be found in a Japanese daily newspaper published in Tientsin (*Tenshin Nippo*), an organ of the Japanese military. Complaints appear frequently in this paper of alleged anti-Japanese activities existing in North China.

From the foregoing it may be seen that, although there is no conclusive evidence that any action affecting Chahar and Hopei Provinces in the near future is contemplated by the Japanese military, there is evidence to show that the Japanese military is discontented with the present situation and is in an irritable mood. When the Japanese military is discontented, it is capable of taking matters into its own hands. One can only surmise what the purpose of possible future

actions might be. For example, the military might wish to define the western boundary of Jehol Province to its satisfaction, as that boundary is at present in dispute and ill-defined; the military might wish to force the Chinese into agreements which would accelerate Japanese economic penetration into North China, possibly including the connecting of railways in Jehol with railways inside of the Great Wall; or the military might intend to bring within the boundaries of "Manchukuo" a part of Inner Mongolia, say, Dolonor and that part of Chahar Province which juts eastward into "Manchukuo", with Jehol on its south and Outer Mongolia on its north.

It is also possible that the Japanese military in Jehol and Tientsin, whatever the local factors were, might be influenced in future action by the situation in Japan and Manchuria; that is, they might conceivably be inspired to action in order to arouse a patriotism at home which would defeat the activities of Japanese civilians desirous of limiting the powers of the military.

Respectfully yours,

C. E. GAUSS

893.01 Manchuria/1195

The Chargé in China (Gauss) to the Secretary of State

No. 3125

PEIPING, November 10, 1934.

[Received December 1.]

SIR: I have the honor to refer to the Legation's telegram No. 335 of August 3, 1934, 11 a. m., reporting that, when British troops in summer camp at Shanhaikwan were holding their accustomed maneuvers north of the Great Wall in an area which had always been regarded as part of Hopei Province, the British military authorities were requested by the Kwantung Army to obtain thereafter the permission of the Kwantung Army before holding maneuvers north of the Great Wall. It was further reported that the British military authorities were understood to have no intention at that time of accepting the Japanese position.

I now have the honor to bring to the attention of the Department a report under date November 5, 1934, in Reuter's *Foreign Service*, that Sir John Simon, British Secretary for Foreign Affairs, when questioned in the House of Commons, stated that "as His Majesty's Government did not desire to be drawn into a discussion of the juridical questions involved in the (Japanese) communication it had decided that the British troops at Shanhaikwan should abandon the practise of carrying out exercises beyond the Great Wall".

Respectfully yours,

C. E. GAUSS

693.11241 Manchuria/1

The Secretary of State to the Chargé in China (Gauss)

No. 1512

WASHINGTON, November 19, 1934.

SIR: Reference is made to the Legation's despatch No. 3019 of October 3, 1934, enclosing a copy of a despatch dated September 21, 1934, from the American Consul General, Harbin,²⁶ in which he discusses the desirability of the retention by the Foreign Service officers at Harbin and Mukden of privileges of free customs entry, and proposes, subject to the concurrence of the Legation, to take up this matter informally and personally with the appropriate "Manchukuo" officials. The Legation reports that it informed the Consul General that, as this is a matter in regard to which no reciprocal arrangement is possible, it cannot authorize him to take the action suggested but that it has forwarded a copy of his despatch to the Department for its consideration.

The Department approves the action taken by the Legation in regard to this matter and desires that, in view of the fact that it is not possible under existing conditions for the Department to consider granting reciprocal privileges to "Manchukuo" officials, the Consul General at Harbin be instructed to refrain from entering into discussions of whatever nature looking to the conclusion of such an arrangement.

It is suggested that a copy of this instruction be sent to the Consulate General at Harbin and to the Consulate General at Mukden.

Very truly yours,

For the Secretary of State:

WILLIAM PHILLIPS

893.102 S/1328: Telegram

The Secretary of State to the Chargé in China (Gauss)

WASHINGTON, November 20, 1934—7 p. m.

366. Legation's despatch No. 3022, October 4, in regard to Shanghai defense scheme.²⁷

1. It appears that the defense scheme was amended in June; that the Secretary of the Defense Committee informed the Consul General under date June 25 of such amendment; but that the Consul General did not report the matter to the Legation until September 25, 3 months later. The Consul General should report promptly matters relating to the defense scheme and he should be instructed accordingly.

²⁶ Neither printed.

²⁷ Despatch not printed; earlier correspondence on this subject is printed in *Foreign Relations*, 1932, vols. III and IV.

2. In regard to the substitute wording for Part II, paragraph 5, subheadings (a) and (b), comment is offered as follows:

A. It is assumed that the new phraseology is intended to provide that the protection of foreign lives and property in areas outside the perimeter is to be arranged by the Garrison Commander of the sector directly outside whose perimeter the foreign lives and property are located. It is observed, however, that the term "the Garrison Commander concerned" might be construed to mean that each national commander would arrange for the protection of the lives and property of his nationals.

B. The Department is apprehensive lest the amended reading might be taken by an individual Garrison Commander as authority and warrant to conduct outside the perimeter military operations of a character not contemplated by the defense scheme.

C. The previous wording in regard to arrangements for the protection of foreign lives and property in Pootung appears to be preferable to the amended wording, in that the previous wording places responsibility for making such arrangements in the hands of the Defense Committee, an international group, whereas the amended version leaves the matter to one person, namely "the Garrison Commander concerned".

3. Department desires that the Legation study this matter with care and that if the Legation concurs in the views expressed by the Department as contained in paragraph 2 above, the Legation instruct the Consul General at Shanghai, unless he perceives objection (in which case he should promptly inform the Legation for report to the Department) to discuss this matter informally with the Commanding Officer of the American Marines. After such discussion the Consul General should inform the Legation of the Commanding Officer's views. The Legation should then make a telegraphic report to the Department with an expression of its views and recommendations.

4. The Department desires to receive for its files a copy of the Commanding Officer's communication to the Chairman of the Defense Committee reaffirming the position taken by his predecessor to the effect that in future cases of emergency in Shanghai the participation of American forces will be contingent upon the decision of the competent American authorities.

5. The Department desires to receive also the views of the Legation and of the Consul General at Shanghai on the question whether it would be practicable and advisable for this Government to suggest that the Consuls General at Shanghai of the Governments maintaining armed forces there be included at least in a consultative capacity in the personnel of the Defense Committee.

893.01 Manchuria/1204

The Consul General at Harbin (Adams) to the Secretary of State

[Extracts]

No. 51

HARBIN, November 20, 1934.

[Received December 28.]

SIR:

Control. The fifty thousand Japanese garrison troops scattered in comparatively small groups at strategic points throughout "Manchukuo" are the immediate source of Japanese power in the country. The hostility toward the Japanese of the large majority of the twenty-eight million Chinese, who comprise more than ninety percent of the population of Manchuria, renders vital the constant presence of military power in support of the "Manchukuo" government which is generally considered by the Chinese to be an agency designed to execute Japanese plans in Manchuria.

The "Manchukuo" government makes no pretense of being representative. There are no elections. The "emperor" was placed in position by the Japanese and he, with the advice and sanction of the Japanese military, appoints the principal officers of government. These principal officers, with the advice and sanction of the Japanese, appoint the subordinate officers and employees of the government. The "emperor" appoints officers of the rank of minister. The prime minister appoints vice ministers or chiefs of the general affairs bureaus in the central government. Lesser officials and employees are appointed by the ministers concerned.

The power of government is actually exercised by the chiefs of the general affairs bureaus. These chiefs are Japanese subjects and are "recommended" by the Japanese ambassador. The Japanese employees of lesser rank are recommended by subordinates or appointees of the ambassador. In 1932, Mr. Tokuzo Komai, Chief of the General Affairs Board of the State Affairs Yuan, stated that the personnel of the central government totaled 1,200 persons, and that of these 265 were Japanese. The proportion of Japanese to Chinese and Manchus is understood to have increased to some extent since that time.

The Japanese administrative control of the "Manchukuo" government is centered to a remarkable degree in one person who holds the three positions of Japanese ambassador to "Manchukuo", commander-in-chief of the Kwantung army, and governor of the Kwantung Leased Territory. The present incumbent is General Takashi Hishikari. The Kwantung army includes all the Japanese garrison troops scattered throughout Manchuria and those in the Kwantung Leased Territory.

As commander-in-chief, General Hishikari, controls the military force which maintains the government. As ambassador he "advises" that government and selects the Japanese appointees to the controlling positions therein. These appointees hold their offices, in effect if not in theory, at his pleasure. As ambassador he also administers the Japanese consular service in Manchuria, including the consular police. As governor of the Kwantung Leased Territory he controls that area and the police of the South Manchuria railway zone. It will thus be seen that the title of "viceroy" or "governor" would be more descriptive of his power than are the three titles he now holds.

Despite this great concentration of power, however, the ambassador has experienced embarrassment in that in matters affecting the Kwantung Leased Territory and the policing of the railway zone he has to consider the wishes of the Overseas Department and in that, in affairs affecting the relations of "Manchukuo" and Japan, he is bound to consider the wishes of the Japanese Foreign Office. In order to cure this situation, the military have succeeded in gaining consent to the establishment in Japan of an organization, responsible only to the Prime Minister, called the "Manchurian Affairs Bureau". This bureau, under the control of a military chief, will have the power of effective decision in matters affecting Manchuria and the Kwantung Leased Territory.

It is odd that the local newspapers appear to have missed the significance of the transfer of the control of relations between Japan and "Manchukuo" from the Foreign Office to the "Manchurian Affairs Bureau" and to have concentrated on the purely minor matter of the placing of the Kwantung police under a military officer. This last matter is of course important but it is merely a detail in the general scheme of the transfer of authority.

The main effects of the reorganization now taking place will be the transfer of the control of Japan's relations with "Manchukuo" from a government organization designed to handle foreign relations to one designed to handle colonial or domestic affairs; a partial break-down of the separateness of the Kwantung Leased Territory and "Manchukuo"; the practical elimination of the authority of the Japanese Overseas Department from Manchuria; a reduction in the authority of the Foreign Office over the ambassador in Hsinking; and the consolidation and strengthening of the army's position in Manchuria.

Another change which will give the Japanese a more effective detailed administrative control in Manchuria is the reduction (now being effected) of the size of the provinces and the modernization of the provincial governments, with Japanese holding the key positions.

The province of Hsingan (consisting of four departments) will be left as it is, out of deference to the Mongols and other inhabitants

of that area. The four provinces of Jehol, Kirin, Liaoning, and Heilungkiang are being sub-divided into ten new provinces. Each of these provinces will have a Chinese or Manchu governor. Some of these governors will be appointed by the "emperor"; some by the "prime minister". Each province will have a "General Affairs Bureau" and the chief of this will be a Japanese "recommended" by the ambassador. In the absence of the governor, the chief of the general affairs bureau will function as governor. There is also to be an increase in the number of Japanese in the lesser provincial positions.

There is a beautiful simplicity and completeness in the two instruments of commercial and economic control possessed by the Japanese in Manchuria. These are the "Manchukuo" customs and the South Manchuria Railway Company.

The customs tariff is fixed and revised, according to requirements, by the Japanese controlled Finance Department of the "Manchukuo State Council".

The Japanese government owns fifty percent of the stock of the South Manchuria Railway Company; the remainder is owned by Japanese insurance companies, banks, and other financial interests. The stockholders are limited to the Japanese and Chinese (now presumably the "Manchukuo") governments, and the nationals of those countries.

The Japanese government appoints the president and vice president of the railway and the directors. The latter are chosen from among those stockholders who hold more than one hundred shares of stock in the company. The control of the railway is entirely in the hands of the Japanese government. The tariffs of all the railway lines of "Manchukuo" (excepting the Chinese Eastern Railway) are fixed and revised as occasion demands by the business section of the South Manchuria Railway, subject to the approval of the Board of Directors. There is no other restriction.

The South Manchuria Railway operates or owns substantial interests, to the total amount of more than Yen 100,000,000, in some sixty odd industrial enterprises in "Manchukuo". These enterprises include coal mines, iron and steel plants, electric light and power plants, shipping companies, glass factories, cotton and woolen spinning and weaving mills, chemical plants, tobacco manufactory, flour mills, bean oil mills, gas company, telephone, telegraph, and radio, aviation, et cetera.

The South Manchuria Railway Company is financing, constructing and operating every mile of railway, excepting the Chinese Eastern Railway, in "Manchukuo". There seems every reason to believe that the Chinese Eastern Railway will shortly pass into the hands of the South Manchuria Railway Company. When that happens, the South Manchuria Railway will have an absolute monopoly of all rail trans-

portation in "Manchukuo". There is no competing freight transportation agency of importance. The South Manchuria Railway Company, through its control of freight rates, can promote or ruin any place or industry in the interior of the country. As one instance of this ability, there are beet sugar mills in North Manchuria which are able to operate and supply the North Manchuria market only while railway freight rates on sugar imported through Dairen and shipped to Harbin and neighboring towns remain at their present high level. Any material reduction in the freight tariff on sugar would force the mills to close. As another instance, it may be stated that the South Manchuria Railway is in the process of eliminating Harbin as a soy bean center. In the past most of the soy beans produced to the north of Harbin have been shipped into Harbin, purchased by exporters and consolidated into large shipments for export. This has been a substantial activity. The South Manchuria Railway Company is instituting a sliding freight rate scale (based upon the length of haul) which will make the freight charges for through shipments from points north of Harbin to Dairen or the Korean ports less than the combined rates for shipment from points north to Harbin and from Harbin to the seaboard.

The South Manchuria Railway is able not only to foster or crush independent enterprises, it can milk or feed any one of its own many industrial enterprises to the benefit or detriment of any of the others or of itself, depending upon the interests involved. The railway can also be made the instrument for levying tribute from Manchuria for Japan in such amounts as the Japanese Government may desire to take from the country, up to the limit of what the traffic will bear. At present, however, the railway is being used to its maximum as an agency for financing much of the vast and intense Japanese development in "Manchukuo."

The above paragraphs summarize the means by which Japan controls Manchuria. In concluding this section it may be stated that in the main centers such as Mukden, Hsinking, and Harbin, there is a passable pretense of Chinese participation in the government of "Manchukuo." That is the scene disclosed to visiting journalists, commissions, et cetera, from abroad. As one proceeds to the remoter districts, however, this pretense becomes rapidly thinner until it disappears and the Japanese military control becomes bare even to a casual observer.

Accomplishments. Since September 18, 1931, the Japanese authorities have established a new centralized government for Manchuria thoroughly under their guidance and have fashioned it into a remarkably effective instrument of political and administrative control.

They have made considerable progress in the reduction of lawlessness and some headway in the modernization and systematization of taxation. In this same general administrative field they have also, following the formation of a central note issuing bank, brought to an end the monetary chaos previously existing. They have retired the welter of depreciating and fluctuating bank notes, issued by the then military authorities, and have established a central bank currency which has thus far been stable and been received with growing confidence.

Another Japanese accomplishment from which Manchuria derives material benefit is reduction in the number of troops which the country has to support. Prior to the Mukden incident Manchuria had to support regular troops numbering approximately two hundred and fifty thousand and irregulars numbering about one hundred thousand. The Japanese ejected more than two hundred thousand of these troops and irregulars. The remaining hundred thousand were formed into the "Manchukuo" army and supplemented by approximately fifty thousand Japanese garrison troops. It is to be noted that the Japanese garrison troops do not live off the country. "Manchukuo" is, however, contributing about nine million dollars during the current year toward their support.

In the field of transportation the Japanese authorities have obtained an almost complete control and will, judging by present indications, soon have an absolute control. Since September, 1931, the Japanese authorities have, through the agency of the South Manchuria Railway, constructed 1298 kilometers of new railway, and are now engaged in rapidly pushing to completion 1409 additional kilometers of railway. They have also placed in operation 2350 kilometers of commercial aviation service and 700 kilometers of military aviation service. The Japanese have also acquired control over all steamships on the Sungari, through the agency of the "state railways".

In the field of public utilities and those enterprises which are for "public benefit", the Japanese army has, through the agency of the "Manchukuo" government, regimented into two monopolies (government controlled and operated but with private shareholders) all telephone, telegraph, and radio facilities in Manchuria and the main electric light and power plants. The large traffic in opium is conducted under a government monopoly. A determined attempt is being made to establish a monopoly enterprise for the sale of the main petroleum products in Manchuria.

The Japanese are buying into most of the bean oil, flour, and sugar beet factories not already under their control, and literally hundreds of Japanese merchants are establishing themselves in enterprises ranging from small retail shops to large scale importing and export-

ing. The Japanese are also investing heavily in municipal improvements, road building and house and office construction in the main cities of Manchuria. An enormous amount of building, both governmental and private, is going on, particularly in Hsinking, through Japanese financing.

In conclusion, I am inclined to the opinion that in an economic sense the main significance to the United States of the Japanese occupation of Manchuria and of recent Japanese pronouncements with respect to China is that they constitute a very definite warning of a possible further reduction in areas now open (in the full sense of that word) to American enterprise upon a basis of even competition.

Respectfully yours,

WALTER A. ADAMS

893.20/519

*The Military Attaché in China (Drysdale) to the Chief of Staff, United States Army (MacArthur)*²⁸

G-2 Report No. 8974

[PEIPING,] November 21, 1934.

In a conversation with Chiang Kai-shek at Hankow on October 9th last the Generalissimo gave the distinct impression that he was not entirely satisfied with the work of the so-called American aviation mission. The Generalissimo was at the time of the interview decidedly peeved at the publicity incidental to the Nye Congressional Investigation and obviously resented the disclosures attending its sessions and it might possibly have been on this account that he so openly expressed his displeasure not only regarding those disclosures but with regard to Colonel Jouett and his group of American instructors.

The Generalissimo expressed his conviction, which he said he did on reliable authority, that Colonel Jouett and his American group were primarily interested in the sale of American planes and not in building up an efficient Chinese air force. It is significant that this same idea concerning the intention of the American aviators was given to an American correspondent by one of the Italian aviation mission[s] at Nanchang some time previous to my interview with Chiang Kai-shek and statements to the same effect were made by an American business man at Hankow who had no knowledge whatever of my interview with the Generalissimo, hence the idea seems to have some headway in aviation circles. Should the Chinese officials become

²⁸ Copy transmitted to the Department by the War Department about January 25, 1935.

convinced that these statements are true, the usefulness of the American mission is doomed and the probability of their reemployment extremely improbable.

There are several factors working against the Americans and one or all of these factors combined might have resulted in the present situation. A factor of primary importance is the personal effort of Mussolini to encourage the Chinese Government to accept and retain an Italian aviation mission. Mussolini's effort in this regard can be judged by the following quotation from his conversation with Dr. H. H. Kung²⁹ when the latter was in Rome about eighteen months or two years ago. This conversation was repeated to me by Dr. Kung during an interview in Shanghai last month. "Since the time of Marco Polo, China and Italy have had cultural affinity." "My grandson is a Chinese" (referring to the son born to Countess Ciano, Mussolini's daughter, in Shanghai). "I will send you an aviation mission and if they do not do their work properly I will court-martial them." "If a single Italian plane is not up to specification I will close the factory."

Both Dr. Kung and the Young Marshal³⁰ have been greatly impressed by these statements. Both of these officials have been to Rome, both are keenly interested in the development of the air forces and both have no doubt advised accepting the Italian proposals. That the funds for the purchase of the first instalment of Italian planes and for the payment of salaries of the Italian Mission are paid from the unremitted portion of the Italian Boxer Indemnity and that long term credits have been arranged for recent purchase of planes is an important factor. The salary paid the Italian aviation mission is less than one-half that paid the Americans.

While serving the Chinese for a period of two years the Americans have no doubt made mistakes. No work of this kind has ever before been attempted on such a scale and mistakes were inevitable. During these two years, in spite of the excellent results at the school, there have been accumulating in the minds of the Chinese a series of more or less unimportant incidents that have now assumed considerable proportion. There have been numerous reports of trifling difficulties between the American instructors and Chinese personnel of the school none of which are important singly but when considered altogether might seem of importance.

Japanese protests to the Chinese regarding the activities of the American mission might have had an important bearing on this situation. Japanese dislike of American participation in the development of a Chinese air force is well known to the Chinese and Mr. T. V.

²⁹ Chinese Minister of Finance, Vice President of the Executive Yuan (Vice Premier) since October 1933.

³⁰ Chang Hsueh-liang.

Soong, when questioned, admitted that this might have been one reason for the employment of Italians. There have apparently been no Japanese protests regarding the Italian aviation activities.

General Lordi and his mission are generally considered a very carefully selected and capable group of aviators with pleasing manners and under perfect discipline. Chinese officials state that the Italians are shortly to open a school at Nanchang and are to build a factory either there or at Hankow. There seems to be a general agreement that General (formerly Colonel) Lordi will be the chief aviation adviser, that he has already practically supplanted Colonel Jouett in aviation matters and that he and his mission are likely to take over the school at Hangchow when the present contract of the American group expires next summer. General Chow, the present commandant of the Hangchow school, admitted that possibility.

The factors in favor of the American group are first the excellence of their work at the Central Aviation School, the more friendly feeling in general for Americans, a greater trust in American intentions toward China and the known superiority of American airships. Both the Young Marshal and Dr. Kung are friendly to Americans and admit the superiority of American aircraft. In a last minute conversation with Dr. Kung who even now is attempting to purchase American airplanes, he indirectly inferred that there was the possibility of continuing one or more of the American instructors at the school. In case any are retained the number will no doubt be greatly reduced.

Madame Chiang Kai-shek has taken over the duties as intermediary between the school authorities and her husband. She is in effect acting for her husband as a sort of secretary in charge of all correspondence regarding the school, its administration and its policies. She is not only a charming lady but an intelligent, capable and interested one. Her feelings are friendly toward the Americans but with even her influence over the Generalissimo it is doubtful if Colonel Jouett's contract could be renewed even though Jouett desired its renewal which he does not.

Conclusions. The American group is being severely criticized by the controlling Chinese officials. The great personal influence of Mussolini has insured a prominent position for the Italian aviation mission. The Italian mission is very carefully selected and seem to be well qualified to do the work intended. Colonel Jouett and most or many of his mission will probably not be reemployed upon the termination of their present contract. There is a bare possibility that one or more Americans might be retained as instructors at the Central Aviation School but with little or no authority outside the limits of the school itself.

W. S. DRYSDALE
Lieutenant-Colonel, Infantry.

893.101 Tientsin/16

The Chargé in China (Gauss) to the Secretary of State

No. 3156

PEIPING, November 24, 1934.

[Received December 15.]

SIR: I have the honor to report that certain changes, which are expected to affect Sino-Japanese relations, have occurred in the Hopei Provincial Government and in the Municipality of Tientsin. These changes include five new members and three new commissioners for the Provincial Government and a new mayor for Tientsin. (Details with regard to these appointments are given in an enclosure³¹ to this despatch.) It is also stated by local Chinese officials that the status of Tientsin will be changed from that of a municipality under the Provincial Government to that of a special municipality under the direct control of the National Government and that the seat of the provincial government will be moved from Tientsin to Paoting, which is about ninety miles south of Peiping on the Peiping-Hankow Railway.

These changes are believed to be due (1) to Japanese dissatisfaction with General Yu Hsueh-chung, Chairman of the Hopei Provincial Government, and with certain of his subordinates and (2) to the desire of General Huang Fu, Chairman of the Peiping Political Affairs Readjustment Council and principal Chinese negotiator with the Japanese authorities over the questions affecting North China, to remove obstacles to those negotiations and to the smooth conduct of affairs in northern Hopei Province. By the appointment of new officials, those subordinates of General Yu Hsueh-chung whom the Japanese military did not like have presumably been removed. By the transfer of the provincial capital from Tientsin to Paoting, General Yu Hsueh-chung will probably be effectively restrained from interference. By the change in the status of the Municipality of Tientsin, the officials of that city will enjoy a higher rank than heretofore, which will supposedly enable them to treat more effectively with the Japanese authorities. It may be mentioned that certain Chinese officials claim that General Huang Fu was more anxious for these changes to be made than were the Japanese, due to his desire to enhance his prestige and his effectiveness in dealing with them. Whether this is true or not, it seems certain that these changes are, in general, in line with Japanese desires.

What the effect of these changes may be, except insofar as General Huang Fu's relations with the Japanese authorities are concerned, it is impossible to state with any degree of certainty. Notwithstanding

³¹ Not printed.

the improvement of the position of General Huang Fu and his followers vis-à-vis the Japanese authorities, it would seem that any agreement of importance relating to matters affecting North China would presumably have to be approved by the National Government. A part of the National Government is still, however, opposed to further concession to the Japanese. For example, I was recently informed by the local foreign Postal Commissioner that the question of resumption of postal service between Manchuria and China Proper has reached a deadlock notwithstanding the fact that it was recently believed—and the Japanese Minister so stated—that through postal communications would be resumed by the end of 1934. According to Dr. Chiang Monlin, Chancellor of the National University of Peking, who is in close touch with leading politicians, this deadlock was the result of severe opposition which arose on November 14 at a meeting of the Central Political Council of the Kuomintang, a number of its members insisting that China should not yield another step to Japan.

It is also too early as yet to attempt to foretell what effect the strengthened position of General Huang Fu will have on Japanese economic penetration in North China. The Legation is at present unable to obtain information with regard to progress in this respect. However, comment of Dr. Chiang Monlin on this subject may be of interest. Dr. Chiang expressed the opinion a day or two ago that such penetration—other than in the form of extension of trade—will probably await that time when the Japanese military decide that it is desirable to make a forward movement simultaneously in both North and South China for the purpose of (1) strengthening its prestige at home, (2) preparing for a conflict with Soviet Russia, or (3) trying to obtain financial and economic rewards from China proper. He does not believe that these forward movements will occur until after the conclusion of the London Naval Conference.

The changes reported above have caused, in conjunction with the visit to North China of General Chiang Kai-shek, a number of rumors to become current. One of these is that which was reported in despatch No. 821 of November 16 to the Legation from the Consulate General at Tientsin³² to the effect that a secret Sino-Japanese agreement had been reached by which the demilitarized area will be extended southward to include all the territory lying north of the Peiping-Liaoning Railway and to include the municipalities of Tientsin and Peiping. The Legation has been unable to obtain any confirmation of this report, although it is given some support by certain southward movements of Chinese troops in North China, by reports that the limits of the municipality of Peiping may be extended

³² Not printed.

until they reach the border of the demilitarized area, and by various Japanese press items. Other rumors are: (1) the non-return to North China of General Ho Ying-ch'in, Minister of War and Chairman of the Peiping Branch Military Council; (2) the coming to Peiping of General Yen Hsi-shan, warlord of Shansi Province, to take General Ho's place, a rumor now emphatically denied by various officials; and (3) an understanding by General Chiang Kai-shek with the Japanese and the various Chinese militarists of North China which will leave him free to deal with the Southwest after the elimination of the buffer communist state in Kiangsi Province.

In short, recent developments in Hopei Province indicate a strengthening of the positions of the Japanese and of General Huang Fu and a weakening of the Chinese elements in the northern part of the province which are opposed to concessions to the Japanese. These developments have naturally given rise to a considerable number of rumors of doubtful reliability.

Respectfully yours,

C. E. GAUSS

793.94/6821

*The Consul General at Tientsin (Lockhart) to the Chargé in China (Gauss)*³³

No. L-831

TIENTSIN, November 28, 1934.

SIR: I have the honor to refer to my despatch No. L-821 of November 16, 1934,³⁴ concerning rumored secret Sino-Japanese understanding effecting an extension of the area of the demilitarized zone, and further in connection with the political situation in North China, to report that statements made to a member of the staff of this Consulate General yesterday and the day before in conversations with well-informed subordinate members of the local Provincial and Municipal Governments, indicate that the Chinese have reached an accord with Japan on several long-pending issues affecting the political and military situation in North China. The more important of these statements of alleged fact and of opinion, all of which are here set down only for what they may be worth, may be summarized as follows:

1. An agreement has been reached between the Japanese and Chinese authorities in North China, the Chinese acceding to all Japanese demands. The Japanese procured this agreement after continuous secret negotiations extending over several months, particularly

³³ Copy transmitted to the Department by the Consul General at Tientsin in his despatch No. D-677, November 28; received December 28.

³⁴ Not printed.

sharp pressure being brought to bear on the Chinese during recent weeks and after General Chiang K'ai-shek's visit to "Huapei".³⁵

2. The agreement covers the restoration of through postal facilities with "Manchoukuo"; the extension of through train service from Mukden to Paot'ou in Suiyuan; the establishment of some sort of military mission at and of some kind of military supervision over Kalgan; and, it is believed, other concessions to the Japanese, some of which at least touch upon industrial and trade expansion in this area.

3. No "quid pro quo" was offered the Chinese.

4. The negotiations were carried on by the Chinese on this basis: in each case, the Chinese authorities sought to determine by discussions among themselves and with the Japanese upon which of the various Japanese demands it was the intent of the Japanese authorities to insist, and having determined them, Chinese assent was given.

5. The agreement reached is independent of the "voluntary" undertaking on the part of the Chinese that no troops will be moved north or east of the Peiping-Liaoning Railway Line between Tientsin and Peiping or of the Peiping-Suiyuan Road to the northwest of Peiping. This plan has been accepted by the Japanese. Troops now north and east of the lines laid down are gradually to be withdrawn.

6. The enlargement of the municipal areas of Peiping and Tientsin was ordered by General Chiang; the Japanese authorities approve of the project and are interested in its accomplishment.*

7. Japanese officialdom, civil and military, in North China is highly organized, even the lowest ranking among them being charged with specific tasks in the penetration of North China. Many local Chinese officials are regularly approached by particular members of the Japanese military with propositions anent the necessity of closer and more harmonious relations between Japan and North China.

8. Japanese agents are spread throughout Inner Mongolia and Shansi. General Chiang had planned to visit Pailingmiao, the seat of the Inner Mongolian Autonomous Council, and there meet the Te Wang on his own ground, but he desisted on the advice of Chinese and Mongolian representatives in Peiping, who told him that the influence in Pailingmiao of the Japanese agents and advisers there was so great that his visit would occasion embarrassment.

9. Intra-mural North China is being flooded with Jehol opium, morphine from beyond Shanhaikuan, and smuggled arms. The activities of Japanese agents and the steady inflow of Japanese money are contributing to the disorder in this disrupted area, and the maintenance of peace and order is becoming increasingly difficult.

10. General Chiang K'ai-shek's recent visit to North China was intended as a "rear-guard" action to cover a withdrawal from North China. It is his present object to avoid war at any cost: he realizes that he could not defeat Japan and it is believed to be his opinion that no action taken now could change the fact that sometime within the next three or four years Japan will occupy Hopei, Shansi, Chahar, and Suiyuan.

11. This belief is held to be a logical deduction from the present course of events. The interest of Japan in North China is strategic

³⁵ Reference to "North China".

* See also despatch No. L-832 of November 28, 1934. [Footnote in the original; despatch not printed.]

rather than territorial. If Japan sought territorial expansion only it would apply its whole energies to the pacification and absorption of "Manchoukuo" instead of continuing to aggravate world opinion by the attempt to add North China to the areas under its control. Japan seeks rather a hinterland from which to draw war materials and a direct route to Lake Baikal in a war with the Soviet Union, which the Japanese military authorities and many ranking Chinese officials, feel to be inevitable.

12. Japan's first act after the opening of this war would be to occupy all North China.

13. Chinese officials in this area quite generally view the present situation of Huapei to be much more precarious than was that of the Three Eastern Provinces before September 18, 1931.

14. They are also agreed in feeling that the only possible end to the continuing encroachments of the Japanese is war. If Japan is not destroyed in the coming Russo-Japanese War, or if that war is late in coming, then China herself must fight Japan.

15. A growing majority among them are agreed that General Chiang K'ai-shek alone can give China the united rule necessary to the long and difficult preparation for war. This view is bitterly opposed in Kwangtung and the Soviet areas, but it has recently won a very important supporter in the person of General Yen Hsi-shan.

16. If unity is essential, it is also absolutely necessary that a respite be gained. The fallen boxer must lie flat on the canvas, in the forlorn hope that he may find the strength to rise before the count is done. This is the view of Wang Ching-wei and of his followers, but they have split into two camps on the method through which the precious months and years of semi-security are to be gained.

17. The Jih P'ai (Japanese Party) urged a diplomatic retreat, while the Ying-Mei P'ai (Anglo-American Party) opposed it. The Japanese Party is now everywhere in the ascendant, and its able leader, T'ang Yu-jen, is virtually in complete control of the foreign affairs of China.

18. When even Huang Fu would not take the responsibility for the acceptance of Japanese demands, T'ang himself came on November 21 to Peiping "to see a sick uncle". After three days of negotiations he agreed to the terms laid down.

19. The Anglo-American Party has no program, and its only present tenet is that no agreement with the Japanese is worth anything; that even the recognition of "Manchoukuo" would avail nothing.

20. A member of that party has suggested that "Huapei" be put under the protection of the League of Nations, and policed by an international force; but he realizes that no power in the world today has the desire, or if it has the desire, the courage, to override the objections which Japan would raise to an arrangement so obviously to her disadvantage. Nor would it be possible to convince Southern China that the request itself was wise.

21. As this suggestion itself indicates, the effect of the conviction of the inevitableness of disaster upon the morale of Northern Chinese is marked.

In connection with the above, permit me to invite the attention of the Legation to the fact that it is believed to represent a faithful sum-

mary of the views of several usually well-informed members of the younger official set in Tientsin who have in the past proved to be reliable sources of information, but this Consulate General can accept no responsibility for the accuracy or truth either of their information or the soundness of the opinions expressed.

Respectfully yours,

F. P. LOCKHART

893.01 Manchuria/1193 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, November 29, 1934—3 p. m.
[Received November 29—11:50 a. m.]

546. Following has been received from Harbin.

"54, November 28, 1 p. m. Mayor Lu Jung-huan of Harbin has been appointed 'Governor of Pinchiang-Province' with provincial capital at Harbin. He has signified his intention of inviting the consuls to his inauguration ceremony on December 1st and of calling upon them provided they will receive him and return his calls. The British and senior consul informs me that some of the consular representatives in Harbin have accepted the proposal with pleasure. All of the consular officers here know Mr. Lu and many of them attended his inauguration as Mayor of Harbin. If the matter is left to my discretion I shall not attend the inauguration ceremony but will receive and return Mr. Lu's call."

Legation has replied as follows:

"November 29, 3 p. m. Your 54, November 28, 1 p. m. Legation approves your proposed course of action but suggests that in returning the call you do so informally using your personal card.

Department has been informed."

GAUSS

894.8591/6

*Report by the Vice Consul at Kobe (McClintock)*³⁶

[Kobe, December 4, 1934.]

SUPPLEMENT

THE STRATEGICAL VALUE OF JAPAN'S NEW MERCHANT FLEET

Since the preparation of the voluntary report entitled *The Strategic Value of Japan's New Merchant Fleet*, of August 14, 1934,³⁷ there

³⁶ Approved by the Consul at Kobe; copy transmitted to the Department December 5; received December 28.

³⁷ *Ante*, p. 235.

have taken place certain developments which make necessary some modification of that study. In addition, new information worthy of record has come to light on the subject.

Change in Subsidized Construction Program.

The report of August 14, 1934 gave a précis of the program of the Okada Cabinet for the laying down during the next five years of 500,000 gross tons of swift merchant vessels, stimulated by a subsidy of ¥48.00 per ton, on a building schedule of 100,000 gross tons per year for five years. It was stated that "at this date . . . ³⁸ the approval of the Diet to the draft bill is an almost foregone conclusion".

Although this 500,000 ton building program had been sponsored by both the Saito and Okada Governments and had behind it the strong support of the Navy, the powerful shipowners and the great dockyards of Japan, it was quashed by the Ministry of Finance on the ground that the necessary funds simply could not be found for its execution. The Ministry of Navy was fighting a hard battle to get its own cherished appropriation passed by the budgetary authorities; the shipowners had already profited from the acquisition of a construction bounty of ten and a half million yen for the 1932 program; and the interest of the public was more in relief for farmers and famine sufferers than for further aid to an already flourishing shipping industry. Consequently, the 500,000 [ton] construction project fell through.

This does not necessarily imply that the plan has been placed permanently on the shelf. It is quite possible that, in a year when a combination of unequalled demands upon the national budget is not presented to an harassed Minister of Finance, the shipping lines, dockyards and naval authorities will again press for the 500,000 ton, ¥24,000,000 program.

For the next fiscal year, however, subsidized construction for the merchant marine, as outlined in the draft budget, will be limited to 50,000 gross tons, or one half the yearly tonnage quota contemplated in the scheme which was rejected. Furthermore, the Ministry of Finance has reduced the amount of subsidy paid to ¥26.00 per gross ton, plus ¥4.00 for "special provisions", or a total of ¥30.00. The meaning of the term "special provisions" will be discussed more fully below. In return for this almost negligible bounty, shipowners are expected to scrap ton for ton of obsolete vessels for each new ship built.

Reduced to these terms, the ship construction bounty for the fiscal year 1935-36 is not sufficient, per se, to induce the building of merchant vessels of strategical value. While unit costs of ship construction have steadily increased, the amount of subsidy to be paid has been

³⁸ Omission indicated in the original.

reduced not quite by half. A fast diesel cargo ship of 7,000 gross tons cost ¥250 per ton to build when the Ship Improvement Law of 1932 was adopted; the rate rose with increasing construction to ¥300 and is now in the vicinity of ¥350. Meanwhile the construction bounty is lowered from a maximum of ¥54.00 per ton to ¥30.00. It is not a sufficient inducement to cause the laying down of fast new ships.

This does not mean, however, that fast new ships will not be built. They would have been built in any event, bounty or no bounty. The only difference is that the three new liners projected by Nippon Yusen Kaisha for the European run and certain new units for Osaka Shosen Kaisha will be built under terms of the subsidy, so long as it is to be had for the asking. Smaller lines, less able to defray costs of new construction, will not be in a position to benefit by the 1935-36 program.

In summary, therefore, it may be said that during fiscal 1935-1936 there will be laid down 50,000 gross tons of new merchant ships in Japan, earning a public bounty of ¥1,500,000, provided, of course, that the Imperial Diet passes the budget as drafted.

The writer expects Nippon Yusen Kaisha to obtain the most of this appropriation. This gigantic line has long wanted to replace the obsolete "H" liners on its European run by up-to-date tonnage. It now has two 18 knot motor liners, each of 12,000 gross tons, the *Terukuni Maru* and *Yasukuni Maru*, which have proved admirable in that trade. It plans to lay down three similar liners. Whether the new ships will be diesel-driven or not has not yet been decided, although Lloyd's Surveyor for the Far East has made the sensible suggestion that they be powered by geared turbines, with high pressure steam and superheat; a suggestion well in accord with the lines of strategy which have not been followed in the last construction program, laying down motorships in a country without indigenous supplies of oil.

The writer expects to see at least one and possibly two new liners for Nippon Yusen Kaisha built under terms of the 1935-36 subsidy. They will be built with the "special provisions" demanded by the Japanese Navy, consisting of requisite speed (not less than 18 knots), cruising radius, deep tank capacity, and gun placements. In other words, they will be like other Nippon Yusen Kaisha mail liners, recently commissioned. It is doubtless known to American naval authorities that *Chichibu Maru*, *Tatsuta Maru* and *Asama Maru*, all of 17,000 gross tons; *Terukuni Maru* and *Yasukuni Maru*, of 12,000 gross tons; *Heian Maru*, *Hiye Maru* and *Hikawa Maru* of 11,622 gross tons were constructed with specially strengthened decks and gun placements. Nippon Yusen Kaisha receives well over half of the total subsidy paid each year by the Government for contract services and

in return obliges the Navy by the installation of "special provisions", as well as by a tacit understanding that its fleet is subject to call in the event of a national emergency.

Osaka Shosen Kaisha, as the only other line (with the possible exception of Mitsui Bussan Kaisha) in a financial position to lay down new bottoms with such slight assistance in the form of bounty, may possibly construct one or two liners for its South American service to the East Coast. This will depend, however, upon the fate of the emigrant trade to Brazil, which is threatened with practical extinction, owing to the new Brazilian constitutional limitation on the admission of alien colonists. Osaka Shosen Kaisha is likewise planning to replace obsolete liner tonnage on its lucrative Dairen line.

Since the companies in a position to build under the terms of this exiguous subsidy are interested only in deep water ships and liner tonnage, the 50,000 gross tons to be laid down between March, 1935 and March, 1936 will be of high strategical value. The writer would predict that whatever units are laid down will have a speed of at least 18 knots, combined with large cruising radius, cargo capacity and accommodation for passengers or troops. Both emigrant ships and liners for the run to Europe could be converted into transports instantaneously. The nature of the trades served demands large deep tank capacity.

In summary, therefore, it appears at this writing that the following points are clear:

1. The ambitious program for the construction of 500,000 gross tons of new ships has been temporarily abandoned, owing to the impossibility of finding the necessary appropriations.

2. A substitute construction program has been budgeted by the Ministry of Finance, by which 50,000 gross tons will be laid down in the next fiscal year, in return for a small bounty of ¥30.00 per ton.

3. In spite of this negligible assistance, Nippon Yusen Kaisha and Osaka Shosen Kaisha will probably take advantage of the terms offered; not because it is a bargain, but because they want new tonnage. By the nature of the trades they serve and the obligations both owe for service subsidies and naval favor, they will build fast liners of great strategical value.

Subsidy for "Special Provisions".

It was indicated above that the reduced construction bounty program envisages the payment of ¥4.00 per gross ton for the incorporation of "special provisions" in the ships to be laid down under subsidy terms, as part of the total bounty of ¥30.00 per ton.

There has come to light certain information concerning this subsidy for "special provisions" which, although possibly already known to American naval authorities, may still be of interest. The source

of this information is a prominent ship broker and ship owner of Kobe. His opinions have been correlated with the views of Lloyd's Principal Surveyor for the Far East. Both gentlemen gave this information on terms of absolute confidence.

It has been a matter of common knowledge that the magnificent express cargo vessels laid down under the terms of the Ship Improvement Act of 1932 were built after collaboration with the Japanese naval authorities as to their potential strategical function. It was not known to the writer, at least, that the Imperial Navy paid most of the shipowners building this new tonnage a special subsidy of ¥5.00 per gross ton for the incorporation in the new vessels of certain "special provisions", including requirements as to maximum speed, cruising radius, deep tank capacity and gun mountings.

On the assumption that all the lines which built new vessels under subsidy accepted the extra inducement of the Navy in the form of this bounty of ¥5.00 per gross ton, the account of this extra subsidy, not indicated in the report of August 14th, stands as follows:

[The statistical table of thirty-one ships is not printed.]

The consulate's informant, however, states that Mitsui Bussan Kaisha and Kokusai Kisen Kaisha did not accept the extra bounty from the Navy. He thought their decision was based on the asserted fact that the subsidy offered was not sufficient to defray the additional expense involved in incorporating in the ships the special provisions demanded by the naval authorities. However, Lloyd's Principal Surveyor for the Far East has objected with reason to this view, pointing out that the subsidy of approximately ¥35,000 per ship was more than ample to cover the additional cost of gun placements. The vessels of both M. B. K. and Kokusai should more than satisfy naval requirements in other respects, as they are capable of speeds of from 18 to 19½ knots and have ample deep tank capacity.

The writer is of the opinion, confirmed by conversations with the chief of the foreign freight lines of Mitsui Bussan Kaisha, that M. B. K., at least, refused the Navy's bounty as conforming to its heretofore established principle of avoiding commitments to the Navy in return for the acceptance of subsidies. This is beyond any doubt the reason why M. B. K. has consistently fought shy of seeking service subsidies, pointing out that Nippon Yusen and Osaka Shosen have assumed obligations in return for subsidy which are disproportionate to value received. A contract subsidy with the Japanese Government involves submission to the control of the Ministry of Communications, with respect to freight rates, as well as to control by the naval authorities.

Kokusai Kisen Kaisha has also apparently been lukewarm in receiving favors which imply large obligations to the Navy, although

considering the line's start in life and its very large indebtedness to public funds for its existence, such reluctance may seem surprising.

The writer therefore thinks it advisable to take a conservative view and assume that neither Mitsui Bussan Kaisha or Kokusai Kisen Kaisha have accepted the special bounty of ¥5.00 per ton from the Navy. At the same time emphasis must be placed on the fact that the six 18½ knot M. B. K. freighters and the seven equally swift Kokusai ships meet all the requirements of "special provisions" with respect to speed and capacity, save for gun placements.

A Rengo report from New York dated November 7, 1934 quoted a *New York Times* despatch which cited Rear Admiral H. I. Cone as stating, in a general account of Japan's new merchant fleet, that the M. B. K. freighter *Azumasan Maru* was fitted with gun mountings. The writer is strongly inclined to doubt if the new M. B. K. ships are so fitted. From the evidence adduced above and from a personal inspection of the *Amagisan Maru*, an identical sister of *Azumasan Maru*, he would base his opinion. One fact is certain, and that is that *Amagisan Maru* had no gun mountings.

It is not easy in Japan closely to inspect vessels of high strategical importance, even though they are currently devoted to uses of commerce. The writer has, however, been aboard certain units of the new Nippon Yusen Kaisha fleet of six 18 knot freighters of 7,300 gross tons, and can state with certainty that each ship has two gun placements, located immediately aft and above the forward well deck, on either side of the central superstructure, commanding an arc of approximately 165 degrees. There are no mountings in the after part of these vessels. The deep tank capacity of the new N.Y.K. express freighters is 1,340 tons of 40 cubic feet. The Consulate's source of information previously cited corroborates this information as to gun mountings.

There is equally no doubt but that the three huge express tankers of Iino Shoji Kaisha have specially strengthened decks and gun placements. It is perhaps worthwhile to supplement the writer's comment in the report of August 14th, concerning the "relations of peculiar intimacy" which Iino Shoji Kaisha has with the Japanese Navy by stating that the firm was originally founded by a group of former naval officers. The influence of the Navy is likewise to be found in the fact that Iino Shoji was the first Japanese shipping company to bring out tankers of extraordinary capacity and speed. *Fujisan Maru* was the first of these remarkable tank ships; built by Harima Dockyard near Kobe. The two later vessels, *Toa Maru* and *Kyokuto Maru*, were built by Kawasaki Dockyard with a subsidy from the Government of ¥54 per gross ton, plus ¥5.00 a ton from the Navy. They trade exclusively for naval account, carrying fuel oil and crude to Tokuyama

on the Inland Sea. It is understood that *Fujisan Maru* and *Toa Maru* are now in the run to California.

Incidentally, contrary to the Rengo report quoting Rear Admiral Cone, the tankers of Iino Shoji were built according to Lloyd's specifications.

In summary, therefore, the following may be said :

1. It would not be extravagant to assume that all the Japanese lines building vessels as part of the 1932 Ship Improvement Program, with the exception of Mitsui Bussan Kaisha and Kokusai Kisen Kaisha, received an extra bounty from the Navy of ¥5.00 per gross ton, in return for assuming obligations in the form of "special provisions" as regards speed, radius, capacity and gun mountings. The total of extra subsidy thus granted, deducting the amount which was assumed to have been paid Mitsui and Kokusai, was ¥705,050. The writer has definite assurance that Nippon Yusen Kaisha and Osaka Shosen Kaisha have given a willing ear to the advice of the Imperial Navy in the construction of all new ships, whether under terms of bounty or not.

2. The question of the precise amount of this extra bounty from the Navy is not material. The important point was that developed in the basic report under reference, which is that the new ships laid down are unsurpassed, by virtue of extreme speed and carrying capacity, in their strategical value, both as active units of fleet train or as maintainers of a line of communication in time of war.

3. The question of gun mountings is not so important as would seem from newspaper accounts. All the ships laid down in the United States under the terms of the Jones-White Act³⁹ had gun placements and occasioned no surprise. It should not be astounding that a similar Japanese building project should incorporate similar features. As for the location of gun mountings in commercial vessels: any boss stevedore in an American port could confirm the presence or absence of such mountings. Since all these new ships are in the American trade, this factor can easily be determined with accuracy in the United States.

In conclusion, it may be said that two modifications need to be made in the report of August 14, 1934 :

1. The projected subsidized construction program of 100,000 gross tons a year for the next five years has been so truncated as to be scarcely recognizable. At the same time, 50,000 gross tons of new ships will be laid down in the next fiscal year. It has been shown, by reference to the needs of the only companies in a financial position to build, that whatever ships are laid down as part of the new program will be liners of high strategical value.

2. The Ship Improvement Program of 1932, which brought into being 200,000 gross tons of the fastest cargo vessels in the world, was assisted toward the realization of its strategical function by a special subsidy of ¥5.00 per ton from the Japanese Navy.

³⁹ Approved May 22, 1928; 45 Stat. 689.

893.102 S/1329 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, December 6, 1934—11 a. m.

[Received December 6—6:36 a. m.]

557. Department's 366, November 20, 7 p. m.

1. Cunningham reports that Commander of Marines at Shanghai states that he is quite sure that it was the intention of the Defense Committee that the protection of foreign life and property outside perimeter should be undertaken by the Commander whose nationals are concerned, that the Defense Committee is concerned primarily with the defense of the International Settlement and that nothing would be gained by having it directly concerned where international cooperation may not be necessary or desirable. Commanding Officer suggests that following wording would clarify the provision :

“In addition to the sectors of settlement [*responsibility*] given in paragraph 3 the protection of foreign lives and property in Pootung or other areas outside the perimeter will, if considered advisable by the authorities of the nation concerned, be arranged by the garrison commander of the national [*nation*] whose nationals are concerned.”

Cunningham considers that in practice the protection of foreign life and property outside the perimeter can best be handled by the authorities whose nationals are concerned without calling on the Defense Committee and he believes that under the original wording the Defense Committee would have left the matter largely if not entirely in the hands of the garrison commander of the nationals who needed protection for the future. Revised wording merely accords him that authority.

2. The Legation concurs with the opinion of the Consul General and commanding officer on this point but believes that the matter of providing such protection of life and property and the authority and responsibility therefor should be definitely divorced from the defense scheme stated above. I therefore suggest the following revised wording :

“except where specially arranged in agreement with the Defense Committee the protection of foreign life and property in Pootung or in other areas outside the perimeter shall form no part of the plan of combined action or of the responsibility of the Defense Committee. Where, however, on the responsibility of the authorities of the nation concerned, garrison forces or other military or naval forces are employed in extending protection to life and property in such outside areas, the garrison commander of the nationality of the forces so employed will promptly notify the Defense Committee, for its information, of the measures so taken.”

On the one hand this would permit of limited joint action beyond the perimeter in special cases in agreement with the Defense Committee, and on the other it would ensure proper information to the Defense Committee of independent protective measures being taken by foreign forces in neighboring areas while definitely fixing the question on the forces concerned and not on the International Defense Committee.

3. Cunningham heartily concurs in proposed inclusion of Consul General of garrison powers on Defense Committee at least in a consultative capacity. He has not discussed this question with other Consuls General or with commanding officer. Legation is of the opinion that the proposal might not be well received by the military officers but that it would be highly desirable unless the Navy Department is prepared to issue categorical instructions to officers in command of American forces in Shanghai to keep Consul General promptly and currently informed of all action and proposed action by the Defense Committee and to consult him on the political aspects of all proposed changes and of all operations. With frequent changes in personnel of navy and marine commanders and their lack of background information on the political considerations involved in situations such as are met at Shanghai it is essential that the Consul General or his representative be added to Defense Committee in consultative capacity or that navy and marine commanders be carefully instructed to consult Consul General and to inform him promptly and completely of all proceedings of that committee.

GAUSS

893.6363 Manchuria/122

*Memorandum by the Ambassador in Japan (Grew)*⁴⁰

[Tokyo,] December 6, 1934.

The Netherlands Minister, General Pabst, called on me by appointment this morning and we conversed for over an hour on a good many general subjects.

*Petroleum.*⁴¹

The Minister thanked me for having informed him, through Count Rechteren, of my recent third *démarche* in connection with the "Manchukuo" Petroleum Monopoly⁴² and said that he had reported the

⁴⁰ Copy transmitted to the Department by the Ambassador in his despatch No. 1092, December 11; received December 28.

⁴¹ For correspondence on this subject, see pp. 699 ff.

⁴² See *aide-mémoire* of November 30, 1934, from the American Embassy in Japan to the Japanese Ministry for Foreign Affairs, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 143.

matter to his Government by cable and had recommended that he should be instructed to take similar action. He had proposed the text of an *aide-mémoire* along the lines of our own communication. I explained to the Minister the general policy of our Government in connection with this whole question.

*The Naval Conversations*⁴³ and *Japanese Plans in East Asia*.

The Minister said that the Japanese claims for naval parity were obviously ridiculous and it was clear that what they want to do is to create a situation in which they can ultimately carry out their plans in East Asia without risk of interference by the United States or Great Britain or both acting together. In General Pabst's opinion, these Japanese plans envisage complete commercial control over China, the Philippines, the Straits Settlements and Siam, and they further hope to be able to include the Dutch East Indies within the orbit. He said that the Japanese had shown their hand with surprising naïveté by such indications as the statement by the Spokesman of the Foreign Office on April 17, the subsequent statement by the Japanese Consul General in Manila and the surprisingly naïve attitude of Nagaoka and the Japanese Trade Delegation to Batavia. General Pabst said that the Japanese had come to Batavia for the obvious purpose of obtaining complete control of the market there for Japanese goods. The Dutch, on the other hand, had entered the negotiations in order to persuade Japan to buy Dutch goods and it was perfectly obvious that if the Dutch East Indies intended to dispose of their own commodities to other countries they must be prepared also to purchase from those countries and not exclusively from Japan. The Japanese Consul General in Batavia, one of the delegates, had made the astonishingly significant statement, "if you refuse our proposals it will be impossible for us to compromise with you". The Japanese had begun by laying down four principles which were totally unacceptable to the Dutch and they had been categorically refused.

A Dutch correspondent had recently asked General Pabst to arrange an interview for him with Hirota, and as a few days later the Foreign Office made an indication on its own initiative that Hirota would be glad to give the interview, General Pabst had taken this man to the Minister himself. In the course of conversation the correspondent had asked Hirota whether Japan would in future respect the territorial integrity of other countries, to which Hirota, after considerable thought and after summoning an interpreter to express his views more accurately, replied, "Yes, if those countries do not bar Japanese immigrants and goods". General Pabst was naturally astonished by this frank statement which was a pretty clear indication of the reser-

⁴³ See vol. I, pp. 217 ff.

vations always in the back of Japanese minds, in connection with their abiding by their treaty obligations in good faith. At the end of the talk Mr. Hirota had spoken of the difficulties of the Batavia conference much like a school master giving a lecture to a recalcitrant pupil and both General Pabst and the correspondent agreed afterwards that there was a distinctly spiteful tone in the Minister's remarks.

General Pabst said that Mr. Sugimura, the newly appointed Japanese Ambassador to Italy, asked to come to see him before departing for Rome which General Pabst thought rather surprising and significant because Japanese Ambassadors do not generally call on Ministers, and he thought that Mr. Sugimura had probably come to see him at the behest of the Foreign Office. In the course of their conversation the subject of the rumors of an Anglo-Japanese *rapprochement* came up and General Pabst inquired what Sugimura thought would be the basis of such an understanding if it could be arranged. Sugimura, after much hemming and hawing, said that Japan might be willing to agree to British trade predominance in South China in return for an agreement to leave Japan free in the rest of China. General Pabst said, "how about the Yangtze where British interests are predominant?" Sugimura said "no", but that Japan would recompense England by leaving the Indian market free for British goods exclusively. (In this connection General Pabst said that at the Batavia conference the Japanese had observed that Holland would of course be permitted to dispose of some of its goods in the Dutch East Indies!)

Sugimura then asked the Minister for a letter of introduction to the Dutch Minister in Rome. General Pabst thought this was an unusual procedure and explained it to himself on the grounds that the Dutch Minister in Rome is accredited to the League of Nations and Sugimura wished through him to keep in touch with developments at Geneva.

General Pabst is now inclined to feel that the talk of an Anglo-Japanese *rapprochement* was a *ballon d'essai* on the part of Hirota. General Pabst thinks that the only hope of curbing Japan's ambitions to completely dominate East Asia is Anglo-American solidarity. If we were to agree to the Japanese proposals and scrap our battleships, large cruisers and air plane carriers, Japan would be perfectly free in future to carry out her plans. This is obviously the basis of her position in the naval conversations. If England and America work together and develop a solid front, Japan will eventually be obliged to climb down and the Japanese Government will then set about to remould public opinion in such a way that it will be able to climb down without too much loss of face.

In the course of further conversation on the subject of Japanese propaganda the Minister considered very significant a recent pamphlet issued in the name of various subordinate Army officers and reservists explaining the position of the Japanese Army in connection with the political situation and enclosing a return post card in which the recipients of the pamphlet are requested to ask any questions if the contents of the pamphlet are not entirely clear to them.

J[OSEPH] C. G[REW]

893.00/12886 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, December 7, 1934—9 a. m.

[Received 5 p. m.]

560. Department's 374, December 4, 8 p. m.⁴⁴ As the result of continued pressure from the north and east by small body Government forces which made the position of communist troops in Kiangsi untenable, the latter began on October 21st an attack against Kwangtung and Kwangsi forces stationed in south Kiangsi. These communist forces numbered perhaps 60,000. The Kwangtung and Kwangsi troops were forced to retreat after suffering considerable losses with the result that the communist forces broke through their lines, captured several important places in south Kiangsi and advanced westward across south Kiangsi and north Kwangtung. One group detached itself and proceeded northward in west Kiangsi in what was apparently a perspicuous maneuver. Its intentions are not definitely known. The remaining forces, reported in the press to number at least 40,000, continued to advance slowly westward, notwithstanding the opposition of the Hunan and Southwest troops, until the latter's main line between Chenhsien (south Hunan) and Lok-chang (north Kwangtung) was reached in the first week in November. The communist forces continued to advance and captured Ichang and other south Hunan *hsien* cities west of that line, as well as strategic points in north Kwangtung. With the continuing advance, however, places captured were abandoned.

The main theatre of battle has now shifted to the Hsiang River valley between Kweilin, the capital of Kwangsi, and Ling-ling in southwest Hunan. According to reports, the main body of the communist forces is succeeding in penetrating to Government barrier in that area while the communist vanguard is nearing the Kweichow border. Two armies of the National Government, by report totaling eight divisions, have been sent into Hunan to assist in intercepting

⁴⁴ Not printed.

communist forces advancing toward Kweichow, but it seems probable that the latter will reach their objective, west China, with their main strength intact.

After the beginning of the movement of communist forces westward from Kiangsi, Government forces captured remaining *hsien* cities there which had been in the hands of the Communists without any real resistance being offered. It would seem that only small guerrilla bands remain in Kiangsi with the exception of powerful important communist forces in the extreme south of Kiangsi and the already mentioned group which began a northward movement in west Kiangsi whose whereabouts and objectives are obscure. It is thought that the activities of the communist forces will hereafter be directed chiefly toward west China (some guerrilla bands have moved eastward in Fukien and Chekiang but their activities would become important only in case they could enlarge their numbers as a result of unfavorable economic conditions existing in those two provinces).

It is believed that the communist forces moving westward intend to join up with the Red forces (some 10,000) now principally in northeast Kweichow and northwest Hunan to establish a new base in the Kweichow-west Hunan-south Szechuan area. There is the danger that they might eventually succeed in amalgamating with the communist forces in northern Szechuan in an attempt to control much of west China. (The communist forces in Szechuan have been comparatively quiet since their advance in September of this year, although news reports indicate that they may be making observations for an advance likewise in the direction of Wan-hsien and/or west in the direction of Chengtu.

The future depends largely upon the efforts of the Government. In addition to the sending into Hunan of the two armies mentioned above, one Kansu division and one Shensi division have been moved to the north Szechuan border. General Liu Hsiang, leading Szechuan militarist, is at present in Nanking for discussion with General Chiang Kai-shek of measures to meet the situation. From current reports, it would seem that he will obtain some financial assistance. It is doubtful if the National Government will for the present at least send any effective forces into Szechuan because, (1) of the disinclination of Szechuan militarist[s] for such a movement, and (2) of the new situation created toward elimination, as a result of the movement of communist forces out of Kiangsi, of the buffer area as heretofore existed between the sphere of the National Government and the sphere of the Southwest. By the elimination of the buffer area a new political situation of importance has developed as with it has been removed the chief physical barrier to the bringing of pressure by the National Government upon the Southwest. At present conversations continue

between representatives of Nanking and the Southwest looking toward a more satisfactory understanding. It is doubtful that General Chiang Kai-shek would move any considerable number of troops westward until the situation existing between him and the leaders of the Southwest has been clarified. Meanwhile the National Government is faced with the problems of economic rehabilitation of the recovered areas.

GAUSS

893.71 Manchuria/76

The Chargé in China (Gauss) to the Secretary of State

No. 3175

PEIPING, December 7, 1934.

[Received December 28.]

SIR: I have the honor to report that, according to information obtained from Chinese and Japanese sources, the re-establishment of normal postal communications between North China and Manchuria will be effected within the next few weeks.

These sources, however, differ over what has actually taken place so far in this regard. An official of the Peiping Political Affairs Readjustment Committee has informed a member of the Legation most emphatically that a detailed agreement for re-establishment was signed on November 25 at Peiping by Chinese authorities, following which it was immediately forwarded to the National Government for action. This official claims that the Chinese authorities signed the agreement because the Japanese authorities warned them that if it were not signed by November 25 the Japanese authorities could not be responsible for what might occur thereafter. Subordinate Chinese officials in Tientsin informed the Consulate General of that city that an agreement had been signed (Tientsin's despatch to the Legation No. 831 of November 28, 1934). According to the Japanese Counselor at Nanking, an agreement in principle was signed (Nanking's despatch to the Legation No. 527 of December 4, 1934⁴⁵). However, a Secretary of the Japanese Legation stationed at Peiping claims that no agreement has yet been signed although agreement in principle has been reached.

That an agreement was entered into is further supported by several recent occurrences. Mr. T'ang Yu-jen, Administrative Vice Minister for Foreign Affairs, who is said to be strongly in favor of the policy of conciliating the Japanese, arrived at Peiping on November 22 and departed on November 25. It is presumed that his brief visit was for the purpose of lending moral support to General Huang Fu in con-

⁴⁵ Not printed.

cluding the agreement. Furthermore, Lieutenant-Colonel Seiya Giga, Chief of the Special Japanese Military Mission at Shanhaikwan and a representative of "Manchukuo" in negotiations relating to North China, arrived in Peiping on November 22 and departed, it is understood, on November 24 for Hsinking in company with Lieutenant-Colonel Shibayama, Japanese Assistant Military Attaché stationed at Peiping.

There is some evidence to support the statement that the Japanese obtained Chinese agreement as a result of a warning or threat. I informed the Department in my despatch No. 3127 of November 9, 1934, that it was understood at that time that the re-establishment of postal communications would occur in the near future. (The Japanese Minister had so informed press representatives during his visit to Peiping in early November.) Subsequently, however, I reported in my despatch No. 3156 of November 24, 1934, that, according to the local foreign Postal Commissioner, the postal question had again become deadlocked. This deadlock was caused, according to other information from presumably reliable sources, by severe opposition arising on November 14 at a meeting at Nanking of the Central Political Council of the Kuomintang. So sudden an alteration in the situation as that which seems recently to have occurred could, therefore, be explained most easily as the result of renewed Japanese pressure in the form of a warning. As I reported in my despatch No. 3127 of November 9, 1934, there have been indications of continuing irritation on the part of the Japanese military with regard to the progress of Sino-Japanese-"Manchukuo" relations. A recent evidence of this irritation appeared in a Rengo (Japanese) News Agency Report of November 21 (copy enclosed)⁴⁶ to the effect that ten leading Japanese military officers stationed in China met November 17 and 18 at Shanghai, subsequently issuing a statement complaining of the Chinese attitude toward Japan and of Chinese efforts "to prolong the fulfillment of stipulations" of the Sino-Japanese truce which was signed on May 31, 1933, at Tangku. The Legation has been informed by a Chinese official and by a Japanese official that the resumption of postal communications had been promised by the Chinese in one of the unpublished clauses of that truce. A delay of 18 months in carrying out this clause could not reasonably be supposed to be viewed by the Japanese military with entire good humor.

In discussing the question of re-establishment of postal communications, I refer again to Tientsin's despatch to the Legation No. 831 of November 28. According to this despatch, the Consulate General was informed that agreement on questions other than postal com-

⁴⁶ Not printed.

munications had been reached, such as, for example, extension of through passenger traffic on the Peiping-Liaoning Railway westward to Paot'ou in Suiyuan Province. The Legation has been unable to obtain substantiation of this report. The Chinese official of the Peiping Political Affairs Readjustment Committee, referred to above, informed a member of the Legation that he had seen a copy of the postal agreement and that it referred to no matters other than postal. He stated that he had no knowledge of any other agreements.

It may be mentioned that there are, at this time, an unusual number of rumors current, some of them allegedly being fabricated by one Chinese faction in North China to embarrass another faction. However, the transfer of the capital of Hopei Province from Tientsin to Paoting, which will result in weakening the position of General Yu Hsueh-chung and in strengthening that of General Huang Fu, seems to be assured by the recent approval of the transfer by the Executive Yuan. The press also reports that General Huang Fu has just been appointed Minister of the Interior, an appointment which is probably for the purpose of further increasing his prestige, although it may, conceivably, envisage his departure from North China.

Respectfully yours,

C. E. GAUSS

8621.01/305

The Ambassador in Japan (Grew) to the Secretary of State

No. 1076

TOKYO, December 7, 1934.

[Received December 28.]

SIR: I have the honor to report that a press despatch from Geneva dated November 12 stated that the League of Nations Mandates Commission would take note of reports concerning the alleged fortification of Japan's mandated islands in the South Seas. This report evoked a flat denial from the Japanese Foreign Office that Japan had established military structures on the islands, according to the *Japan Advertiser* and the *Osaka Mainichi* of November 15. The substance of the oral statement given to the press by the Foreign Office spokesman on November 14 is as follows:

(1) In exercising control of its mandated islands Japan has strictly observed the regulations of the mandate and has in no circumstance deviated from these regulations.

(2) Japan has never established military structures on the islands and has taken no measures that violate the fortification provisions in the Washington Treaty.⁴⁷

⁴⁷ See article XIX of the naval treaty signed February 6, 1922, *Foreign Relations*, 1922, vol. I, p. 247.

(3) The League of Nations has no ultimate authority over Japan's mandated territory. The supreme control of all the mandates belongs to the allied council of five Powers, namely, Great Britain, the United States, France, Italy, and Japan. Japan will continue to administer the islands after it ceases officially to be a member of the League of Nations in March, 1935.

(4) Upon Japan's withdrawal from the League her obligation to follow the League of Nations mandatory regulations will expire, but Japan is willing as heretofore to send an annual report on its administration of the mandated islands to Geneva and to participate in various meetings to be held from time to time regarding mandatory questions.

The Japanese Navy's firm determination to retain the South Sea Islands under Japanese mandate at any cost was expressed on November 15 by Vice-Admiral Sankichi Takahashi, the newly appointed Commander-in-Chief of the Combined Fleet, according to the *Japan Times* of November 16, 1934. Interviewed by newspaper correspondents, Admiral Takahashi is reported to have stated that the Japanese Navy was thoroughly prepared against the eventuality that Powers belonging to the League might attempt forcibly to remove these islands from the jurisdiction of Japan.

Respectfully yours,

JOSEPH C. GREW

893.00/12915

*The Consul General at Mukden (Ballantine) to the Chargé in China (Gauss)*⁴⁸

No. 20

MUKDEN, December 7, 1934.

SIR: I have the honor to enclose for the Legation's consideration a translation⁴⁹ made in this office of an item in the *Hoten Mainichi* of December 6 regarding an alleged movement on the part of members of the former North Eastern Army to establish the independence of North China, embracing the provinces of Hopei, Shantung, Shansi, Chahar, and Suiyuan.

The item appears in large head lines in the most prominent place in the news columns. The source of the news is ascribed to "a certain quarter", which according to accepted convention refers to the military authorities. The entire set up of the article bears the ear marks of military inspiration.

The translation is a rather free one, as the original is couched in such vague language that the meaning in several places is obscure.

⁴⁸ Copy transmitted to the Department by the Consul General at Mukden in his despatch of December 7, 1934; received January 2, 1935.

⁴⁹ Not printed.

I have not yet been able to form an opinion of the precise significance of the item, except that it may represent a desire to orient the Japanese public on possible future developments in North China. I shall however, continue to watch for further indications of possible future trends in the same direction.

Respectfully yours,

JOSEPH W. BALLANTINE

894.002/258

The Ambassador in Japan (Grew) to the Secretary of State

No. 1078

TOKYO, December 11, 1934.

[Received December 28.]

SIR: I have the honor to report that General Jiro Minami, Minister for War at the time of the outbreak in Manchuria in 1931, has been appointed to the combined posts of Commander of the Kwantung Army and Ambassador to "Manchukuo" with control of the Government of the Kwantung Leased Territory, succeeding General Takashi Hishikari, who will, it is stated, be made a member of the Supreme War Council.

The change in personnel is stated not to involve any change in the policy of Japan in Manchuria. Apparently it is partly routine, and partly a desire to have a new man in charge to carry out fully the recent changes which the Government of Japan recently introduced in the Japanese Governmental organs in that region. This subject was discussed in my despatch No. 1019 of October 20, 1934.

Respectfully yours,

JOSEPH C. GREW

893.102 S/1329 : Telegram

The Secretary of State to the Chargé in China (Gauss)

WASHINGTON, December 14, 1934—8 p. m.

385. Your 557, December 6, 11 a. m.

1. Department concurs in the opinion of the Legation that the matter of providing protection of foreign life and property outside the perimeter of the defense scheme and the authority and responsibility therefor should be definitely divorced from the defense scheme. As a logical corollary of this, it seems inappropriate for the defense scheme to contain any provision except of a negative or purely informational character in regard to providing for protection outside the perimeter. The Department therefore suggests that the first sentence of the revised wording submitted by the Legation be amended to read as follows:

"The protection of foreign life and property in areas outside the perimeter shall form no part of the plan of combined action or of the responsibility of the Defense Committee".

The Department approves the second sentence. The Department desires that the Consul General at Shanghai confer with the Commanding Officer of the American Marines toward obtaining the adoption of the revised wording as soon as practicable.

2. In view of the complicated political situation at Shanghai and of the definite responsibility of the consular body in matters relating to the Municipal Council and the administration of the International Settlement, and as the Chairman of the Municipal Council is a member of the Defense Committee, Department desires that steps be taken to carry into effect the suggestion that the Consuls General of the garrison powers be included in a consultative capacity in the personnel of the Defense Committee. Department suggests that this matter be worked out by the Consul General at Shanghai in consultation with the Commanding Officer of the American Marines and, in the Legation's and Cunningham's discretion, perhaps with the British Consul General. The making of this suggestion in no way reflects upon the commanding officers of the American Marines. It would afford a practicable means toward effecting the closest possible cooperation between the civil and military authorities and toward facilitating taking into account the special and important political factors incident to the discharge of this Government's responsibilities at Shanghai. These desiderata the Department is confident the Commanding Officer wishes no less than does the Consul General. Department believes that a tactful and informal approach by Cunningham to the Commanding Officer will result in the Commanding Officer giving his whole-hearted endorsement to this suggestion.

3. Department desires that Cunningham handle this matter in person. In case he is unable prior to his departure on leave to attend to the matter, it should have his prompt attention upon his return.

4. Report by telegraph as soon as practicable.

HULL

793.94/6829

The Chargé in China (Gauss) to the Secretary of State

No. 3218

PEIPING, December 22, 1934.
[Received January 16, 1935.]

SIR: I have the honor to enclose a copy of a memorandum ⁵⁰ of a conversation which I had on December 17, 1934, with Lieutenant-Colonel Walter S. Drysdale, Military Attaché, when he informed me that, according to a man whom he considers one of his best sources of information, the Japanese had recently made a series of three demands or proposals to the Chinese and that these proposals were: (1) extension of the demilitarized area in North China to the Peiping-Suiyuan

⁵⁰ Not printed.

and Peiping-Liaoning Railways; (2) "military cooperation" by the appointment of at least five Japanese military advisers to each of the coastal provinces; and (3) "economic cooperation" by a Japanese loan for projects in the Yangtze River Valley and another loan for projects in the Northwest.

As the Military Attaché was not inclined to reveal the name of his informant, it is difficult for the Legation to evaluate this report. There have been, however, for some time rumors that the Japanese desired an extension of the demilitarized area and it has been thought that such demilitarization might be one of the reasons for the recent decision to transfer the capital of Hopei Province, together with its Chairman, General Yu Hsueh-chung, from Tientsin to Paoting. There have also occurred some troop movements which support this report to some extent. During the past two months, 8,000 troops, stationed northwest of Peiping and just north of the Peiping-Suiyuan Railway, who were formerly under General Chang Hsueh-liang, were transferred to Hankow, Hupeh Province, and another 8,000 troops, stationed at Hwailai, Chahar Province, on the Peiping-Suiyuan Railway, who were also formerly under Marshal Chang Hsueh-liang, were transferred to Honan Province, while apparently no new Chinese troops have been sent into this area during the same period. With regard to the alleged proposal dealing with Japanese loans, the Legation, as it has already reported, has heard reports that the Japanese were desirous of "economic cooperation" with the Chinese in China Proper, especially in North China. The Legation, however, has no exact knowledge of how this "economic cooperation" is progressing, although it is presumed that it will be accompanied with considerable use of Japanese money. With regard to the alleged proposal that Japanese military advisers be appointed to each of the coastal provinces, the Legation is without information.

Respectfully yours,

C. E. GAUSS

893.0146/461

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

No. 9782

SHANGHAI, December 24, 1935.

[Received January 16, 1935.]

SIR: I have the honor to transmit herewith four translations from the local Chinese press⁵¹ relative to the maneuvers conducted by the local Japanese Naval Landing Force in various areas of the International Settlement on the morning of December 4, 1934.

⁵¹ None printed.

Since the Shanghai Incident of 1932, and the completion of the fortified Japanese barracks on Kiangwan Road in the early part of the year, there has been manifested on the part of the local Chinese populace a growing apprehension over the maneuvers carried out periodically by the Japanese forces. In this particular instance the alarm of the public was intensified owing not only to the extended scale on which the sham drill was carried out but also to the failure to give advance notice to the local authorities. While the tone of the press articles transmitted herewith tends to exaggeration in some particulars, still it is felt that the articles indicate to a fair degree the attitude of the Chinese public on the situation. It will be noted that the Chinese press interprets the continued silence of the Shanghai Municipal Council with reference to the drilling of the Japanese troops in the International Settlement as a further relinquishment of authority in the International Settlement by the Powers, with a corresponding increase in that of Japan, a situation by no means desirable to the Chinese.

The foreign press of Shanghai has not commented on this phase of the maneuvers, contenting itself with a thorough discussion of the incident involving the Japanese Naval Landing Party and Alexander Buchman, an American news reporter, who attempted to obtain photographs of the maneuvers, which has been separately reported by this Consulate General.

Respectfully yours,

MONNETT B. DAVIS

811.31/49

The Under Secretary of State (Phillips) to the Chief of the Division of Far Eastern Affairs (Hornbeck)

[WASHINGTON,] December 31, 1934.

DOCTOR HORNBECK: I brought Admiral Reeves' statement⁵² to the attention of the President this morning and expressed regret that the announcement had come on the very day of the denunciation of the Treaty by Japan.⁵³ The President also expressed his regret that there had been any publicity whatsoever; he said, however, that the maneuvers in the Pacific must take place; he thought it might be a good plan to let Mr. Grew know that the maneuvers were purely of a defensive character; that last year they were in the neighborhood of Hawaii and its tributary islands, this year they would be merely ex-

⁵² Admiral Joseph M. Reeves, commander in chief of the United States Fleet, announced on December 29 at San Pedro, Calif., that the North Pacific Ocean would be a theater of naval maneuvers from May 3 to June 10, 1935.

⁵³ See note from the Japanese Ambassador, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 274.

tended north, but not to a point west of the Aleutian Islands. I told the President that I had come to him with the suggestion that the maneuvers be moved to the other side of the Canal or confined closer to our coast and that I thought this would be a fine gesture to make. It was evident, however, that the President had given his approval to the maneuvers as proposed and there was nothing further to be done about it.

WILLIAM PHILLIPS

811.31/47a : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, December 31, 1934—7 p. m.

219. For your information and use in discretion: It is understood that the naval manoeuvres announced by Navy for May consist only of defensive exercises in area between Hawaii and Aleutian Islands, and are in continuance of exercises last made around Hawaii.

HULL

893.00/12945

The Chargé in China (Gauss) to the Secretary of State

No. 3247

PEIPING, January 9, 1935.

[Received February 6.]

SIR: Referring to the Legation's telegram No. 11 of January 5, 1934, 1 p. m.⁵⁴ and despatch No. 2828 of July 11, 1934,⁵⁵ reviewing, respectively, important developments in China during 1933, and during the first six months of 1934, I have the honor to submit a similar review of developments in China which occurred during the year 1934.

The outstanding problems confronting the National Government during the year 1934 were (1) relations with Japan; (2) relations with the Southwest; (3) the communist situation; and (4) the economic and financial situation.

The principal events of 1934 were (1) suppression of rebellion in Fukien Province (January); (2) the appointment of Marshal Chang Hsueh-liang to a post in Central China under General Chiang Kai-shek (February); (3) initiation by General Chiang Kai-shek of the "New Life Movement" (March); (4) inauguration of an "autonomous" government in Inner Mongolia in China (April); (5) re-establishment of through passenger traffic on the Peiping-Liaoning

⁵⁴ *Foreign Relations*, 1933, vol. III, p. 490.

⁵⁵ *Ante*, p. 217.

Railway (July); (6) floods and droughts during the summer; (7) establishment of Chinese customs houses along the Great Wall (August and September); (8) failure of the League of Nations to vote China eligible for re-election to a non-permanent seat on its Council (September); (9) development during the second half of the year of a financial crisis; (10) trip of General Chiang Kai-shek to the Northwest and the North (October and November); (11) expulsion of communist forces from Kiangsi Province (October and November); (12) postponement of the Fifth Plenary Session of the Kuomintang (October); and (13) announcement of agreement with Japanese authorities to inaugurate early in 1935 normal postal communication between China and "Manchukuo" (December).

A. *The Government:*

The diminishing power of the National Government continued to be transferred to the increasingly powerful General Chiang Kai-shek who, dominating the Government, acted with vigor in certain directions while the officials of the Government drifted, more interested in personal and factional jealousies than in the extrication of China from its urgent and profound problems. The actions of General Chiang gave to China an appearance of increasing unity. This appearance lacked reality because of various fundamental factors of a disintegrating character with which General Chiang and the Government failed to deal effectively. There seemed to be small cause for genuine optimism with regard to the future of China under the present régime and grave cause for pessimism.

B. *Chinese unity: integrating factors:*

By General Chiang's unexpectedly rapid suppression early in the year of the rebellion in Fukien Province and by his occupation during the autumn of the Chinese soviet area in Kiangsi Province, militarists occupying areas outside the sphere of General Chiang's actual control were rendered cautious in their dealings with him. This new attitude was illustrated by (a) visits during the spring of northern militarists to General Chiang; (b) by the reception extended to General Chiang during his unexpected visit in the autumn to northwestern and northern provinces without a bodyguard; (c) by, less significantly, the more temporizing attitude of Kwangtung militarists; and (d) by the visit in November to General Chiang of the leading Szechuan warlord to ask for help against communist forces in his province. There was, however, little assurance that these generals, given an opportunity, would not forsake this new attitude to serve their selfish interests. Nor was their new attitude implemented by any significant reduction or unification of their armed forces, a requisite for real unity.

There was, as previously, some progress made in communications, education, health service, civil service, political administration, and urban rehabilitation and construction. These, and other forward developments, however, appeared to be more than counter-balanced by certain factors working against unity.

C. Chinese unity: disintegrating factors:

(1) *Japanese expansion:* An appearance of improvement in Sino-Japanese relations was created (a) by the removal southward from North China of 118,000 of the 265,000 troops loyal or nominally loyal to Marshal Chang Hsueh-liang, following his appointment in February to a post in Central China under the Generalissimo, (b) by the re-establishment in July of through-traffic on the Peiping-Liaoning Railway, (c) by the establishment in August and September of Chinese Customs houses along the Great Wall, and (d) by agreement for the inauguration early in 1935 of normal postal communication between China and "Manchukuo". Actually, however, there was no reason to believe that the Japanese military had relaxed its intention to gain economic (and presumably substantial political) control of at least North China. Nor was there reason to believe that the National Government could alter its policy of slow compliance with Japanese wishes to avoid more forceful methods being adopted by Japan.

(2) *Communist forces:* The occupation by Nationalist forces of the communist area in Kiangsi Province was undoubtedly a step toward Chinese unity as it brought that province under the direct control of General Chiang Kai-shek. However, the escape of the main body of Kiangsi communist forces to west China in considerable strength merely altered the locale of the communist threat and, in fact, increased the potentialities of that threat by creating the possibility of union between the communist forces of Kiangsi with communist forces in Szechuan in a vast area where the problems of elimination are even more difficult than they were in Kiangsi Province.

(3) *The Southwest:* Although the extension of General Chiang's power over Fukien and Kiangsi Provinces to the border of Kwangtung Province had an ameliorating effect on the attitude of the military of Kwangtung Province and of the recalcitrant politicians resident in Canton and Hongkong and although negotiations occurred at various times during the year between representatives of the National Government and the leaders of the Southwest, yet no significant *rapprochement* was effected nor did observers anticipate any fundamental or permanent improvement in the relations of the two factions in the near future.

(4) *Economic and financial conditions:* Notwithstanding the growing realization of at least some of China's leaders that the unity of

China cannot be accomplished without a solution of China's basic economic and financial problems, yet efforts of the Government in this regard continued to be ineffective. Old and new programs for solution continued to be inadequately implemented, lacking sufficient capital and technical skill. China's purchasing power decreased; foreign trade declined; agricultural conditions became worse, in part because of widespread floods and droughts; industrialization made little progress; expenditures for the military continued to be disproportionately large; and unfair and uneconomic taxation continued to burden the country's economy, notwithstanding the abolition of certain minor vexatious taxes. The situation was further complicated by the threat of inflation which arose with the development of a financial crisis in the last half of the year.

D. China's periphery:

With Soviet Russia controlling Outer Mongolia and, according to report, exerting considerable influence in Sinkiang Province and with the Japanese administering the four northeastern provinces ("Manchukuo") and menacing the independence of that part of Inner Mongolia remaining to China, the National Government, in accordance with Chinese practise, handled its relations with the border races ineptly. Establishing in April an autonomous government in Inner Mongolia in Chahar and Suiyuan Provinces, it so delayed in implementing the promises made in connection therewith and was so dilatory in attempting to check Chinese activities repugnant to the Mongols that whether the National Government could retain the loyalty of the Mongols was a question. The National Government moved even more slowly in efforts to regain prestige in Tibet following the death of the Dalai Lama in December, 1933, the chief measure undertaken during 1934 being the despatch of an emissary supposedly to prepare the way for the return to Tibet of the Panchen Lama. No competent action was taken to bring Sinkiang Province under the influence of the National Government.

E. Western nations:

Officials of the National Government continued to be as perverse as previously in negotiations over questions pending or arising between China and the United States.

Chinese realization of the futility of expecting Western nations to assist substantially in extricating her from her problems was deepened by the preference of the League of Nations for Turkey rather than China as a non-permanent member of the League Council and by the failure of the League to return Dr. Paul Rajchman to China, presumably because he is not liked by Japan, and also by the belief

that the acute financial situation in the latter part of the year was primarily due to the silver policy of the United States. At the same time, China realized that even were Western nations willing to extend substantial help, Japanese opposition to such aid would be difficult to circumvent.

There was some evidence, particularly in the case of the murder of the American missionaries, Mr. and Mrs. John C. Stam,⁵⁶ that the communists in China were adopting a policy more anti-foreign than formerly because of assistance allegedly given by foreigners to the established régime of General Chiang Kai-shek.

Respectfully yours,

C. E. GAUSS

⁵⁶ For correspondence, see p. 462 ff.

CHINA

PROBLEM OF CONTROLLING THE TRAFFIC IN OPIUM AND NARCOTIC DRUGS IN CHINA, INCLUDING MANCHURIA AND JEHOL

500.C1197/660

The Consul at Geneva (Gilbert) to the Secretary of State

No. 796 Political

GENEVA, January 27, 1934.

[Received February 7.]

SIR: I have the honor to transmit herewith three copies of document C.24(1).1934.XI dated January 19, 1934,¹ containing the report adopted by the Council of the League of Nations on January 20 relating to the work of the Opium Advisory Committee during its 17th Session. In addition to commenting on the questions raised by the Advisory Committee the report is executory in character, containing directions to the Secretary-General for giving effect to the Advisory Committee's recommendations. Generally speaking, this report is self contained and requires no comment. There were, however, developments relating to the subject of the situation in Manchuria and Jehol territory which are not brought out in the report and which I set forth below for the Department's information.

The subject of the report of the Advisory Committee on its 17th Session, with the Polish representative on the Council named as *rappporteur*, appeared on the Council's agenda for the first meeting of the last session which convened on January 15. The discussion of this question by the Council was adjourned on that date and was subsequently adjourned from day to day until the closing meeting of the Session.

Mr. Hoo² of the Chinese Permanent Delegation at Geneva has explained to me the reasons for this postponement. The original report of the *rappporteur* on the subject, which was dated January 10, 1934, was, Mr. Hoo assures me, prepared for the Polish representative by the Opium Section of the Secretariat. I may add in passing that the preparation of such reports on technical questions by the Secretariat is a common practice and has grown up naturally as a result of the circumstance that the Council representatives, in addition to being

¹ League of Nations, *Official Journal*, February 1934, pp. 157-160.

² Victor Chitsai Hoo, Chinese Minister in Switzerland.

occupied with a large number of questions in a short period of time, are frequently not conversant with the details of the question for which they have been appointed *rapporteurs*. In the present instance, Mr. Hoo expressed the conviction that the subject was placed on the agenda of the first meeting of the Council intentionally in order to allow the report to be passed upon quietly before Mr. Wellington Koo, the Chinese representative, would have time, after his arrival at Geneva, to give it a thorough examination. Mr. Hoo being present, however, scrutinized the report very carefully and on Mr. Koo's arrival he called the latter's attention to the desirability of amending certain portions of the report relating to the situation in Manchuria and Jehol territory. In consequence when the Council met in private session just prior to its public meeting on January 15, Mr. Koo requested that the discussion of the report be postponed. One copy of the *rappporteur's* report as originally drafted (document C.24.1934.XI) is likewise enclosed herewith.³

Afterwards, the Chinese delegation presented in private to the Polish representative as *rappporteur* two amendments to his report which are set forth below. The Polish representative, so Mr. Hoo informed me, immediately accepted these amendments so far as he was concerned.

Mr. Hoo then took up the matter with Mr. Ekstrand, Director of the Opium Section of the Secretariat, who suggested the holding of an informal meeting of those members of the Council more directly interested in the question. It was arranged therefore that a meeting take place to be attended by the representatives of the following countries: Great Britain, France, Italy, Portugal, and Poland, the latter in his capacity as *rappporteur*. The Spanish representative, Mr. de Madariaga, who had always shown a great interest in all matters relating to the recognition of "Manchukuo", was not invited to attend, but having heard of the meeting came and expressed the desire to take part in the discussions. Of course his request could not well be refused. Just before Mr. de Madariaga made his appearance, Mr. Hoo had suggested that the Spanish representative be invited to come but he was told that only those members of the Council had been notified of the meeting who might have some objections to the Chinese amendments. They felt that Mr. de Madariaga would probably not object to these amendments. By a striking coincidence, which I gather may be attributed to the alertness of Mr. Blanco, the Spanish representative arrived at the meeting shortly after the discussion had begun.

I quote below the amendments submitted by the Chinese representative:

³ Not printed.

1. In the section of the original draft report dealing with Manchuria and Jehol territory, the *rapporteur* in his concluding remarks paraphrased as follows the recommendations of the Opium Advisory Committee:

“Moreover, in view of the fears expressed as to the possibility of the aggravation of the position in that territory, I think my colleagues will wish to give effect to the Committee’s recommendation to draw the attention of the chief producing and manufacturing countries now to the necessity of supervising most strictly any application for the introduction of narcotics into the territory and that the Council instruct the Secretary-General to write to the governments concerned in that sense.”

The Chinese representative proposed that the following paragraph be added at this point:

“It is understood that conformably to the conventions in force requests for the exportation of opium (raw and prepared) to this territory can in no case be authorized any more than they can be authorized for the whole of the territory of China.”

2. The original report then continued as follows:

“Finally, in order to dispel any possible misunderstanding as to the position of this territory, in regard to the international opium conventions, the Council will, I think, in agreement with the Advisory Committee, desire to make it clear that the recommendation of the Advisory Committee of the Assembly concerning the export of opium and other dangerous drugs to this territory cannot in any way modify the obligations of the governments under the terms of any international opium conventions or agreements, including the Hague Convention of 1912,⁴ and, in particular, Articles 3 and 15 of that Convention.”

The Chinese representative proposed that the following paragraph be added at this point:

“It follows as a necessary corollary of this declaration that the obligations of the Governments under the above-mentioned international conventions or agreements should be carried out in such a way as will not directly or indirectly infringe the principle of non-recognition of the present régime in the said territory—as adopted by the extraordinary Assembly on February 24, 1933;⁵ nor should the recommendations of June (7th or 9th) 1933 of the Advisory Committee of this Assembly⁶ appointed to follow the situation in the Far East be interpreted in a way directly or indirectly infringing the above-mentioned principle.”

⁴ *Foreign Relations*, 1912, p. 196.

⁵ *Foreign Relations*, Japan, 1931–1941, vol. I, p. 113.

⁶ See *Foreign Relations*, 1933, vol. III, p. 356. See also letter of June 12, 1933, from the Secretary General of the League of Nations, *Foreign Relations*, Japan, 1931–1941, vol. I, p. 120.

In a private meeting held on Wednesday evening, January 17, the first of these amendments was accepted by all those present except the British representative who maintained his objections to the end. Mr. Hoo learned on the following morning, however, that nearly all had changed their position and were unwilling to accept the amendment. He attributed this to British persuasion.

In regard to the second amendment, few if any of the members of the Council present were willing to accept it. In the case of both amendments, those who were opposed to them could not, of course, Mr. Hoo said, bring forward any objection of principle, since the principles had already been established, but resorted to objections of procedure such as the following: that these questions were political and could not properly be handled by the Council in the present connection and should consequently be referred to the Advisory Committee on the Sino-Japanese conflict; or that the Council could not interpret the recommendations of this Advisory Committee; or that these amendments were entirely unnecessary, since the principles had already been accepted. In spite of the counter arguments brought forward by the Chinese representative it was apparent to him that the Council did not wish to approve any statement committing itself to a definite stand on the question of the non-recognition of "Manchukuo".

At one time during these consultations the opponents of the amendments suggested that the Chinese position might be set forth in a statement by the Chinese representative before the Council with the understanding that his observations would be communicated by the Council to the Advisory Committee on the Sino-Japanese conflict. The Chinese representative however declined to accept this solution and continued to urge his amendments, or modifications thereof, in negotiations which lasted up until the evening before the closing meeting of the Council. An agreement was finally reached on the basis of the following compromise: the Council would accept the first amendment in a modified form if the Chinese representative would consent to abandon the second. As reported in the Consulate's telegram No. 18, January 20, 10 p. m.,⁷ the pertinent passage of the report as finally adopted by the Council on January 20 reads as follows:

"Moreover, in view of the fears expressed as to the possibility of the aggravation of the position in that territory, I think my colleagues will wish to give effect to the Committee's recommendation to draw the attention of the chief producing and manufacturing countries now to the necessity of supervising most strictly any application for the introduction of narcotics into the territory, and that the Council instruct the Secretary-General to write to the Governments concerned in that sense.

⁷ Not printed.

It is understood that in accordance with articles 3, 8 and 15 of the Hague Convention of 1912 exports of opium (raw and prepared) to the territory in question cannot be authorized.

I therefore propose that the Secretary-General, in his letter to the Governments, should draw their attention to that point.”⁸

Mr. Hoo informed me subsequently that in spite of his failure to obtain the acceptance of his amendments as originally proposed, which brought into greater relief the political aspects of the question, he was nevertheless satisfied as a whole with the results of the negotiations and felt that he had won a victory of no small importance in obtaining the Council's direct approval of a statement that exports of opium to the territory in question cannot be legally authorized. He was not convinced, however, that in practice this action on the part of the Council would prevent certain countries from trying to circumvent the provisions of the Hague Convention as well as the other conventions having a bearing on the subject.

In this connection, the fear has been expressed that in practice Japan can nullify any attempts to prevent the exportation of opium to “Manchukuo” by first importing the opium into Japan and then transshipping it to that territory, maintaining that such action would be legal since Japan recognizes “Manchukuo” as an independent country and not subject to Chinese law.

Composition of the Opium Advisory Committee.

One of the recommendations of the Opium Advisory Committee is not discussed in the report referred to above but is contained in a separate document. This is the report relating to the composition of the Advisory Committee and is contained in document C.23.1934.XI of which three copies are enclosed.⁹ This report covers the matter so thoroughly that no comment would seem to be necessary. It will be noted, however, that in addition to maintaining the present membership of 21 representatives, the Council approved the addition of representatives from the following countries: Canada, Persia, Sweden, and Turkey. It will likewise be noted that the Council did not commit itself to a decision concerning the maximum number of members which the Committee should comprise, preferring to retain its liberty of dealing with the composition of the Committee in accordance with the needs of the situation as they might arise. The Council further decided that the mandates of all members without distinction should be of indefinite duration, but that if any country failed to be represented

⁸ The letters were dated March 19 and acknowledged by the Secretary of State on April 9 (500. C 1197/688).

⁹ Not printed.

on the Committee during two consecutive years its mandate would be deemed to have automatically expired at the end of that period.

Respectfully yours,

PRENTISS B. GILBERT

500.C1197/689b : Telegram

*The Secretary of State to the Ambassador in Great Britain
(Bingham)*

WASHINGTON, April 2, 1934—9 p. m.

132. 1. In accordance with instructions from the League Council the Secretary General of the League under date of March 16 requested the Governments of Belgium, Great Britain, Czechoslovakia, France, Germany, Italy, Japan, Poland, Russia and the United States to furnish him for the use of the Opium Advisory Committee any information which they can obtain in regard to the traffic in opium and narcotic drugs in Manchuria and Jehol.

2. This plan was put forward by the Council of the League and not by the Opium Advisory Committee.

3. Consideration of the plan to furnish this information in the manner proposed involves *inter alia* the questions of (a) the propriety of furnishing formally information in regard to conditions in countries other than the United States and its dependencies (b) the effect which such action would have on the local relations of American consular officers in Manchuria and on their sources of information (c) the possibility that an attempt might be made to extend the plan to include China south of the wall as the Chinese government reports dealing with the traffic in that territory have been incomplete.

4. Please inquire orally and informally whether the British Foreign Office, in view of (a) the possible effect on the relations of consular officers in Manchuria and (b) possible repercussions in China which might follow the supplying of information in regard to China south of the wall, would be willing to defer its reply to the Secretary General pending exchange of views with the American Government in regard to the expediency of compliance with the request under consideration.

5. Fuller¹⁰ will be in London May 2 to 5 en route to the Opium Advisory Committee and could join in discussion at that time.

¹⁰ Stuart J. Fuller, Assistant Chief of the Division of Far Eastern Affairs and representative in expert and advisory capacity to the League of Nations Advisory Committee on Traffic in Opium and Other Dangerous Drugs.

6. The Department will await your telegraphic reply before replying to the Secretary General.

HULL

500.C1197/717 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, May 4, 1934—noon.
[Received May 4—8:35 a. m.]

223. Department's telegram No. 132, April 2, 9 p. m.

1. At a conference held May 3 between representatives of the Foreign Office and of the Embassy and Delevingne¹¹ and Fuller it was agreed that the course to follow will be to send a noncommittal acknowledgment to the League stating that the Minister for Foreign Affairs will furnish such information concerning the traffic in Manchuria as can properly be furnished.

2. It was further agreed that it will be expedient and advisable to limit the information so furnished to that which has been published in Manchurian gazettes or newspapers and to refrain from handing over consular reports.

3. Home Office will recommend this course to the Foreign Office which will undoubtedly act accordingly.

4. The Embassy will inform the Department by mail when the British acknowledgment goes forward to Geneva.

BINGHAM

500.C1197/717 : Telegram

The Secretary of State to the Ambassador in Great Britain (Bingham)

WASHINGTON, May 4, 1934—5 p. m.

179. Your 223, May 4, noon. For your confidential information and for that of Fuller.

1. The Department perceives no objection to the course of action outlined in paragraphs 1 and 2 of your telegram under reference provided the British Government also follows this course.

2. Upon the receipt of definite information that the British Government has replied to the League in the vein indicated, please telegraph the Department and, in your discretion, inform the Foreign

¹¹ Sir Malcolm Delevingne, British member of the Opium Advisory Committee.

Office that the American Government is forwarding a similar reply to the League.

HULL

500.C1197/732 : Telegram

The Secretary of State to the Consul at Geneva (Gilbert)

WASHINGTON, May 26, 1934—3 p. m.

45. For Fuller. American Embassy at London states that it has mailed to you a copy of its telegram No. 276, dated May 25, 3 p. m., to the Department¹² reporting that British Government has decided that no action is at the moment necessary in regard to the League's communication requesting information on narcotic traffic in Manchuria.

The Department will, pending your return, hold in abeyance the question of replying to the League's communication under reference unless, in the light of information available to you, further consideration of the matter appears advisable.

HULL

893.114 Narcotics/739 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, June 8, 1934—noon.

[Received 3:52 p. m.]

236. American Consul General at Hankow¹³ forwards letter from special inspector of the Ministry of Foreign Affairs in the area requesting permission for Chinese Opium Suppression Bureau to have a representative present during search of American gunboats on the Yangtze for suspected smuggled narcotics. Adams sent Chinese official concerned to Admiral Wainwright¹⁴ who under naval regulations refused desired permission. It appears that there have been occasions when narcotics have been smuggled on various foreign river gunboats. British Yangtze admiral informed Adams that the British had permitted one representative of Opium Suppression Bureau to be present on British naval vessel when it was searched by its officers for narcotics. Chinese state that French naval authorities have given similar permission in respect to French naval vessels.

¹² Not printed.

¹³ Walter A. Adams.

¹⁴ Rear Admiral John D. Wainwright, commanding the Yangtze Patrol, U. S. Asiatic Fleet.

2. I agree with American naval authorities that presence of alien authority on board American national vessel should not be permitted and I am accordingly unwilling to press matter with Admiral Wainwright although Adams urges cooperation with the Chinese authorities concerned and expresses the opinion that in view of the cooperative attitude of the British and French naval authorities our refusal to permit presence of an unarmed civil official on American gunboats when they are searched by their own officers for narcotics will cause suspicions and irritation on part of the Chinese authorities. Before instructing Adams to go no further in the matter I desire the Department's instructions.

3. In regard to this whole matter I would observe that such smuggling as has been done on foreign gunboats on the Yangtze has probably been done by casual Chinese employees on gunboats rather than by members of enlisted personnel who are under strict discipline and have careers at stake. Should there be evidence that casual employees on American gunboats are concerned in smuggling and if we are to maintain that a Chinese civil official may not be present when our national ships are searched by their own officers it might be desirable that casual employment of Chinese on American gunboats be discontinued.

JOHNSON

893.114 Narcotics/746 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, June 14, 1934—4 p. m.

170. Your 236, June 8, noon, in regard to Chinese request to have a representative present during search of American gunboats on the Yangtze for suspected smuggled narcotics.

The Department concurs in the Legation's views as set forth in paragraph 2, first sentence, of Legation's telegram under reference.

The Department is confident that American naval authorities endeavor strictly to prevent the use of American naval vessels for smuggling of narcotics; and that these authorities are animated by a desire to cooperate in every practicable and appropriate way with the Chinese authorities toward suppressing illicit traffic.

There is no legal basis upon which Chinese authorities can rightfully demand to have a representative present on board American gunboats during the search of such vessels for suspected smuggled narcotics. Moreover, as the periodic inspection which the Department understands is made by American naval officers of each gunboat

necessarily takes place at various points on the river during the normal movements of the vessels up and down the river, it would obviously be impracticable to have a Chinese representative present at all such inspections. In case the Chinese should desire to be present only at certain special inspections, it would seem reasonable to anticipate that the smugglers, if any, would obtain advance notice of such inspection and would take measures to have no contraband on board at such a time.

It is not clear from the telegram under reference whether the British have consented to the Chinese request in only one instance or whether they have given a general consent. Furthermore, we appear to have only the Chinese statement that the French have acquiesced.

The Department suggests that American naval authorities might be agreeable in exceptional and specific cases to acceding in some form to reasonable requests made by appropriate Chinese officials not on the basis of legal right but on the basis of cooperative courtesy.

The foregoing observations are offered for the discretionary use of the Legation and the appropriate consular officers in taking the matter up further informally and tactfully with appropriate Chinese authorities and with Admiral Wainwright.

HULL

500.C1197/732

The Secretary of State to the Ambassador in Great Britain (Bingham)

No. 450

WASHINGTON, June 28, 1934.

The Secretary of State refers to the Ambassador's telegram No. 276, dated May 25, 1934, 3 p. m.,¹⁵ stating that the Embassy had been informed informally by the Foreign Office that the British Government considered that no action at the moment was necessary in regard to the matter of a reply to communication No. C.L.27(a).1934.XI., dated March 16, 1934, from the Secretary General of the League of Nations¹⁵ which requested certain foreign governments to furnish for the use of the Opium Advisory Committee any information obtainable in regard to the traffic in opium and narcotic drugs in Manchuria and Jehol.

The Department has noted on pages 1081 and 1082 of the Parliamentary Debates, House of Commons, dated June 7, 1934, copies of which were transmitted to the Department by the Embassy under date June 12, 1934, that Sir John Simon¹⁶ made the following statement:

¹⁵ Not printed.

¹⁶ British Secretary of State for Foreign Affairs.

“His Majesty’s representatives in Manchuria will, in the ordinary course of their duties, report any information on this subject which comes to their knowledge. Any trustworthy information not of a confidential character will be communicated to the League in accordance with a request made by the council at its January meeting. Information of this character communicated by His Majesty’s Government or other Governments will no doubt be given publicity in the reports of the League. The answer to the last part of the question is therefore in the negative.”

The Department will appreciate receiving such information as the Embassy may be able to obtain with regard to (1) whether, subsequent to the Embassy’s telegram under reference, the British Government answered the League communication in question and, if so, the tenor of such reply; or (2) whether the British Government intends to comply in full or in part with the Secretary General’s request without making any written acknowledgment of the same.

500.C1197/754

The Ambassador in Great Britain (Bingham) to the Secretary of State

No. 823

LONDON, July 13, 1934.

[Received July 24.]

SIR: I have the honor to refer to the Department’s instruction No. 450 of June 28, 1934, quoting a statement made in Parliament by Sir John Simon on June 7 concerning the request of the Secretary General of the League of Nations for information with regard to the traffic in opium and narcotic drugs in Manchuria and Jehol, and directing the Embassy to inquire what steps the British Government has taken or intends to take in this respect.

The matter was brought to the attention of the appropriate official of the Foreign Office, who informed a member of the Embassy staff that the British Government had not as yet answered the Secretary General’s communication and that the Foreign Office did not plan to do anything about it at present. The official added that should anything be sent later, the material would be very carefully selected so as not to cause embarrassment to British officials in that area. He stated further that with the exception of some information on the subject given out by the Manchukuo authorities, which he assumed would reach the League’s Opium Committee, nothing had been received recently by the Foreign Office.

The official also said that should the Foreign Office send anything to the League, he thought it might be done through the British representative on the Committee, but he left the Embassy with the impres-

sion that, awaiting developments and in the absence of any reports from British Consuls on the subject, he preferred to let the matter rest.

At the close of the conversation it was suggested to the official that should the Foreign Office take any steps with the League in this relation, the Embassy would be grateful if it might be informed.

I shall not fail to report anything I may receive from the Foreign Office.

Respectfully yours,

For the Ambassador:

RAY ATHERTON

Counselor of Embassy

893.114 Narcotics/790 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, July 26, 1934—5 p. m.

227. (1) Blanco,^{16a} now at Geneva, has received a telegram from Hoo Chi Tsai, Chinese representative on Opium Advisory Committee now at Peiping stating that he could suggest to his Government that Blanco be asked to come to China for 1 year subject to extension to advise on opium suppression and requesting him to indicate terms of acceptance. Blanco replied July 18 declining appointment for 1 year as insufficient under existing circumstances for obtaining the basic information necessary for the formulation of plans for an efficient narcotic service. He feels that such a short period would lead to no result and would be a waste of money. He proposed a contract of 4 or a minimum of 3 years and stated his terms. He suggested as an alternative method for reaching the same end his reinstatement in the customs service with a view to his being detached for special opium work under Nanking. He could leave Geneva within 1 month after receiving appointment. He left the way open for counter-proposal.

(2) In reply to Blanco's request for his opinion Fuller informed Blanco in confidence that in his personal opinion Blanco's estimates set forth above are sound, provided there is a clear understanding that (a) Blanco's advice will extend to prevention of illicit manufacture and of illicit traffic in manufactured drugs and (b) full reports will be made in future especially on illicit traffic and that Blanco will advise on such reports, under which circumstances the plan might afford Blanco opportunity to do good work in furtherance of solution of China's opium and drug problem although solution must in the end rest with the Chinese themselves.

(3) The foregoing is for information only. The Department prefers not to offer to the Chinese Government any suggestions in regard to the employment of foreigners to assist in suppressing the opium

^{16a} A. E. Blanco, of the Anti-Opium Information Bureau, Geneva.

and drug traffic or in preparing reports thereon under the Narcotics Limitation Convention of 1931.¹⁷ Should appropriate opportunity present, however, the Legation may point out informally the menace to the United States which existing opium and drug conditions in China constitute and may express the hope that Chinese annual reports on narcotics and reports on seizure cases will be more complete in future.

(4) Inform Nanking by mail.

HULL

500.C1197/754

The Secretary of State to the Minister in China (Johnson)

No. 1418

WASHINGTON, July 30, 1934.

SIR: The report of the Opium Advisory Committee on the work of its Seventeenth Session (October 30 to November 9, 1933) stressed the lack of official information available in regard to conditions in Manchuria in the following terms:

“. . . ¹⁸ Under present conditions, the League is not receiving any reports, as provided for in the International Conventions, in regard to the traffic in opium and dangerous drugs in the territory, or any official information as to the situation there. The Committee feel it to be their duty to represent to the Council the great importance of steps being taken, by whatever channel or method may be found to be most suitable in existing circumstances, to secure the fullest possible information as to the production, sale and use of opium and drugs in the territory, the administration of the laws and regulations which have been adopted on the subject and their effects, cases of illicit traffic, and so on, such as the League receives from other countries and territories. The Committee considers that it is of the utmost importance that the present regime in the territory should be aware of the interest which the opium and drug policy there must necessarily have for other countries and territories and that the assistance of all concerned should be secured in the application there of the measures of control and restriction which have been adopted now by a large majority of the countries of the world.”

When the *rapporteur* presented the Committee's report to the Council the covering report which he submitted as *rapporteur* included the following statement:

“CONTROL OF THE OPIUM AND DRUG TRAFFIC IN AND WITH MANCHURIA AND JEHOL TERRITORY, ALSO KNOWN AS ‘MANCHUKUO’

“The Advisory Committee considered very carefully the bearing on its work—and, generally, on the execution by the League of the duty

¹⁷ Signed at Geneva, July 13, 1931, *Foreign Relations*, 1931, vol. I, p. 675.

¹⁸ Omission indicated in the original.

entrusted to it by the Covenant of supervising the traffic in opium and other dangerous drugs—of the new situation which has been created in this territory.

“The Committee showed grave apprehension at certain information which had reached it revealing a threefold danger which it was its duty under its terms of reference to obviate by all available means: firstly, a fear was expressed by certain members of the Committee that the policy of the new regime, by creating a State Opium Monopoly from which large revenue was anticipated, might result in aggravating the position in regard to opium and other dangerous drugs in a country where the production and consumption of opium were already excessive; secondly, there was the danger of the possible importation of Persian opium into a territory already saturated with drugs; and, finally, the danger which would inevitably arise, not only for China but also for other countries, if the authorities did not take adequate steps to prevent the establishment of secret drug factories in a country possessing abundant stocks of raw opium for such manufacture. As the League was not receiving any reports or any official information as to the situation in the territory in regard to opium and dangerous drugs, the Committee felt it to be its duty to represent to the Council the importance of using whatever methods might be found most suitable in existing circumstances to secure the fullest possible information on the subject.

“I am sure that my colleagues will desire to facilitate the work of the Committee in this matter by every means in their power. Nevertheless, owing to the special position of this territory and the obligation upon the Committee to take account of the recommendations of the Advisory Committee of the Assembly instructed to follow the situation in the Far East, I think my colleagues will agree that an appropriate way of procuring the necessary information is to apply for this purpose to the Governments of the States Members of the League which are in a position to furnish the information required by the Advisory Committee as well as to the Governments of the United States of America and of the Union of Soviet Socialist Republics.”

The *rapporteur's* report was adopted by the Council and, under date of March 16, 1934, the Secretary-General of the League of Nations sent to the Department his circular letter No. C.L.27(a).1934.XI on the subject, a copy of which is enclosed.¹⁹ The same letter was sent to the Government of the Union of Soviet Socialist Republics. Similar circular letters were sent to the Governments of Belgium, Great Britain, Czechoslovakia, France, Germany, Italy, Japan, and Poland. It will be noted that the plan set forth in the Secretary General's circular letters was put forward by the League Council and not by the Opium Advisory Committee.

The question raised by the Council's recommendation is regarded as really meaning publication of information secured by Japanese, Russian, British and American representatives in Manchuria, narrow-

¹⁹ Not printed.

ing down in effect to that secured by British and American consular officers.

It would appear that the furnishing of the information as proposed involves, *inter alia*, two questions of policy, viz.:

- (1) The propriety of furnishing formally information in regard to conditions in countries other than the United States and its dependencies;
- (2) The effect which such action might have on the local relations of American consular officers in Manchuria and on their sources of information.

Prior to the session of the Opium Advisory Committee which was held in May of this year, the American representative in that Committee carefully refrained from handing in for circulation and from quoting in his remarks in the plenary Committee reports on conditions in countries other than the United States and its dependencies. When it appeared advisable or necessary to develop information in regard to territories other than American, his course has been to address questions to the representative of the government concerned or to suggest that the government concerned be asked specific questions. In the confidential discussions (which have taken place in the Sub-Committee on Seizures the meetings of which are not open to the public) of specific cases of illicit traffic, information in regard to circumstances abroad in respect of specific cases has been given by the American representative, and similarly by the representatives of other countries.

In general, the representatives of other countries have followed a similar course, with the exception of the representatives of Great Britain and of France. The British and French representatives have quoted and have circulated newspaper articles describing conditions in China. They have also, without specifically stating the source, circulated reports on the situation in China. When complaint was made (by the Chinese representative) that these reports were anonymous, the British reply was that they were all from reliable and authoritative sources. Practically everyone at once came to the conclusion that they were British consular reports, as most of them were.

In the case of Manchuria, the government recognized as the sovereign (i. e., China) is prevented by existing conditions from obtaining official information as to the situation in that area. This puts the case on a footing which differentiates it from areas in which recognized governments function. Nevertheless, the Department, realizing the desirability of avoiding any action which would embarrass its consular officers in Manchuria, considers it expedient to limit information which it may place at the disposal of the Opium Advisory

Committee to that which has been published in Manchurian gazettes or newspapers or otherwise already made public and to refrain from handing over consular reports.

In May last the question was made the subject of an informal oral exchange of views between representatives of the American Embassy in London and the British Foreign Office in which discussion the American and British representatives on the Opium Advisory Committee took part.

On June 7, 1934, in the House of Commons, Sir John Simon made the following statement:

“His Majesty’s representatives in Manchuria will, in the ordinary course of their duties, report any information on this subject which comes to their knowledge. Any trustworthy information not of a confidential character will be communicated to the League in accordance with a request made by the council at its January meeting. Information of this character communicated by His Majesty’s Government or other Governments will no doubt be given publicity in the reports of the League. The answer to the last part of the question is therefore in the negative.”

This statement indicates that the British Government plans to follow a course which concords with the consensus of opinion in the informal discussions just referred to and is similar to that which the Department expects to follow.

There is enclosed herewith, for the confidential information of the Legation, a copy of despatch No. 823 dated July 13, 1934, from the American Embassy in London²⁰ in regard to the intentions of the British Government in connection with the matter under reference.

Very truly yours,

For the Secretary of State:
R. WALTON MOORE

893.114 Narcotics/795 : Telegram

The Secretary of State to the Consul General at Tientsin (Lockhart)

WASHINGTON, August 2, 1934—1 p. m.

If you have not already done so report by mail on alleged action of Japanese military in obtaining by force the delivery to them by the Chinese magistrate at Changli about June 13 of narcotics which had been seized from and fines which had been imposed upon certain Chinese. If manufactured drugs were involved report all information available to show where they were manufactured.

HULL

²⁰ *Ante*, p. 359.

500.C1197/760b

The Secretary of State to the Ambassador in Japan (Grew) ²¹

No. 565

WASHINGTON, August 8, 1934.

The Secretary of State refers to the Department's instruction No. 466, of February 26, 1934,²² and encloses herewith, for the information of the American Embassy at Tokyo, a copy of League document No. O.C. 1565, which is the reply of the Japanese Government to Circular Letter No. C.L.30.1934.XI., in regard to the recommendations of the Council of the League of Nations in respect of supervision of the traffic in narcotic drugs to Manchuria and Jehol. A copy is also enclosed of letter No. 30(e).1934.XI., dated March 19, 1934, from the Secretary General of the League of Nations to the Minister of Foreign Affairs at Tokyo.

[Enclosure 1]

Translation of Letter From the Japanese Consul General at Geneva (Yokoyama) to the Secretary General of the League of Nations (Avenol)

GENEVA, May 22, 1934.

SIR: In reply to your circular letter (C.L.30(e).1934.XI) of March 19th last concerning the control of the trade in opium and other dangerous drugs with Manchukuo, I am instructed by my Government to inform you that all applications for the export of substances covered by the Conventions are examined very carefully and that my Government will pursue the same policy as regards the trade in opium and other dangerous drugs with Manchukuo.

With reference to the application of the Hague Convention to the territory of Manchukuo, the Japanese Government wishes to point out that, having recognised Manchukuo as an independent State, it cannot agree with the views expressed by the Council in the circular letter mentioned above, namely, that exports of opium to the territory in question cannot be authorised. My Government is of opinion that permits to export the above-named substances to Manchukuo are valid and legal if they are issued in accordance with the provisions of the International Conventions governing the matter.

I have [etc.]

M. YOKOYAMA

²¹ The same, *mutatis mutandis*, to the Minister in China as Department's No. 1425, August 8.

²² Not printed; it transmitted copy of despatch No. 796 Political, January 27, from the Consul at Geneva, p. 349.

[Enclosure 2]

*The Secretary General of the League of Nations (Avenol) to the
Japanese Minister for Foreign Affairs (Hirota)*

GENEVA, March 19, 1934.

YOUR EXCELLENCY: On January 20th, 1934, the Council of the League of Nations considered certain suggestions made by the Advisory Committee on Traffic in Opium and Other Dangerous Drugs at its seventeenth session (October 30th–November 9th, 1933) in regard to the control of the opium and drug traffic with Manchuria and Jehol, territory also known as “Manchukuo”. In accordance with the suggestions of the Advisory Committee, the Council instructed the Secretary-General to draw the attention of the chief producing and manufacturing countries to the necessity of supervising most strictly any application for the introduction of narcotics into this territory. The Council further pointed out that it is understood, in accordance with Articles 3, 8 and 15 of the Hague Convention of 1912, that exports of opium (raw and prepared) to the territory in question cannot be authorised.

I have the honour, therefore, in accordance with the instructions of the Council, to draw the attention of your Government to this matter and would refer you to the report to the Council on the work of the seventeenth session of the Opium Advisory Committee (document C.642.M305.1933.XI) and the Minutes of the Council’s meeting on January 20th, 1934, copies of which have already been communicated to your Government.

I have [etc.]

For the Secretary-General:
[Signature not indicated]
*Director of the Opium Traffic
and Social Questions Sections*

893.114 Narcotics/848

The Consul at Tientsin (Atcheson) to the Secretary of State

No. 626

TIENTSIN, August 27, 1934.

[Received October 6.]

SIR: I have the honor to refer to the Department’s telegram of August 2, 1 p. m., and to my reply of August 24, 9 a. m.²³ on the above subject, and in that connection, to submit the following report.

In its issue of June 16, 1934, the *I Shih Pao*, a vernacular paper published in Tientsin and noted for its courageous editorial policy,

²³ Latter not printed.

reported that on the afternoon of the June 14 a squad of thirty Japanese soldiers, led by an officer whose name in Chinese is given as K'u Wei, surrounded the Magistracy at Ch'angli, and demanded of the Magistrate, one Liang Yu, that he immediately refund the sum of more than Yuan \$4,900 representing the money exacted as fines from the dealers in and users of opium and from gamblers and the operators of gambling houses. The report asserts that, failing such return, the Magistrate was to be shot to death.

The report goes on to say that after some discussion, however, it was agreed that the Magistrate should be given three days of grace, within which he was to hand over Yuan \$1,000 and four packages of opium, and the troops were withdrawn.

Liang is said then to have telegraphed the Chairman of the Hopei Provincial Government, General Yu Hsueh-chung, for instructions, at the same time deputing Li Wei-T'ing, the Chief of the Ch'angli Hsien Judicial Department, to T'angshan to report the affair to T'ao Shang-Ming, the Special Administrator of the Luan-Yu Area, with the request that it be reported to the Japanese Commander at Shanhaikuan, Ch'uan Ho, the direct superior of the officer in command of the Japanese troops at Ch'angli. It was also said that a Japanese Vice Consul was ordered to T'angshan, and accompanied T'ao to Shanhaikuan.

A second and more complete report of the affair published in the issue of the *I Shih Pao* for June 17, described the incident as being in part due to friction with the Japanese officials at Ch'angli over the detention of two suspected criminals by the Magistrate, and indicated that a settlement was reached after conference between the Japanese Vice Consul and T'ao Shang-Ming at T'angshan and after the Vice Consul's visit to Ch'angli. T'ao then, according to this report, sent Li Wei-T'ing to Shanhaikuan with a letter addressed to the Chief of the Bureau of Public Safety there, requesting that the head of the Japanese Military at Shanhaikuan be asked to order the Japanese troops in Ch'angli to desist from such acts in the future.

It is of interest to note that the report quoted states that the Magistrate, Liang Yu, is an American returned student.

As of possible interest, full translations of both of the reports quoted above are enclosed.²⁴

Information given on August 23 to Vice Consul Ward of this office by a member of the Ch'angli gentry in Tientsin on private business indicates that these reports are substantially true. The informant stated that on June 14 thirty fully armed Japanese soldiers, officered by a captain or first lieutenant, appeared at the Magistrate's office,

²⁴ Not printed.

and threatened his life, demanding, as the newspaper report states, the return of the fines exacted and opium seized from local opium smokers during a vigorous campaign which the Magistrate had been waging against the vice of opium smoking.

The informant asserted that this drive of Liang's had the full support of all people of standing in the district, and that it was directed against a very serious situation which existed not only in Ch'angli Hsien, but throughout the demilitarized zone. In Ch'angli Hsien alone there are, he said, over 100 dealers in opium, morphine and heroin, most of whom are either Japanese or Korean. The shops in which these drugs are dispensed are called Yang Hang, "Foreign Firms", and even those owned by Chinese claim exemption from Chinese jurisdiction on the ground that they are the property of Japanese nationals.

It would thus appear impossible for the Chinese authorities to act directly against the individuals engaged in the sale of drugs in Ch'angli, and Liang subsequently concentrated on eradicating the use of the drug. In this, Mr. Ward's informant stated, Liang met with some measure of success. Agents of the Magistrate were stationed at points close to the larger known opium shops, and Chinese leaving such places who showed signs of having been smoking opium were arrested, searched, and subjected to fines. Such drugs as they may have purchased were confiscated. This scheme was followed for over four months, and resulted in such a sharp falling off in the business of the "Foreign Firms" concerned that Liang felt encouraged to extend his campaign to include gambling.

In this connection the informant pointed out that the natural penchant of the Chinese for gambling has for some time afforded disreputable Japanese and Koreans in Ch'angli with a lucrative source of income, and he stated that the number of gambling houses has increased since the establishment of the de-militarized zone. They are, he asserted, not honestly conducted, and are looked on by the better elements in Ch'angli as being little better than opium dens, several establishments including both under the same roof.

In the vigorous prosecution of his campaign Mr. Liang brought upon himself the not unnatural ire of the dispensers of drugs and the owners of gambling houses in his district, and they, being by nationality predominantly Japanese, sought the assistance of the Japanese military present in Ch'angli. The attempted seizure was the result. The informant stated that the drugs which had been confiscated and the fines exacted were in fact handed over to the Japanese military, although the newspaper reports noted above indicate that this was not done.

This informant did not believe that any of the drugs seized had been taken from dealers themselves, and he stated that the fines were those exacted from the smokers and not from the dealers. He believed that the amount of the fines, including those collected for gambling, easily exceeded Yuan \$4,000, but he did not know the exact amount.

The heroin being sold in Ch'angli is, he stated, believed by the Chinese there to be manufactured in Korea, and to be brought into Ch'angli through Shanhaikuan. An official of the Tientsin Municipal Government, questioned on this point during a discussion of the subject, stated however that he believed Dairen to be the chief place of manufacture of the drugs now being distributed in the de-militarized zone.

Certain Chinese from T'angshan and Ch'ienan Districts have corroborated the statement of the informant quoted that, from the Chinese point of view at least, the Japanese authorities in the de-militarized zone are more or less openly assisting their nationals in the distribution throughout that area of opium and its products, morphine and heroin. Although the apparently hopeless efforts of the Chinese authorities to cope with this menace are believed to be based, as they are claimed to be, on the real horror which responsible Chinese feel of the drug itself, and the feeling that the Japanese are using the propagation of the drug habit among Chinese as a means of destroying the virility of the race, it must also be added, as the Chinese themselves say frankly enough, that there probably is, in the steps taken by Mr. Liang, and in similar measures taken by other Chinese authorities throughout this district, an anti-Japanese bias.

In connection with the above report, it may be stated that because of the difficulty involved in finding reliable sources of information, the Consulate General felt at the time of the Chi'angli incident that it would be more practicable to include it in a report on the narcotics situation in this district which it hoped to be able to prepare at a later date, than to make it the subject of a separate report.

Respectfully yours,

GEORGE ATCHESON, JR.

893.114 Narcotics/827 : Telegram

The Acting Secretary of State to the Minister in China (Johnson)

WASHINGTON, September 4, 1934—6 p. m.

279. Your despatch No. 2873, July 28.²⁵ When opportunity presents the Minister or the Counselor at Nanking should intimate orally and informally to the appropriate authorities in Nanking the concern

²⁵ Not printed.

of the American Government over the apparent increase in smuggling of prepared opium from China to the United States and over the large quantities of clandestinely manufactured derivatives of opium known to be available in China for smuggling to the United States. It is suggested that this might be done when handing over the American annual narcotic report for 1933²⁶ sent to the Legation with the Department's circular instruction of August 15, 1934,²⁷ which mentions the American Government's apprehensions on pages 5, 6, 7, and 35. Please report when this action has been taken.

MOORE

893.114 Narcotics/836 : Telegram

The Counselor of Legation in China (Gauss) to the Secretary of State

NANKING, September 21, 1934—noon.

[Received 1:25 p. m.]

68. Reference my No. 67, September 17, 4 p. m.,²⁷ regarding manufacture of narcotics. Further investigation and consultation with the Director of the National Health Administration has developed the following information: In 1929 the Chinese Government issued regulations for the establishment of a national agency to have a monopoly of all importation, distribution and sale of narcotics. The regulations were not put into effect, however, largely because of difficulties foreseen in their effective enforcement.

Recently the drastic action taken by Chiang Kai-shek²⁸ for the suppression of unlawful narcotics traffic, involving in many cases infliction of the death penalty, has led to pressure for the establishment of the national agency to provide a lawful source of supply of narcotics for legitimate medicinal purposes.

The National Health Administration is preparing to give effect to the 1929 regulations by designating the Central Hygienic Laboratory at Nanking, one of the departments of the administration, as the national agency.

In this connection it has been proposed that instead of importing all narcotic supplies from abroad the national agency should make use of narcotics seized in the unlawful traffic in China. Heretofore these seized supplies have been destroyed. They are usually adulterated or impure and would require laboratory processing for refining or puri-

²⁶ U. S. Treasury Department, Bureau of Narcotics, *Traffic in Opium and Other Dangerous Drugs for the Year Ended December 31, 1933*: Report by the Government of the United States of America (Government Printing Office, Washington, 1934).

²⁷ Not printed.

²⁸ Chairman of the Chinese Military Council and Commander in Chief of the Army, Navy, and Air Forces.

fication. This work would be undertaken by the national agency in its own laboratory plant which is under the strict control of the National Health Administration. The proposal to use such supplies has been approved by the Executive Yuan but has not yet been approved by the Central Political Council.²⁹

Mail report follows.³⁰

GAUSS

PROPOSED INTERNATIONAL COLLABORATION FOR THE ECONOMIC RECONSTRUCTION OF CHINA;³¹ ORGANIZATION BY CHINESE BANKERS OF THE CHINA DEVELOPMENT FINANCE CORPORATION

893.50A/75 : Telegram

The Acting Secretary of State to the Counselor of Legation in Switzerland (Mayer), at Geneva

WASHINGTON, January 13, 1934—2 p.m.

131. Your 223, January 12, 2 p. m.³⁰ If you receive notification of meeting of Committee for technical cooperation between the League and China, with invitation to attend, Department desires that you give an informal acceptance and attend in an absolutely informal and strictly unofficial capacity. Department is instructing Paris to send you text or substance of instructions issued to Marriner³² in connection with his attendance in July, 1933, at meeting of this Committee.³³

PHILLIPS

893.50A/76 : Telegram

The Counselor of Legation in Switzerland (Mayer) to the Secretary of State

GENEVA, January 16, 1934—2 p.m.
[Received January 17—12:10 p.m.]

224. Department's 131, January 13, 2 p.m. I attended the meeting of the Committee for Technical Cooperation between the League and China in the capacity desired by the Department. Although an invitation was extended to me to be present I learn that the Secretar-

²⁹ Telegram No. 69, September 22, 1934, 9 a. m., from the Counselor of Legation in China, reported that "proposal to use seized drugs has now been approved by the Central Political Council" (893.114 Narcotics/838).

³⁰ Not printed.

³¹ Continued from *Foreign Relations*, 1933, vol. III, pp. 494-524.

³² J. Theodore Marriner, Counselor of Embassy in France.

³³ See telegram No. 145, July 16, 1933, midnight, from the Acting Secretary of State to the Secretary of State in London, *Foreign Relations*, 1933, vol. III, p. 499.

iat seem to consider that the terms of the American acceptance for the meeting in Paris last July signified continuing association with the Committee in an unofficial manner and that in reality no invitation to attend future meetings is needed.

At today's meeting a very brief preliminary report from Rajchman³⁶ was circulated to the members stating that the Council's decision to strengthen technical cooperation by China caused general satisfaction in the country. He requested opportunity later to present a considered report when the economic survey on behalf of the National Economic Council was concluded. A supplementary exposé has been prepared by the Secretariat which together with Rajchman's report will be forwarded by mail.³⁷

It was agreed to hold sessions of this Committee at every Council meeting. Further it was agreed that another meeting of the Committee would be called during the present session of the Council if any member should request it as a result of a reading of the Secretariat's detailed exposé referred to above.

MAYER

893.48/881

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Conversation With the Japanese Chargé (Taketomi)

[WASHINGTON,] January 18, 1934.

Mr. Taketomi came in by appointment and said that he wished to talk again about the R. F. C.³⁸ \$50,000,000 loan to China. He recounted various points in the history of the loan and the fact that very little cotton or wheat has been sent to China on the basis of this credit and then proceeded to say that the loan had originally made a very bad impression in Japan and that that impression continues, partly because of the fact that the Chinese press continues to capitalize the transaction as an evidence of special friendliness on the part of the United States to China. He then said that he was under instruction from his Government to make informally the suggestion that if and when the question of extending or revising the contract comes up for consideration thought be given to this feature of the general effect upon American-Japanese relations. He made the statement in such a way that it gave the impression of an intimation that termination of the contract would be pleasing to the Japanese Government—on the

³⁶ L. W. Rajchman (Polish), director of the League of Nations health section and technical adviser to the Chinese Government.

³⁷ Not printed.

³⁸ Reconstruction Finance Corporation.

score that it would be helpful toward general improvement of these relations.

Mr. Hornbeck confined his reply to a statement that he would make record of the conversation and bring the matter to the attention of the Acting Secretary.

S[TANLEY] K. H[ORNBECK]

893.51/5866

The Counselor of Legation in China (Peck) to the Secretary of State

NANKING, February 10, 1934.

[Received March 12.]

SIR: On the afternoon of February 9, 1934, I received a friendly call from Mr. Yakichiro Suma, newly appointed Japanese Consul General and First Secretary of Legation residing in Nanking.

In the course of the conversation I asked Mr. Suma whether he knew how successful the Chinese National Economic Council was proving to be in its work of improving economic conditions in China.

Mr. Suma said he had heard that the Chinese Government has asked the American Government to alter the Cotton-Wheat "Loan" to a loan of money, and he observed that the National Economic Council had been started with the idea that its operations would be financed with the proceeds of this "Loan". I made the observation that this could hardly be, since the National Economic Council was started in 1931, whereas the Cotton-Wheat Credit was extended in 1933. I said I had not heard of the new scheme he mentioned and I called attention to the fact that Mr. T. V. Soong's transaction in the United States was not a loan, but was merely a credit extended to the Chinese Government for the purchase of cotton and wheat up to a total value of U. S. Currency \$50,000,000; that the Chinese Government was not obliged to utilize the entire credit; and that, as I understood, very little cotton had been purchased and even wheat purchases had not been fully completed, owing to the fact that the resale of American cotton by the Chinese Government at a profit had been found impossible and the low price of wheat prevailing in China made a profit on resold American wheat difficult to obtain.

Mr. Suma amended his statement, by saying that the National Economic Council had been increased in personnel and scope of operations after the American Credit was established, in the hope that profits from that transaction might provide funds for the operations of the Council. He observed that the American cotton could be utilized only by the Japanese owned cotton mills in China and he answered affirmatively my question whether Japanese cotton mills were not refraining

from buying American cotton from the Chinese Government, but were making their purchases direct from the United States. Mr. Suma said that this action of the Japanese cotton mills was caused by the tension in Japanese-Chinese relations.

Mr. Suma asked me whether I had met Mr. Monnet,³⁹ whom he described as a French financier who had come to China at the request of Mr. T. V. Soong, just as Sir Arthur Salter had come. I replied that I had not met Mr. Monnet, but that I was anxious to do so, since he had been described to me as a very intelligent man.

Mr. Suma said that Mr. Monnet had told him in Shanghai that Mr. T. V. Soong, when he was in London last summer, had talked with Mr. Thomas W. Lamont, American banker, and with Sir Charles Addis, British banker, and had endeavored to promote a scheme under which foreign capital would be brought to China for purposes of economic development, but without the participation of Japan.

Mr. Suma expressed the opinion, in which, he said, Mr. Monnet had heartily concurred, that no scheme of financing economic development in China could succeed if it excluded Japan. Any such plan, Mr. Suma insisted, was "imaginary" and unreal. It was for this reason, he added, that the National Economic Council could not succeed in its program, even though headed by such capable men as Mr. T. V. Soong and Dr. Ludwik Rajchman. (Doubtless the well known anti-Japanese feelings of Mr. Soong and Dr. Rajchman were in the mind of Mr. Suma. W. R. P.) Mr. Suma said that he was told that Mr. T. V. Soong, ex-Minister of Finance and present member of the Standing Committee of the National Economic Council, would soon return to the Chinese political stage in a more substantial position, such as Minister of Industries, Communications, or Railways.

Mr. Suma said that Mr. Monnet had expressed himself as being extremely discouraged with the state of affairs in China, especially in relation to the prospect of bringing foreign capital in for the purpose of economic development.

The Department is doubtless aware of Mr. Suma's fame as a practical diplomatist. His remarks to me, which I have summarized above, were a plain caveat against any plan to finance China politically or economically with foreign capital, excluding Japanese participation, whether such objective were sought to be achieved through an American credit, a partial revival of the International Consortium,⁴⁰ or a project of the League of Nations.

Very respectfully yours,

WILLYS R. PECK

³⁹ Jean Monnet (French), chairman of a consultative committee organized in 1933 by T. V. Soong, the Chinese Minister of Finance.

⁴⁰ For the Consortium Agreement of October 15, 1920, see *Foreign Relations*, 1920, vol. I, p. 576.

893.50A/84

The Counselor of Legation in China (Peck) to the Secretary of State

NANKING, March 26, 1934.

[Received May 7.]

SIR: I have the honor to state that during a social conversation with Dr. O. Trautmann, German Minister, on the afternoon of March 25, the latter told me that he had just received a call from Mr. Y. Suma, Secretary of the Japanese Legation residing in Nanking, and that Mr. Suma had dwelt on the futility of any plans for the economic rehabilitation of China in which Japan should not take a preponderant part. Mr. Suma had also told Dr. Trautmann of recent dangerous Communist inroads into Hunan Province. Dr. Trautmann said that Mr. Suma had taken some pains to emphasize that in any plans for the economic development of China, Japan must have the "lion's share", or such plans would be doomed to failure. Dr. Trautmann wondered whether Mr. Suma made these declarations merely as a matter of private conviction, or whether he did so under instructions from his Government. Dr. Trautmann said that Mr. Suma had referred to some big scheme for international collaboration for the economic development of China and that he, Dr. Trautmann, had replied that he supposed that Japan would, of necessity, have a part in any international plan for the economic development of China.

Dr. Trautmann wanted to know my views on Mr. Suma's activities as indicated above, and I replied that Mr. Suma had taken the same line in his conversations with me. For example, he had told me that he understood that Mr. T. V. Soong, when he went to America and London in the summer of 1933, had endeavored to promote a big scheme for the international joint development of China in economic ways, without the participation of Japan. Mr. Suma had expressed the opinion that any such scheme, or any endeavor on the part of the League of Nations to assist in economic development in China without Japanese participation, was fantastic and "imaginary", and lacking in any practical hope of success. He had said that he thought the Chinese were beginning to realize this.

I said to Dr. Trautmann I hardly thought that Mr. Suma had received instructions to urge this viewpoint on the different foreign diplomatic representatives in Nanking, although it was possible he had been so instructed, on the hypothesis that repeated iteration of an assertion is calculated to bring about conviction in the mind of the hearer. I thought it might be, I said, that Mr. Suma spoke out of the intensity of his own belief in the essential part which Japan must take in the political and economic affairs of the Far East.

I said that I, also, had received Mr. Suma's information regarding recent dangerous Communist inroads into Hunan and had asked Dr. Wang Ching-wei⁴¹ for confirmation, whereon Dr. Wang had denied the reports *in toto* and had immediately told me that he thought they emanated from a Japanese source, since the Japanese were continually exaggerating the Communist menace in China.

I recalled to Dr. Trautmann recently published official statements by Japanese in high positions to the effect that peace in the Orient necessarily rested on Japan as a foundation and I remarked that there is a pretty general belief that Japan would be delighted to receive an international "mandate" to reduce China to order and protect general international interests in this region. Dr. Trautmann was aware of this general belief.

Respectfully yours,

WILLYS R. PECK

893.00/12712 : Telegram

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

SHANGHAI, March 27, 1934—4 p. m.

[Received March 28—5:40 p. m.]

130. First plenary meeting National Economic Council held Nanking March 27th Kuomin reports that among proposals adopted most significant related to distribution of proceeds of American wheat and cotton loan, increase of prices of foodstuffs, exploitation of mineral resources in Yunnan, control of match and coal industries and transitional measure towards adoption of the gold standard. It is estimated that \$40,000,000 national currency proceeds of cotton and wheat loan will be available for reconstruction purposes. According to a resolution adopted 40 percent or \$16,000,000 will be earmarked for readjustment of national currency and finances and improvement of monetary system. Six million will be allocated for development of aviation and about three million for relief and rehabilitation in Kiangsu. The remaining fifteen million are to be used for development of highways, reconstruction enterprises in the northwest, cotton control, improvement of sericulture, tea, et cetera, and reserve funds.

2. Another proposal adopted called for increase of prices [of] home-produced foodstuffs. This was referred to Executive Yuan for immediate execution. Proposal provides *inter alia* for prevention of further influx of foreign flour, rice and wheat, reduction of railway

⁴¹ President of the Chinese Executive Yuan (Premier) and Acting Minister for Foreign Affairs.

freight on foodstuffs, exemption from transit taxes and purchases by Government of surplus food supplies.

3. The proposal to have to pave the way for ultimate adoption of gold standard was referred to Monetary Committee of Ministry of Finance for consideration. It provides that central bank be authorized to issue gold bank notes which must be used as legal tender in ordinary commercial transactions. Value to be one-fourth of customs gold unit. Any private individual may present gold or articles made of gold to the bank in exchange for those gold notes. Bank to hold a 40 percent specie reserve against such gold notes which may consist of gold articles or gold. When appropriate time comes all income and expenditure of Government to be expressed in terms of new gold unit.

Repeated to the Legation, copy by mail to Nanking.

CUNNINGHAM

793.94/6639 : Telegram

The Minister in Switzerland (Wilson) to the Secretary of State

GENEVA, May 3, 1934—3 p.m.

[Received May 3—8:25 a.m.]

241. Mayer's 224, January 16, 2 p. m., Consulate's 64, May 1, 2 p. m.⁴² Haas⁴³ tells me that the China Technical Committee will be called during the coming session of the Council in the week beginning May 14 and that only the usual circular notice of convocation will be sent out. As Department has made no comment of second sentence of paragraph 1 of Mayer's 224, January 16, 2 p. m., I assume that I should attend the meeting in the capacity you prescribed on receiving notice of the convocation. (Chinese-Japanese controversy.)

WILSON

800.503193/9

*Memorandum by the Minister in China (Johnson) of a Conversation With Mr. David Drummond*⁴⁴

NANKING, May 3, 1934.

Mr. Drummond called today and said that Mr. Monnet wished to see me, if possible, on Saturday afternoon, May 5. I told him that I would

⁴² For telegram No. 64, see p. 150.

⁴³ Robert Haas (French), director of the League of Nations communications and transit section.

⁴⁴ Copy transmitted to the Department by the Minister in China in his despatch No. 2715, May 9; received June 4. Mr. Drummond was a British national who accompanied M. Jean Monnet to China in 1933-34.

be very glad to see Mr. Monnet on Saturday afternoon at such a time as might be agreeable to him. Mr. Drummond asked me if I knew about their activities. I stated that I did not but would be very glad to hear anything that he might care to tell me.

Mr. Drummond referred to T. V. Soong's visit in Europe last year, at which time there were discussions regarding the possibility of giving financial assistance to China. He said, however, that these discussions led no place at that time because T. V. was unwilling then to permit Japanese participation and the Japanese had intimated that they would prevent the successful accomplishment of any effort that might exclude them. Mr. Drummond stated that it was the opinion of Mr. Lamont and Sir Charles Addis that an effort of this kind could not be successful without Japanese participation and even T. V. Soong recognized this, and indicated his willingness to invite Japanese participation once the business was started. However, all that came out of this was that Mr. Monnet, who was in no way connected with the League but was quite independent, having been employed in the United States during recent years with Blair and Company and other financial organizations, had been invited to come out and look over the situation from a purely practical businessman's point of view. Mr. Drummond said that Mr. Monnet had asked him to come along, and that the two of them had come out to China, and as a result of Mr. Monnet's discussions and visit, he had now worked out a scheme which called for the organization of a Chinese bankers syndicate.

It was Mr. Monnet's idea when he came out that he should find something stable in China with which to work, and he felt that he had found this in the Chinese bankers of Shanghai. It was expected that with these bankers a syndicate would be organized with a capital of ten million dollars, which would be purely Chinese, operating under a Chinese charter. It was a further idea that this syndicate should be able to offer any business proposals to foreign interests, either singly, or as a group. Mr. Monnet felt that in this way they might get rid of the consortium which was anathema to the Chinese, and also of the complaints that the Japanese might make, who are opposed to foreign assistance to China which would not include Japan.

Mr. Drummond stated that while in Hong Kong apparently rumors as to what was being done got out, which disturbed the Japanese considerably and he thought that the Japanese press statement of April 17⁴⁵ was probably due to their misunderstanding of what Mr. Monnet was undertaking. Mr. Drummond thought perhaps the Japanese had connected Mr. Monnet and his work with the League, and with Dr. Rajchman, whom they dislike. He stated that Mr. Monnet had had a

⁴⁵ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 224.

long conversation with Mr. Suma and he thought that probably the Japanese had a better understanding of the matter now.

Mr. Drummond said that Mr. Monnet was in Kuling at the present time for the purpose of having a final consultation with Dr. Kung⁴⁶ and General Chiang,⁴⁷ and that when Mr. Monnet returned from Kuling on Saturday, he would likely know whether this scheme would be consummated or not.

Mr. Drummond told me that all of the principal Chinese bankers in Shanghai were being included and one or two from North China, although, at the present time, they had no participants from South China.

NELSON TRUSLER JOHNSON

800.503193/12

*Memorandum by the Minister in China (Johnson) of a Conversation
With Mr. Jean Monnet*⁴⁸

NANKING, May 5, 1934.

Mr. Monnet called and we had an hour's conversation, in the course of which he told me something of his plans, pretty much as they had been described to me by Mr. Drummond on May 3rd.

Mr. Monnet stated that while Soong was in Europe he was very anxious to obtain financial assistance from American and European bankers and had had conversation to that end with Mr. Lamont and Sir Charles Addis. Mr. Monnet stated that Mr. Lamont had informed Soong quite frankly that any plan for financial assistance to China along consortium lines must have Japanese participation. He said that Sir Charles Addis agreed with this point of view, but that T. V. Soong was not prepared to accept Japanese participation at this time, although he was prepared to consider it at a later date.

T. V. Soong had invited Mr. Monnet and Sir Arthur Salter to come to China and look over the ground. Mr. Monnet stated that from the beginning he had a feeling that it might be possible to do something. He said that before he left Paris, Ishii of the Japanese Embassy had gone to see him and had told him that Japan would not stand for any cooperation between Europe and China with Japan left out.

Mr. Monnet stated that he and Salter came out and that he had been looking about. It was his idea that if he could only get the Chinese

⁴⁶ H. H. Kung, Vice President of the Executive Yuan (Vice Premier) and Minister of Finance.

⁴⁷ Generalissimo Chiang Kai-shek, Chairman of the Chinese Military Council and Commander in Chief of the Army, Navy, and Air Forces.

⁴⁸ Copy transmitted to the Department by the Minister in China in his despatch No. 2755, June 4; received July 2.

bankers to organize a corporation of their own for the purpose of investing the large accumulations of Chinese capital to be found in Shanghai at points in the interior, the trick would have been done. He said, however, that there were three things which must be done before China could expect financial assistance from abroad. These things he had explained to the Chinese.

In the first place, the Chinese could not expect foreign money to be got into the interior of China where Chinese money was not willing to take the lead; it was necessary that Chinese money show the way to other money by finding proper investments for itself in the interior of China. Next, China must do something about her debts, even including the Nishihara debts to Japan.⁴⁹ Of course, many of these debts would have to be shaved down in any settlement that was made; nevertheless they were honest debts and China could not expect to accomplish anything until they were paid or an attempt was made to bring about some settlement of them. And third, it was highly necessary that something be done to bring about a reorganization of China's railways.

Mr. Monnet stated that he found the Chinese generally interested in doing something along these lines, and appreciative of the fact that something of the sort must be done before anything could be accomplished. He stated that he had succeeded in bringing together a number of Chinese bankers at Shanghai,—not simply the International Settlement bankers, but Chinese bankers interested in business outside of the Settlement; and that plans were already made for the organization of a syndicate made up of these Chinese bankers. He was now waiting for Chiang Kai-shek and H. H. Kung to indicate their approval. He thought it probable that something might be done along these lines in the next few days; at any rate, he was hopeful. Once the Chinese banking syndicate was organized it could invite participation on the part of foreign capital in various lines that might be of interest to China.

With reference to the Japanese, Mr. Monnet stated that Mr. Suma had called upon him at Shanghai some two days after the statement of Japan's policy at home. He stated that Suma appeared to regret the Japanese statement. He said that he had laid all his cards on the table in so far as Mr. Suma was concerned, and he felt that he had won Mr. Suma's good will, although he was not too sure of this.

Mr. Monnet expressed himself as being very much impressed with Chiang Kai-shek whom he described as "having guts". He thought that Chiang was an outstanding person in that he thought clearly

⁴⁹ Contracted in 1918 by Kamezo Nishihara, Japanese banking group representative at Peking.

and was capable of making decisions. Mr. Monnet expressed himself as being very optimistic as to what he might be able to accomplish.

NELSON TRUSLER JOHNSON

793.94/6639 : Telegram

*The Secretary of State to the Minister in Switzerland (Wilson),
at Geneva*

WASHINGTON, May 10, 1934—3 p. m.

149. Your 241, May 3, 3 p. m. Upon receipt of invitation or of notice of convocation Department desires that you instruct Mayer to attend meetings of the China Technical Committee in the same capacity as that of the previous American representatives, namely, informally and as an unofficial observer. If, however, you have any reason to believe that the Committee will, or if after convening the Committee proceeds to, take formal notice of Japanese allegations with regard to political activities of the Committee, you should report to the Department by telegraph and Mayer should refrain from attending meetings of the Committee until he is again authorized specifically to do so.

HULL

793.94/6679 : Telegram

The Minister in Switzerland (Wilson) to the Secretary of State

GENEVA, May 15, 1934—11 a. m.

[Received May 15—7:07 a. m.]

251. Your 149, May 10, 3 p. m. Inquiry reveals no intention that formal notice shall be taken of Japanese allegations regarding political activities of the Committee. However, there seems to be a certain amount of dissatisfaction with Rajchman's alleged political activities in China and if this dissatisfaction finds expression in the Committee a debate of a political character may ensue. Mayer will, of course, have your instructions constantly in mind. Meeting set for Thursday afternoon.⁵⁰

WILSON

793.94/6699

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*

[WASHINGTON,] May 15, 1934.

The Chinese Minister called and said that the meeting of this committee was to be held in Geneva on Thursday next (May 17). He

⁵⁰ May 17.

said that his Government was very much concerned with regard to this meeting and hoped that the American Government would take an active part. He wished to know whether we were going to be represented and what, if anything, we had in contemplation.

Mr. Hornbeck replied that it was his understanding that Mr. Wilson (or Mr. Mayer) would be present at the meeting of the committee. The Minister said that he hoped he would take an active part. Mr. Hornbeck said that he did not see how the American Government could take part actively in the affairs of a committee in which it had not membership of an organization of which it was not a member. The Minister said that this meeting was of vital importance to China. Mr. Hornbeck observed that China is a member of the League and is in position to take whatever action the Chinese Government may choose to take. The Minister still insisted that the United States should be "active". Mr. Hornbeck indicated that it was not to be expected that it would do so.

S[TANLEY] K. H[ORNBECK]

893.50A/92: Telegram (part air)

The Minister in Switzerland (Wilson) to the Secretary of State

GENEVA, May 17, 1934—6 p. m.

[Received May 19—5:30 a. m.]

255. My 251, May 15, 11 a. m. The China Technical Committee met this afternoon and after declarations by Rajchman and Koo⁵¹ adopted the following report. Except for their remarks described in the report there was no discussion.

"The Council Committee at its meeting on May 17th began the examination of the report together with the detailed documents mentioned therein of its technical agent on his mission in China from the date of his appointment until April 1st, 1934.⁵² Dr. Rajchman the technical agent made a short statement on the development of the technical cooperation between the League of Nations and China.

During exchange of views that ensued the representative of China conveyed to the Committee his Government's high appreciation of the services rendered by the technical agent and the various experts; he further pointed out the value attached by his Government to effective technical cooperation with all states through the intermediary of the League of Nations.

The Committee, noting that the cooperation between the League of Nations and China was being carried out under conditions conforming

⁵¹ V. K. Wellington Koo, Chinese Minister in France.

⁵² See League of Nations, Council Committee on Technical Co-operation Between the League of Nations and China: *Report of the Technical Agent of the Council on His Mission in China from the date of his appointment until April 1st, 1934* (C. 157.M.66.1934), Geneva, April 30th, 1934.

to the resolutions adopted by the Council on May 31 [19?], 1931⁵³ and April [July?] 3, 1933⁵⁴ as well as the resolution of the Council Committee on July 18, 1933,⁵⁵ is glad to find that the methods of co-operation provided for under these resolutions are calculated to render useful service in the task of Chinese reconstruction.

The Secretary General was requested to transmit the report of the technical agent to the technical organization of the League. The technical agent was invited to give to the technical organizations and sections concerned all requisite complementary information. The Secretary General will transmit in due course to the Council Committee the observations of these technical organizations.

The present report will be forwarded by the Secretary General to the members of the Council."

WILSON

033.1100 Rogers, James H./45

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*⁵⁶

[WASHINGTON,] May 18, 1934.

In a telegram for Secretary Morgenthau under date May 17, 5 p. m.,⁵⁷ Professor James Harvey Rogers states *inter alia* that Dr. H. H. Kung, Chinese Minister of Finance, has proposed the granting to China by the American Government of a rehabilitation loan, the proceeds to be used for highway construction, flood control, currency reorganization and other unifying projects. Dr. Kung has assured Mr. Rogers that he will in the near future submit satisfactory security provisions for such a loan and Mr. Rogers states that he has "agreed to receive" from Dr. Kung the detailed proposals. Mr. Rogers suggests that if the price of silver is to be further raised simultaneous consideration should be given to a governmental loan to China.

In connection with the foregoing it is believed that under no circumstances should Mr. Rogers discuss with Dr. Kung or with other officials of the Chinese Government any proposals for a governmental loan from the United States unless and until he is expressly instructed to do so. Such opinion is based largely on factors as follows:

⁵³ League of Nations, *Official Journal*, July 1931, p. 1172.

⁵⁴ *Ibid.*, September 1933, p. 1058.

⁵⁵ *Ibid.*, November 1933, p. 1468.

⁵⁶ In transmitting this memorandum to the Secretary of State, Mr. Hornbeck stated in a covering memorandum: "It is believed that it might be well to suggest that the Secretary of the Treasury instruct Professor Rogers that he should refrain from entering upon discussion of such matters. (Note: It is believed that anything in the nature of business or contemplated business between the American Government and the Chinese Government should be discussed only through channels and by officials expressly authorized by the governments concerned to engage in discussion of such matters.)"

⁵⁷ Telegram No. 226 from the Consul General at Shanghai, p. 436; see also telegram No. 63, March 23, 5 p. m., to the Consul General at Shanghai, p. 430.

In May 1933 there was extended to China by the Reconstruction Finance Corporation a fifty million dollar credit (recently reduced to twenty million dollars) for the purchase of American cotton, wheat and flour. Experience has shown that this credit has been not only of doubtful benefit, if any, to China and has been to the definite disadvantage of some American interests and that it has subjected the American Government to widespread criticism abroad. In Japanese quarters in particular the claim has been made that the credit is, in effect if not in fact, a political loan to China and that it contravenes the China Consortium Agreement of October 15, 1920. Irrespective of the fact that the primary purposes of the American Government in granting the credit under reference were to aid the domestic price situation and to remove from the American market surplus stocks of cotton, wheat and flour, objectives which were attained in only a small degree, it would appear that in concluding the Consortium Agreement in 1920 the interested banking groups (American, British, French and Japanese) were assured of the full support of their respective governments and that they did not contemplate encountering competition from the concerned governments in the granting of loans to China. At any rate it has been contended by Japan, and by others, especially British officials, that the Reconstruction Finance Corporation cotton and wheat credit violates the spirit, if not the letter, of the Consortium Agreement of 1920.

Coupled with the foregoing is the long and discouraging history of defaults on the part of the Chinese Government in meeting its admitted obligations to American and other foreign creditors⁵⁸ and the fact that Chinese revenues and other forms of security are already so heavily mortgaged as to render further hypothecation thereof as of little or no value to new creditors. The Chinese Government is now, and has been for many years, heavily indebted to American and other foreign creditors not only on loans made but also on supplies furnished and services rendered and it has failed to take remedial steps or even to consider seriously means by which the liquidation of such obligations may be effected.

It should also be borne in mind that the existing situation in China differs but little from that which has existed for many years and that even an approximate rehabilitation of that vast country is not likely to occur for decades to come. Furthermore, there have recently been injected into the existing political and economic situation by Japan new factors which directly affect American relations with the countries of the Far East.

In official and public declarations in April of this year Japan made known its definite opposition to the granting by foreign governments

⁵⁸ See also pp. 542 ff.

to China of "political loans". In view of the known weakness of China's financial structure, which is such that no private banking institution would under existing circumstances consider seriously the granting of further loans, and in view of the aforementioned objections to the Reconstruction Finance Corporation credit on the grounds of its contravention of the international China Consortium Agreement of 1920, it is believed that other nations, as well as Japan, would consider as political any further loans made or credits extended to China by the United States.

In view of the foregoing, which outlines only a few of the more important elements in the existing situation, it is believed that, unless and until the American Government may on its part have decided that it desires to enter upon a program of financial assistance to China, there should be no discussion by American officials with Chinese officials of any such possibility. Such discussion, in the absence of a definitely arrived at desire on the part of the American Government to pursue such a course, cannot fail to lead to misunderstandings in various quarters and if it eventuates in the conclusion of no loan will have served merely to the further muddying of waters that are already very "thick". It is believed that no loan made at this time by the United States to China could have for the United States sufficient advantages to offset its certain disadvantages; that no such loan is likely to be made; and that therefore expectations on the part of the Chinese and suspicions on the part of other powers should not be raised by discussion of the possibility.

S[TANLEY] K. H[ORNBECK]

033.1100 Rogers, James H./41 : Telegram

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

SHANGHAI, May 21, 1934—9 p. m.

[Received May 21—9:30 a. m.]

233. For Morgenthau from Rogers—also for attention George Peek.⁵⁹ An apparently constructive move for inviting and securing foreign investment in China with possible later relief for deposit Chinese balance of international payments will be accomplished by incorporation this week of China Finance Development Corporation. Stock to be held exclusively by Chinese banks with joint control by these banks and Government.

⁵⁹ President of the Export-Import Bank of Washington.

All credits handled through corporation will be participated in by Chinese bank which will share responsibility and risk with foreign lenders.

Immediately corporation will tackle problem of railway and national debt adjustment and consolidation and railroad rehabilitation but it is expected by autumn or winter to invite foreign capital subscription to industrial and utility development.

Apparently this corporation should prove credit channel for sellers of equipment and materials as well as for export banks and other lenders. By requiring Chinese participation in each undertaking it should minimize political character of foreign investment.

Should resulting stimulus to capital import later prove great the danger of higher silver upsetting balance of payments and precipitating drain of silver from China would be correspondingly reduced.

This report is preliminary and confidential until incorporation. Fuller report will follow. At present I have no judgment as to its probable success. Rogers.

CUNNINGHAM

800.503193/11

The Minister in China (Johnson) to the Secretary of State

No. 2744

PEIPING, May 26, 1934.

[Received July 2.]

SIR: I have the honor to refer to the Legation's despatch No. 2715, May 9, 1934,⁶⁰ concerning Mr. Monnet's scheme for inducing foreign financial investments in China, and to enclose for the Department's information a copy of the Nanking Counselor of Legation's despatch to the Legation No. 327-Diplomatic, May 21, 1934.⁶¹

Mr. Peck quotes an unnamed American newspaper representative as reporting that Mr. Suma, Secretary of the Japanese Legation, had expressed to him gratification at having learned that the Japanese Foreign Office had adopted some of his, Mr. Suma's, views in regard to Mr. Monnet's proposal. Mr. Suma is said to view Mr. Monnet's proposal with disfavor because China should first provide settlement of its outstanding indebtedness (presumably Japanese); because it violates the understanding underlying the International Consortium of 1920; and because all money invested in China, even that for economic purposes, would actually be used to achieve political ends.

Respectfully yours,

NELSON TRUSLER JOHNSON

⁶⁰ See footnote 44, p. 377.

⁶¹ Not printed.

893.15/20

The Secretary of State to the Ambassador in France (Straus)

No. 411

WASHINGTON, May 29, 1934.

SIR: The Department refers to your despatch No. 831 of April 20, 1934,⁶² in regard to the Syndicat Européen d'Entreprises and the desire of its Director, Mr. Charles Sée, to obtain the names of American firms which may be interested in cooperating on public works projects in China.

In view of the fact that but little is known of the Syndicat Européen d'Entreprises and that under existing conditions activities in China in regard to public works projects involve political factors of importance, the Department does not, at least for the present, wish to further in any way the proposals made by Mr. Sée. You are therefore requested to refrain from making further reply to Mr. Sée's letter of April 18, 1934.⁶² However, in the event that the subject is again brought to your attention by Mr. Sée or by other officers of the syndicate, it is suggested that your reply be confined to a statement to the effect that the Embassy doubts whether the Department would wish at this stage to interest itself in the matter. There might also be added a statement to the effect that, as the scope of the activities of the syndicate would appear to include the extension of loans to China, it is assumed that the syndicate is keeping the French and British banking group members of the China Consortium currently informed in regard to its proposed activities in China.

You are requested to report promptly the receipt by you of any additional information in regard to the activities of the Syndicat Européen d'Entreprises.

Very truly yours,

For the Secretary of State:
WILLIAM PHILLIPS

800.503193/10

The Minister in China (Johnson) to the Secretary of State

No. 2742

PEIPING, June 8, 1934.

[Received July 2.]

SIR: I have the honor to refer to the Legation's despatch No. 2755, June 4, 1934,⁶³ concerning Mr. Monnet's scheme for inducing foreign financial investments in China, and to enclose for the Department's information a copy of a letter from Mr. David Drummond,⁶² who

⁶² Not printed.⁶³ See footnote 48, p. 379.

accompanied Mr. Monnet to China, from which it will be noted that the "China Development Finance Corporation", with a capital of \$10,000,000, has definitely been launched.

The "China Development Finance Corporation" is said to be "Chinese in conception, capital and direction" and to constitute "an instrument for organized reconstruction". Its purpose is said to be, in conjunction with Chinese banks and financial interests abroad, to assist and collaborate in enterprises, both private and public, for the development of commerce and industry for which long term credits are required, being particularly concerned with large scale joint financing and facilitating an ordered flow of capital into the work of China's reconstruction.

It is too early to forecast the success or otherwise of this venture, but, according to Mr. Drummond, Mr. Monnet plans to return to the United States and Europe as soon as possible in furtherance of his plans.

Respectfully yours,

NELSON TRUSLER JOHNSON

893.51/5897

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*⁶⁵

[WASHINGTON,] June 11, 1934.

The world has realized for a long time that there is little likelihood that there will be order and conditions of peace in China until there has been made substantial improvement in the economic situation in that country.

For substantial improvement of the economic situation in China, it is essential that the Chinese Government take part extensively in the planning and carrying out of a program of development involving, among other things, building of railways and other public utilities, laying down of roads, and various types of assistance to industry and trade.

But for such endeavor the Chinese Government has no funds. It has often been pointed out that the Chinese Government expends an undue proportion of its revenues upon military equipment and activities. If that be a fact, the pointing it out and complaining of it as a fact does not alter the equally or more important fact that for purposes of substantial constructive effort on the economic side the Chinese Government does not possess funds. Moreover, it is also a fact that the revenues of the Chinese Government are not extensive,

⁶⁵ This paper bears the notation: "Mr. Phillips has seen and approved this.
SKH VI-11-'34."

and further a fact that the taxpaying capacity of the Chinese nation is not great, and finally a fact that, from the historical point of view, it has not been the practice of nations to finance large scale economic developments from current revenues. The economic developments which are called for in China can be carried out only by a process of borrowing by the Chinese Government. That Government cannot borrow at home the amounts necessary: the capital simply is not available in China. This points to the desirability, to the advantage both of the Chinese and of the world, for international financing in relation to China.

The League of Nations has entered upon a program of technical assistance to China. That program will get nowhere unless it is supplemented and complemented by financial assistance. T. V. Soong has made his effort to procure financial assistance from abroad by ways and means which would exclude Japan from participation. That effort has been unsuccessful and neither it nor any other effort based on the idea of excluding the Japanese will succeed.

This brings us to the international banking consortium. To the Consortium agreement which was concluded in 1920 banking groups of four powers were and are parties: the United States, Great Britain, France and Japan. That agreement is still in force. The Consortium has been able to do nothing positive toward lending money to China, partly for the reason that the Chinese have never been willing to apply to it and partly for the reason that other matters have absorbed the attention of the parties interested and/or concerned. Those countries are today the only countries which might be able to spare capital in amounts such as really would be called for if China and the Consortium went to work together in earnest.

The Japanese have been opposing efforts of other countries to assist China. Other countries object to and will oppose efforts of the Japanese to exclude them from types of economic assistance such as the Japanese may be disposed to render to China. The "way out" on this is a resurrection of the idea of joint and collective financial assistance to China. An instrument for that effort is in existence—the Consortium.

Three things are needed: first, that the groups of banks, especially the American and the British, be disposed to proceed with "China business" in case the opportunity develops; second, that the Japanese Government be disposed to permit the Japanese banking group to participate in such business, if and when; and, third, that the Chinese Government be disposed to call upon the Consortium—as it has not been disposed in the past to do—for assistance.

It is the feeling of the undersigned that the moment has arrived or is fast approaching at which this conjunction and coincidence of

inclinations might, with a little diplomatic prompting, be caused to come about.

This idea was mentioned by the undersigned to the Secretary and the Under Secretary some two weeks ago, with the intimation that a memorandum on the subject might before long be forthcoming.

It now happens that, on Saturday last, June 9, in the course of a telephone conversation, about other matters, between Mr. Thomas W. Lamont and the undersigned, Mr. Lamont volunteered the statement that there were a number of matters about which he would like to have a talk, "especially the matter of the present status of the Consortium"; he said that some of the people who had been active in the creation of the Consortium, of whom he was one, had been trying to keep it alive, and that, expecting to leave New York for London on June 20, he was further expecting to talk over Consortium matters with his interested associates in London.

In the light of these facts, it is believed by the undersigned that it would be well for the Department and the President to give this question within the next few days some thought.

I feel disposed to recommend that the Administration adopt an attitude favorable in principle toward international action, through the agency of the Consortium, toward giving financial assistance to China. If the Administration adopts that attitude, I would suggest that I be authorized to call on Mr. Lamont (before June 20) and discuss with him, unofficially and informally (and of course in no way committing the Administration), various aspects and possibilities of this question.

S[TANLEY] K. H[ORNBECK]

893.51/5898

The Chief of the Division of Far Eastern Affairs (Hornbeck) to the Secretary of State

[WASHINGTON,] June 12, 1934.

MR. SECRETARY: The subject dealt with in the memoranda hereunder,⁶⁶ the China Consortium, calls for consideration by the Secretary of State and, I think, the President.

I would appreciate having, if possible, on or before Friday, an expression of your wishes with regard to my going to talk with Mr. Thomas Lamont.

You need to read, for the present, only the first two memoranda. (The papers attached give informative material, especially past history.)

⁶⁶ One memorandum printed *supra*; others not printed.

If authorized and instructed to see Mr. Lamont, I would like to be able, in addition to engaging with him in a general discussion of the China problem, to say to him that you and the President, although you have not had occasion to make any intensive study of the Consortium proposition, and although you do not wish to be committed or to be brought into discussions of the matter at this stage, are not adversely disposed in regard to the Consortium and its possibilities as an agency for cooperative action; to say that this Administration would like, in case the British, the French, and the Japanese Governments are already of that inclination, to see the Consortium agreement kept alive, in the thought that it may have future value; to say that in whatever may be done with or by the Consortium, this Administration would not wish, for the present at least, that the American Government or the American banking group take a position of leadership; to say that we believe that the leadership should be taken by the British or the Japanese; and to say, in brief, that, with an open mind as regards future possibilities, which possibilities will need to be carefully explored and sympathetically dealt with, the attitude of the Administration with regard to Consortium possibilities is one of good will and watchful optimism.

S[TANLEY] K. H[ORNBECK]

893.51/5899

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*

[WASHINGTON,] June 12, 1934.

Mr. Lamont called me this morning on the telephone and, after making some inquiries with regard to the arrangements which are being made for Prince Konoye⁶⁷ to attend the Harvard-Yale boat race, inquired whether there was any chance whatever that I would be in New York and make it possible for him and me to have a conversation before he sails for London on June 20. I replied that I had had the matter in mind since he had raised the question on June 9; that I knew of nothing which would require my going to New York before June 20 and that if I went it would have to be especially for the purpose of talking with him. He said that he hoped very much that I would come, as it would be difficult for him to come to Washington without occasioning all sorts of newspaper speculation. He said that he wanted to be as well informed as possible before talking with his colleagues in London about the status of the Consortium agreement. He said that the British, the French, and the Japanese groups had been and are very anxious to keep the agreement alive.

⁶⁷ Prince Fumimaro Konoye, President of the Japanese House of Peers.

At that point I interrupted, asking: "The Japanese?" Mr. Lamont replied, "Yes indeed, they are especially anxious to." He went on to say that the American group are not so anxious; several of the members have felt that the maintenance of the organization is a cause of useless expense and will never bring in any return; but he has felt that the thing has possibilities and has managed to keep the American members lined up, so far, on the score that the agreement was made partly from point of view of a public interest, that there is a possibility that it may some day serve a useful purpose. Hence, he would, of course, like to know whether the Government has any interest whatever in the matter and whether it is favorably or unfavorably disposed toward effort to keep the agreement alive. I said that I had been giving the matter a good deal of thought and would be glad to endeavor to see that the question be given the thought of the Administration; and that I would let him know in a few days whether it would be possible for me to come to New York or to give him any information.

Mr. Lamont expressed his appreciation. I expressed my appreciation of his helpful courtesy and effort in connection with Prince Konoye. And the conversation there ended.

S[TANLEY] K. H[ORNBECK]

893.15/22

J. P. Morgan & Co. to the Under Secretary of State (Phillips)

NEW YORK, June 13, 1934.

SIR: We beg to acknowledge with thanks receipt of your letter of May 29th enclosing a copy, with translation, of a letter addressed to the American Ambassador at Paris by Mr. Charles Sée, Director of the Syndicat Europeen d'Entreprises,⁶⁸ regarding the possibility of participation by American interests in public works projects in China. We note the hope expressed in the memorandum that American concerns, supported by the Government of the United States and by American banks, might adopt a policy similar to that of the French Syndicate for the realization of undertakings in China and that such contracts might be carried out and financed by division between the two groups.

We can see the advantage to American export industries in obtaining orders for development enterprises in China, but in addition to the fact that there is no market in this country at the present time for Chinese Government bonds, the provisions of the Banking Act of

⁶⁸ Neither printed; but see instruction No. 411, May 29, to the Ambassador in France, p. 387.

1933⁶⁹ have eliminated the banks, composing (as you can see) the great majority of the American Group, from the field of issuing securities.

In fact, we believe that most of the members of the American Group of the Consortium would prefer now, under existing conditions, to see the group disbanded. No formal action has been taken along this line as yet, but because the American Group was originally formed at the request of the Department of State we think it proper to acquaint you with what may prove to be the sentiment of the group. Heretofore the group has been held together in the hope that in due course it could cooperate with the other national groups of the Consortium in financial measures constructive and beneficial to China. We are not at this time asking for any formal expression of view on the part of the Department, but we trust that you may be considering the points involved.

Our Mr. T. W. Lamont is sailing for Europe next week, and it may be that members of the British and French Groups will desire to discuss with him the future of the Consortium and the attitude of the American Group. Pending any such discussion, you will no doubt agree that no useful purpose would be served by any formal conference with Mr. Sée's correspondent, although it may be possible that Mr. Sée may seek out Mr. Lamont while he is in Paris.

Respectfully,

J. P. MORGAN & Co.
For the American Group

P. S. Since dictating the foregoing, we are informed by the New York agent of this French Syndicate that owing to the present political uncertainty in France his syndicate would not for the time attempt to pursue its plan of inviting American or other cooperation in the Chinese enterprises it had in mind.

J. P. M. & Co.

893.15/22

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*⁷⁰

[WASHINGTON,] June 18, 1934.

Referring to telephone conversations exchanged between Mr. Thomas W. Lamont and Mr. Hornbeck on June 9 and June 12 and to Mr. Lamont's letter to Mr. Phillips of June 13, Mr. Lamont's letter to Mr. Hornbeck of June 13 and Mr. Hornbeck's letter to Mr. Lamont of June 15,⁷¹ on the subject of the China Consortium,—

⁶⁹ Approved June 16, 1933; 48 Stat. 162.

⁷⁰ Copy of memorandum sent to Mr. Thomas W. Lamont, of J. P. Morgan & Co., New York, on June 18.

⁷¹ Latter two not printed.

Mr. Hornbeck made to Mr. Lamont this morning by telephone a statement as follows:

June 18, 1934.

I have talked the matter over with the Secretary and he with the President. They have not hitherto had occasion and have not at this moment undertaken to make any intensive study of the history and the implications of the Consortium project and would not wish to make a commitment or to have the views or opinion of the Administration cited conclusively in any discussions of the matter at this stage. They are not adversely disposed in regard to the Consortium and its possibilities as an agency for cooperative action. The Administration feels that the present would not be an opportune moment for withdrawal by the American banking group. We would prefer to see at this time no change with regard to the life of the Consortium. We are not ready to suggest activity. We feel that we are in a period when the best procedure is not to make alterations in the general set-up. Perhaps the most important of the uncertain factors during the next few months is that of the Naval Conference. When there becomes available more and clearer evidence with regard to what really are Japan's intention and plan of procedure with regard to China and the Far Eastern situation in general, everybody will be in better position to judge with regard to what seems possible and practicable on the part of other countries. We would not wish to see an organization like the Consortium made an instrument whereby money would be made available from this and other countries only to be made use of ultimately by the Japanese for purposes of essentially exclusive advantage to themselves. Also, we would not desire that the American banking group take the lead in steps intended to bring the Consortium into action. We feel that nothing should be done which would make it appear either to Japan or to China that the United States is leading or wishes to lead in bringing about action by the Consortium; that it would be best to persevere in an attitude of watchful waiting until China invites or appears ready to invite action and Japan or Great Britain takes the lead in suggesting a favorable response by the Consortium.

In brief, with an open mind as regards future developments and possibilities, the attitude of the Administration on the subject of the Consortium is one of good will and watchful optimism.

893.15/22

The Under Secretary of State (Phillips) to J. P. Morgan & Co.

WASHINGTON, June 18, 1934.

SIRS: The receipt is acknowledged of your letter of June 13 referring to the possibility of participation by American interests in financing in China.

It is believed that, with regard to the China Consortium, the views of the Department have been adequately expressed by Mr. Hornbeck

in the telephone conversation held between Mr. Lamont and Mr. Hornbeck today.

Referring to the views expressed in the concluding sentence of your letter, the Department concurs.

Very truly yours,

WILLIAM PHILLIPS

893.50A/100

The Consul at Geneva (Gilbert) to the Secretary of State

No. 958 Political

GENEVA, July 13, 1934.

[Received July 25.]

SIR: I have the honor to recall that during the years 1933 and 1934 I transmitted to the Department a number of despatches respecting the League project for technical assistance to China as viewed from the Geneva angle. Certain of these despatches described the details of such technical assistance in specific fields. Many of these plans were placed in operation in China while others were merely tentative projects which were later abandoned. The precise status of the entire program for technical assistance to China on the part of the League was, however, summed up in a report submitted by Dr. Rajchman to the Council Committee on Technical Cooperation with China. Copies of this report were transmitted to the Department with my despatch No. 908 Political, dated May 15, 1934.⁷² In view of the content of that report, it would not seem necessary to submit any further data on the technical side of the question, particularly since in a recent conversation with Dr. Rajchman he stated that there was nothing of significance to add to the material set forth therein.

However, in the conversation which I had with Dr. Rajchman, he gave an outline in general terms of what he considered to be the present status of this project of technical assistance as well as of the course, as he planned it, that the matter should follow in the future. He also at the same time gave his views concerning the political situation in the Far East, which I feel may be of interest to the Department. Dr. Rajchman told me that in returning to Geneva from China he had made a stay in Washington and had had a conversation with the Chief of the Division of Far Eastern Affairs of the Department. I have no doubt but that much which Dr. Rajchman had to say to me he also expressed in his conversation with Dr. Hornbeck. At the same time, certain events have transpired since Dr. Rajchman was in Washington which have had a bearing upon the questions he presumably discussed there, and I am therefore setting forth the substance of what he had to say to me.

⁷² Not printed; see footnote 52, p. 382.

THE RELATION OF TECHNICAL ASSISTANCE TO JAPANESE POLICY
IN THE FAR EAST

Dr. Rajchman first approached the subject of technical assistance to China from the angle of Japanese policy in the Far East enunciated in the declarations of the Japanese Government in April last. This aspect of the matter seemed to be uppermost in his mind, and naturally so, both because of the important influence which Japanese policy might have on the League's program of technical assistance and because of his personal concern due to the fact that his name was so prominently linked with the Japanese allegations of the political aims of this work. Dr. Rajchman attributed Japan's policy in issuing these declarations to a combination of five causes:

(1) China was not receptive to what Japan wanted, that is, Japan's desire to arrange for an exclusively Japanese loan to China and to obtain from China a preferential trade treaty.

(2) Japan was alarmed by American and Italian aviation establishments in China, seeing in these not only a promotion of trade between these countries and China in aviation material, but also seeing in the consequent development of Chinese aviation a means of strengthening China's central government.

(3) The Japanese were startled by the British placing the postal question on the agenda of the League Advisory Committee, particularly as it is understood that the British did not discuss this with Tokyo in advance. They felt that this was very much more than a technical procedure and would turn out to be a political move.

(4) The Japanese noted with apprehension the Monnet and Salter loan projects. They saw in it the re-entry of foreign capital to China and the building up of a Chinese financial organization. They felt that much more might lie behind this.

(5) There were current in the East a great deal of speculation and rumor concerning the nature of Rajchman's report and the action which the Technical Committee of the Council might take thereon.

In this connection the Department will recall that such rumors were current in Geneva also and the question was discussed as to whether Rajchman would be repudiated by the League if it were shown that he had engaged in political activities in China, the press being prepared to make an issue of the matter if the League should "sacrifice" Rajchman to appease the Japanese. I informed the Department concerning the feeling aroused here at that time in my telegrams No. 61 of April 28, 11 a. m.⁷³ and No. 64 of May 1, 2 p. m.⁷⁴

Although Dr. Rajchman mentioned this point last, it does not necessarily follow that he intended to leave the impression that it was the least important of the factors mentioned above in determining Japan's

⁷³ *Ante*, p. 145.

⁷⁴ *Ante*, p. 150.

policy. On the other hand, it was evident that he did not wish this factor to be isolated, as might naturally occur in the minds of persons at Geneva, who would in many cases doubtless have the League's position in this matter uppermost in their minds, particularly in view of the declarations made by the Japanese Consul General on April 23 and his subsequent call on Avenol,⁷⁵ which were unmistakably intended as a warning to the League not to allow its technical assistance to be used for political purposes. It would be only natural, however, for Rajchman, in view of his personal implication in the alleged political activities, to lay stress upon the other factors in the situation.

After enumerating what he considered to be the reasons behind these declarations of policy in regard to the Far East, Dr. Rajchman went on to explain his impressions concerning the object which Japan hoped to attain. He said that by these declarations Japan endeavored to create a new situation in the Far East in line with her general policy of retarding the development of China and the holding of that country within her influence. These declarations, in his opinion, although ostensibly addressed to the great powers, were directed principally at China herself. The Japanese hoped in this manner to intimidate China and at the same time by one blow to create a world situation in which China would cease to hope to obtain political assistance from the West, thus forcing her as a last resort to come to terms with Japan. In doing this, beyond the general content of these declarations, they attacked what they felt to be the most vulnerable point, that is the matter of technical collaboration and in particular the technical collaboration of the League of Nations.

With respect to the action of the Japanese Consul General here, Dr. Rajchman said that Yokoyama told the Secretary-General that he wanted the League's collaboration with China brought in effect to a close and that he did not wish to have Rajchman reappointed. The Department will note that this is different from the accounts of the Avenol-Yokoyama interview given to me by both Avenol and Yokoyama (see my telegram No. 66, May 3, 9 a. m.⁷⁶). My reaction to this is that what Yokoyama said to Avenol was so general in nature that it could probably be reconstrued to mean a great many things. Moreover Rajchman's reaction to the Yokoyama-Avenol conversation may be considered as the natural reaction of a man who has been under attack. In this connection I pointed out to Dr. Rajchman that my understanding was that none of the Japanese declarations had, as he had intimated, been specific. All had been couched in general terms and my impression was that Yokoyama, although he

⁷⁵ Joseph Avenol (French), Secretary General of the League of Nations.

⁷⁶ *Ante*, p. 154.

had formally presented the Japanese position to Avenol, had placed nothing on paper except the text of the general declaration which he had previously given to the press. This is, of course, in line with what I have described as the entire Japanese policy in this connection, that is, not to be drawn into any definite statement regarding their interpretation of what may or may not be political, or their specific attitude toward the League and China.

Dr. Rajchman went on to say that in regard to the first objective mentioned above which Yokoyama had envisaged in his conversation with the Secretary-General, namely that the League's collaboration should be brought to a close, the Japanese did not succeed in this effort. He called attention to the circumstance that the meeting of the Technical Committee proceeded precisely as if the Japanese had taken no action whatever. As a matter of fact, in my own opinion, the meeting of the Technical Committee, once the non-political nature of Rajchman's report was known, was staged in such a manner that it could but proceed quietly and without incident. As reported in my telegram No. 70, May 9, 5 p. m.,⁷⁷ the Chinese, on the advice of Avenol, adopted the policy of giving no attention in the meeting of the Technical Committee to the declaration of Japan and continued to proceed on the assumption that the assistance to China would be carried out according to plan. Moreover I understand that Rajchman himself was very careful to avoid in the Committee the raising of any controversial question, and that he read his report in a hurried, mechanical, matter of fact tone. The Committee then adopted a report laying down the general directives for the future. So, in fact, nothing occurred which in any way seemed to recall the recent Japanese declarations.

Respecting the question raised above of Rajchman's reappointment, he stated that he had been appointed for one year and that his term would expire on August 1 of this year. He naturally made no commitments as to whether he was a candidate for reappointment or what action might be taken. He told me, however, that he thought the Committee would convene some time during the course of the present month to consider the matter of a new appointment or a reappointment of himself.

BROADER ASPECTS OF THE PROGRAM OF TECHNICAL COLLABORATION

Dr. Rajchman reaffirmed the very great difficulty in arriving at a definition as to what is technical and what is political. He asserted that the technical work would of necessity be very limited, but if it were found possible for the Chinese Government to rely on other governments in even limited technical work, it would have the imme-

⁷⁷ *Ante*, p. 172.

diate result of forming a link between China and the West with the incidental result of strengthening China's central government. Such technical work would form a new point of approach even though it was not expected that the work itself would go beyond certain rather restricted limits, at least for some time to come, both on account of the financial difficulties involved as well as by reason of the lack of sufficient trained men in China to undertake this type of work.

Dr. Rajchman then discussed what he described as the philosophy of this project in its broader aspects. He saw the League's relation to China as falling into three distinct stages or phases.

(1) The first efforts, which began several years ago, were intended to "gain China for the League". The Department will recall that on account of a number of factors which had been in play since the world war, the relations between China and the League at that time were not very cordial (see Consulate's despatch No. 471 Political, dated January 17, 1933⁷⁸). While the first efforts in the technical field centered in matters of health and sanitation, it had behind it this aim of "winning China" which may perhaps be characterized as fundamentally political.

(2) The next state after the explorations in respect to health was to assist the Chinese Government to build up a national organization to carry out work in technical domains—the aim also being political, in that it would help to strengthen China's central government. At the meeting of the Council in May 1931, an agreement looking toward this end was ratified. Dr. Rajchman stated that Yoshizawa, the Japanese representative on the Council at that time, tried to block this movement, but he was instructed in unequivocal terms by Shidehara⁷⁹ to support it.

Dr. Rajchman went to China in September 1931. On his way he passed through Japan and talked in Tokyo with the Vice Minister of Foreign Affairs, who stated that the Japanese Government favored the League's cooperation with China which Rajchman had explained in his talk with him. Then suddenly, without any warning, came the Japanese attack on Mukden. A natural inference to be drawn from this was, he felt, that the civil authorities were probably not aware of the plans of the military.

(3) On his arrival in China, Dr. Rajchman found that the Chinese technical organization had already been created. The League's task was thus changed. It was no longer necessary to create an organization, but merely to assist in maintaining an existing organization.

Thus at the present juncture the League's task is to help China's endeavors to carry out its own program as efficiently as possible.

⁷⁸ Not printed.

⁷⁹ Baron Kijuro Shidehara, then Japanese Minister for Foreign Affairs.

In carrying this out, a question of primary importance was whether it was preferable to send foreigners to China as advisers or to have Chinese come to Europe and America for training and experience. Dr. Rajchman felt that the latter method served an infinitely more useful purpose inasmuch as foreigners' help to China could be only ephemeral, while, if the Chinese themselves were trained in the West, thus creating through individual Chinese a link between China and the West, the results would be more far-reaching and permanent. He advised the policy therefore of having Chinese come to the West for training and observation and it was his plan to recruit for this purpose mature and responsible men. In fact, he wished to obtain for this service some twenty or thirty of China's leading men, who would be in a position on returning to China to assume the active direction of affairs. It would by no means serve the purpose merely to send abroad a group of young students, no matter how intelligent, nor how technically efficient they might be.

With respect to sending foreigners to China, Dr. Rajchman said that his program envisaged the sending of a very few whose mandate would be limited to specific and relatively brief consultations. (This subject is discussed fully in the conclusions of his report to the Technical Committee referred to above).

Dr. Rajchman described his present occupation as that of explaining to the members of the technical organizations of the League what they must do towards the fulfilment of the League's program. In this Rajchman is carrying out the instructions given to him by the Technical Committee at its last meeting in accordance with the suggestions contained in Rajchman's own report. This is a natural phase of his work, but, as I shall point out later, it has a very important bearing on the furtherance of the League's program which in this way can be linked up with the League's financial organization.

Dr. Rajchman described his present occupation as that of explaining capitals in order to explain this matter to the Foreign Offices. His ostensible purpose in doing this is to arrange the program in the various countries for the visiting Chinese according to the plan described above. He is also desirous of obtaining the support of the League governments for the program of the Technical Committee.

Incidentally, he stated that in visiting the Foreign Office at Rome he hoped to obtain full Italian support by appealing to their interests in their aviation work in China. He said that he understood that this interest was indeed in fact very keen. Moreover he hoped that the general situation with respect to the relations of Japan and Italy would incline the Italian Government to support the League's program. In this connection he pointed out that Italy is greatly concerned with Japanese commercial competition in the Mediterranean. He felt that

this divergence of interests between Japan and Italy was indeed a very favorable factor in promoting the League's technical assistance to China, because Italy would be less likely to raise any opposition in the Council, as she has frequently done with respect to other League action.

At this point Rajchman disclosed more of his philosophy in handling this question in the following manner. He stated that Ministers of Foreign Affairs are chiefly interested in trade and finance. His project was to demonstrate to these Foreign Ministers that for China to have trade with their countries she must have foreign capital, i. e. fresh money. His project in this respect is that China must have a financial organization which would not be governmental but would be under the aegis of the government. He stated that such an organization had in fact been created which was composed of all of the leading banks of China and in which the Chinese Government was deeply interested (he did not state to just what extent this organization had proceeded).

Rajchman continuing his exposition of his philosophy of the situation, then explained the relationship between the technical services and the question of financial assistance; (1) with the Chinese Government's technical service the League was associated and assisted, (2) with China's financial organization the League was in no way associated. The two, however, were associated for natural and practical reasons. Thus consultations between the two were likewise natural, practical, and to be expected. With the establishment of the Chinese technical organization and the 100% Chinese financial organization, the matter would develop with consultation and thus with *de facto* association.

He took as an example of the foregoing the question of railroads. Any development of the Chinese railroads could not be considered apart from the financial aspects of the question.

Returning to the question of his mandate from the Technical Committee to consult with the League Organizations, he stated that it was thus only proper that he should consult with the League Financial Organization. Referring in this connection to the rumors which had been current in the Far East and in Geneva concerning his alleged activities in connection with a loan to China, Dr. Rajchman said that while in China he had in fact had nothing to do with any question of a loan to China. When any Chinese broached financial matters to him, it was always his practice, he said, to refer them to Monnet. This was very convenient for him, as it relieved him of any responsibility in the matter. He had only to refer the Chinese to experts in finance on the spot. Nevertheless, he added, that it was not true that he would have gone beyond his mandate if he had found it expedient to discuss financial matters and had done so. He went on to explain that the technical work of China depended so directly

upon the question of obtaining the money to carry the work out, that he would have been entirely justified under his terms of reference (which he quoted to me) in discussing with the Chinese the financial aspects of the work and the best method of procuring the money to carry it out.

In commenting on this to the Department, I may say that in my opinion the tactics displayed by Rajchman in this matter of consulting with the League Financial Organization show how he is very cleverly keeping within his mandate, but is actually associating the technical endeavors with financial endeavors extending beyond the mere technical field, despite anything that the Secretary-General may say to the Japanese or anything the Japanese may say.

My reaction to this whole matter is that Rajchman's policy and that of any other agent which the League may appoint to go to China, and the policy of the League itself, will be to proceed as quietly as possible and as effectively as possible with the program of technical assistance which will ostensibly have no relation to political questions, but which will in effect in the very nature of things be linked with political questions, since it has as an underlying objective the strengthening of the central government of China and of China as a nation.

At the conclusion of our conversation I asked Dr. Rajchman what he expected the Japanese to do. He said that no one knew. He pointed, however, to the blow at Mukden at the time the League's plan had progressed to a certain point and he also pointed to the Japanese demands respecting the disappearance of a Japanese Vice Consul,⁸⁰ which had taken place a short time prior to my conversation with him. Dr. Rajchman's general idea as to what the Japanese might do is that they might easily endeavor to create a local incident and attack the whole matter from such a point of departure.

In this connection I have read with interest the despatch to the Department from our Nanking office under date of December 29, 1933⁸¹ in which are set forth the views of Mr. Bryan R. Dyer, an American who is a member of the Chinese National Economic Council. If Mr. Dyer's estimate of the situation is correct, I should be inclined to the opinion that the real danger to the League's plan of assistance arises not so much from the probability of some single incident instigated by the Japanese, but rather from internal dissension among the Chinese and even among the foreign experts themselves, the diversion of public funds by Chiang Kai-Chek for military purposes, and the careful and systematic placing of Japanese money to the end of suborning Chinese officials.

Respectfully yours,

PRENTISS B. GILBERT

⁸⁰ The missing officer was found unharmed.

⁸¹ Not printed.

800.503193/13

The Minister in China (Johnson) to the Secretary of State

No. 2843

PEIPING, July 13, 1934.

[Received August 25.]

SIR: I have the honor to enclose a copy of a memorandum⁸² of a conversation which I had on July 5, 1934, with Mr. Jean Monnet who recently assisted in the organization of the China Development Finance Corporation.

Mr. Monnet said that, although the Japanese had opposed organization of this corporation, they were now beginning to seek an opportunity to cooperate with it as the non-political character of the organization is now evident.

Mr. Monnet is now on his way to Moscow, Paris, London, and New York and expects to return to Shanghai in the autumn.

Respectfully yours,

NELSON TRUSLER JOHNSON

800.503193/11 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, July 19, 1934—7 p. m.

218. Your despatch No. 2742 of June 8, 1934, and previous in regard to (1) Monnet's plan for inducing foreign financial investments in China and (2) the China Development Finance Corporation.

Department wishes to receive by early mail such additional and detailed information as may be available in regard to the subjects under reference, together with the views of the Legation in relation thereto. Particular scrutiny should be given to the statement or view attributed to Secretary Suma of the Japanese Legation to the effect that Monnet's project violates the understanding underlying the Consortium Agreement of 1920.

HULL

800.503193/14

The Minister in China (Johnson) to the Secretary of State

No. 2881

PEIPING, July 31, 1934.

[Received August 25.]

SIR: I have the honor to refer to the Department's telegram No. 218 of July 19, 7 p. m., with regard to the China Development Finance Corporation and the plan of Mr. Jean Monnet for inducing foreign

⁸² Not printed.

financial investments in China, and in reply I have the honor to state that I have no information regarding the China Development Finance Corporation or the plan of Mr. Monnet for inducing foreign financial investments in China other than that conveyed in my despatches Nos. 2715 of May 9, 1934,⁸³ 2744 of May 26, 1934, 2742 of June 8, 1934, 2755 of June 4, 1934,⁸⁴ and 2843 of July 13, 1934.

[Here follows review of the despatches cited.]

The above constitutes all of the information that I have received in regard to this effort of Mr. Monnet to assist the Chinese in organizing a syndicate of bankers for public financing in China. I have hesitated to show an active interest in this matter because I felt that it was not a matter in which I could give any assistance, and I felt certain that as it developed we would learn whether such a proposal as Mr. Monnet had in mind could or could not succeed.

I am at a loss to know how to explain the alleged statement of Mr. Suma that the understanding underlying the Consortium Agreement of 1920 will be violated by Mr. Monnet's project. The preamble of that agreement states that the participants in the Consortium Agreement would "welcome the cooperation of Chinese capital". It has always been my understanding that the Consortium Agreement was not hostile to the organization of a group of Chinese bankers. I have always been under the impression that the members of the Consortium were prepared to welcome the cooperation of a Chinese banking group in any financing undertaken by the Consortium; and I have assumed and do still assume that Mr. Monnet's project is none other than that described by him to me, namely, a project for the organization of a group of Chinese bankers for the purpose of engaging in financing in China.

In view of the way in which this statement, accredited to Mr. Suma, came to the Counselor of the Legation at Nanking, namely, through an American newspaper man, it has not seemed to me wise to approach the Japanese directly in the matter for the purpose of obtaining an explanation of the meaning of such a statement, for it has not seemed to me to be the part of wisdom to evidence to the Japanese the interest in the plan of Mr. Monnet which would prompt such an action.

From the general tenor of Mr. Suma's statements as reported to me by the Counselor of the Legation at Nanking and by Mr. Monnet himself, I suppose that Mr. Suma and other Japanese have from the beginning looked with suspicion upon Mr. T. V. Soong's efforts, in the summer of 1933, to obtain foreign capital for use in China; and in view of the fact that Mr. T. V. Soong's invitation to Mr. Monnet grew

⁸³ See footnote 44, p. 377.

⁸⁴ See footnote 48, p. 379.

out of these efforts, Japanese suspicion in the first phase of this situation transferred itself to the activities of Mr. Monnet in Shanghai. I assume that Mr. Suma's statement was based upon this suspicion and a belief that Mr. Monnet's activities merely cloaked his real intention of preparing the way for some financial assistance to the Chinese from abroad which would exclude Japanese participation. Mr. Suma doubtless takes the point of view that under the Consortium Agreement of 1920 to which the Japanese are parties, financial assistance from sources included in that agreement but excluding the Japanese would violate the terms of the agreement. I do not know how else to explain Mr. Suma's reported attitude.

The latest information which I have in regard to the China Development Finance Corporation covers its list of stockholders. This list of stockholders was given to me in confidence by Mr. Monnet for communication, in confidence, to Professor James Rogers. The list is appended upon a separate sheet enclosed with this despatch.⁸⁵

The Corporation was formally inaugurated on July 4th, and it would appear that the Ministry of Finance has authorized the Corporation to increase the membership of its Board of Directors from eight to twelve persons. The fact that no public opposition to this act by the Japanese has developed would indicate that they are prepared to accept the Corporation as a Chinese corporation.

Respectfully yours,

NELSON TRUSLER JOHNSON

800.503193/17

*The Counselor of Legation in China (Peck) to the Minister in China (Johnson)*⁸⁶

L-431 Diplomatic

NANKING, August 21, 1934.

SIR: I have the honor to state that in the course of a visit paid this morning to Mr. Y. Suma, Secretary of the Japanese Legation residing in Nanking, Mr. Suma asked me whether I had been following negotiations which he said are in progress between representatives of the British and Chinese Corporation and the China Development Finance Corporation, the object being a loan of approximately Yuan \$60,000,000 for the purpose of completing the Shanghai-Hangchow-Ningpo Railway.

I told him that I had merely noted casually in the press the statement that the Chinese were trying to complete this line.

Mr. Suma said that his information was to the effect that the British and Chinese Corporation, basing their position on their old contract

⁸⁵ Not printed.

⁸⁶ Copy transmitted to the Department by the Minister in China in his despatch No. 2944, August 28; received September 24.

for the Shanghai-Hangchow-Ningpo Railway of 1908, were trying to arrange in concert with the Chinese a plan whereby a third organization, to be called something like "China Development Investment Company", a purely Chinese concern, should be created to serve as the ostensible borrower of the British funds, but actually to be a dummy for the China Development Finance Corporation, which Mr. Suma referred to as "T. V. Soong's Corporation".

Mr. Suma said that he understood that Sir Charles Addis, of the International Consortium, was interested in reviving foreign investments in China and was awaiting a report from Mr. Monnet, who has recently been in China, before initiating some moves in that direction. Mr. Suma inquired whether the American group of the International Consortium of 1920 did not feel that this proposed method of investment of British funds in the Shanghai-Hangchow-Ningpo Railway was contrary to the spirit, if not to the letter, of the Consortium?

I said that of late I had not received any information regarding the attitude of the Consortium in regard to investments in China and I supposed that if the Japanese group in the Consortium felt that its principles were being violated, the natural course would be for the Japanese group to take the matter up with the other groups.

Mr. Suma said that he had lately seen a report from the manager of the Yokohama Specie Bank in New York giving an account of a conversation with Mr. Thomas W. Lamont of the American group, during which Mr. Lamont had expressed great impatience with the failure of the Chinese Government to take any steps to settle its outstanding indebtedness and had expressed the opinion that there should be no foreign investments in China until China had shown a disposition to do so.

Mr. Suma said he felt that foreign investments in China at this time were injudicious, partly because such investments might diminish the pressure on China to start adjusting its old indebtedness, and partly because such investments might contribute to the internal dissension. He said that the Powers concerned should carefully supervise such activities and he said that the Japanese Government had even forbidden Japanese creditors to make individual attempts to obtain settlement of their claims. The invariable tendency of the Chinese is, he said, to play off one creditor against another and thus not only postpone a general settlement, but force very unfavorable terms on individual creditors. He referred to a current transaction whereby the Oriental Development Company and Mitsui are endeavoring to adjust sums owed to them by the Peiping-Suiyuan Railway, the Railway attempting to force on them terms no more advantageous, and less advantageous if it is possible to obtain them, than the General American Car Company debt settlement terms.

Mr. Suma asked whether the United States was making any progress in its effort to obtain a settlement of American claims. I replied that there seemed to be no prospect of success.

Mr. Suma referred to recent newspaper reports that a British firm was prepared to lend a considerable sum to General Liu Hsiang of Szechuan and said that he thought no important British firm was concerned in this and that the proposal would not eventuate successfully. He said that the origin of the whole thing had been a project cooked up between General Liu Hsiang and the Chinese tobacco and banking company of Young Brothers, in accordance with which Young Brothers would lend money to Liu Hsiang and have as security a large part of the profit from the opium traffic from Szechuan down the Yangtze River to the coast. This project provided for the setting up of mints in Szechuan to coin provincial currency. Naturally, the National Government was opposed to this violation of the currency laws of the country and Dr. H. H. Kung, Minister of Finance, frustrated the plan by diverting the opium traffic, with the aid of militarists, from the Yangtze River to an overland route through Kweichow. The security for the loans to be made by Young Brothers thus disappeared.

In connection with the subject of the Shanghai-Hangchow-Ningpo Railway, I asked Mr. Suma whether his opposition to the plan was not partly caused by his opposition to the China Development Finance Corporation and he replied that it was his opposition to the ambition of that organization to serve as a medium for foreign investments in China; he felt no opposition to the Corporation functioning in its purely domestic capacity. He remarked, however, that the Japanese Government was intensely interested in the particular geographical area concerned and was interested in keeping alive the principle of supervision of foreign investments in China as embodied in the Consortium Agreement.

Respectfully yours,

WILLYS R. PECK

800.503193/16

The Minister in China (Johnson) to the Secretary of State

No. 2941

PEIPING, August 28, 1934.

[Received September 24.]

SIR: I have the honor to refer to my despatch No. 2881 of July 31, 1934, with regard to the recently organized China Development Finance Corporation and to report that, during a conversation on August 13, 1934, with a member of my staff, an official of the Bureau of Asiatic Affairs of the Japanese Foreign Office, Mr. Hagiwara, made some comments in this regard.

Mr. Hagiwara stated that the China Development Finance Corporation had a League of Nations background which did not enhance it in Japanese eyes. Describing this, he explained that the League of Nations had contemplated three or four years ago the creation of a subsidiary organ which was to have as its primary interest the directing of financing of projects in China. This plan was abandoned before realization. However, when Mr. T. V. Soong, as Minister of Finance, visited the United States and Europe in 1933 he discussed with Western financiers the desirability of organizing a committee of leading foreign financiers, exclusive of Japanese, to plan and undertake foreign investments in China and to act at the same time in an advisory capacity to the Chinese Government. In both these plans, Mr. Hagiwara stated, League personages figured prominently. In the first instance, naturally, the members of the League's subsidiary organ would have been League personnel, while the second project had been recommended to Mr. Soong by Mr. Jean Monnet, formerly connected with the League of Nations. The third and accomplished project, the China Development Finance Corporation, is the result primarily of the efforts of Mr. Monnet, formerly of the League, and is an outgrowth of the first two plans, and therefore has a League complexion although it has no actual connection with the League. (Mr. Hagiwara said that details had been given to Ambassador Matsudaira⁸⁷ by Mr. Thomas Lamont.)

Mr. Hagiwara went on to say that the Japanese were not inclined to view the new organization favorably because of another factor, namely that it has a political character as a result of inclusion in its membership of such men as Dr. H. H. Kung, the Minister of Finance, and Mr. T. V. Soong, executive member of the National Economic Council. Were it a purely non-political organization, it would be considerably more acceptable to the Japanese. Mr. Hagiwara concluded his remarks with the statement that the Japanese did not believe that the new organization would accomplish much of anything.

Respectfully yours,

NELSON TRUSLER JOHNSON

893.50A/104

The Consul at Geneva (Gilbert) to the Secretary of State

No. 993 Political

GENEVA, September 1, 1934.

[Received September 11.]

SIR: I have the honor to refer to my despatch No. 958 Political dated July 13, 1934 in which I discussed the League project for technical assistance to China as the matter stood at that time, with special

⁸⁷ Tsuneo Matsudaira, Japanese Ambassador in Great Britain.

reference to Dr. Rajchman's activities in this regard. I am now in a position to report more recent trends in the League's handling of this question through information obtained direct from the competent League authorities. I shall report this information in the form in which I received it.

In the course of a recent conversation Mr. Avenol, Secretary-General of the League, told me that during the summer he had stated to Dr. Rajchman that from an administrative point of view it would not be possible for him to continue his services with the Chinese Government and at the same time retain his position as an official of the League and that, upon being presented with this choice, Dr. Rajchman elected to remain as Director of the Health Section of the League Secretariat.

It will be recalled that the one-year term of Dr. Rajchman's employment by the Chinese Government expired on August 1. It will be seen from this that the question naturally arose during the summer concerning Dr. Rajchman's future functions and that the question was in effect whether Dr. Rajchman would seek the renewal of his appointment by the Chinese Government.

In response to my inquiry whether it was contemplated that a successor to Dr. Rajchman would be appointed, Mr. Avenol said that Dr. Rajchman in the character of his interest in China was unique and that the place he had created for himself in respect to the relations between the League and China was by the same token likewise unique. Thus in a sense it might be considered that the question of a successor for Dr. Rajchman did not arise. Respecting any specific details regarding the more general question of technical assistance to China on the part of the League, Mr. Avenol referred me to Mr. Haas, Chief of the Communications and Transit Section of the League, who is the Secretariat official charged with this matter.

In a conversation with Mr. Haas that followed my conversation with Mr. Avenol, Mr. Haas confirmed what Mr. Avenol had said to me regarding Dr. Rajchman and the position which Dr. Rajchman had filled.

Mr. Haas further informed me that a meeting of the Council Committee on Technical Assistance to China would in all probability be held during the Council sessions in September. He expressed as his belief that the meeting of this Committee would not take place until toward the end of the Assembly, inasmuch as he felt it to be desirable that an opportunity be afforded for informal exchanges of opinion between the representatives of the states most interested in this phase of the League's relations to China before the date of the Committee meeting.

It will be recalled that at the last meeting of the Council Committee in May Dr. Rajchman's report was referred to the pertinent organs of

the League for study and for the formulating of observations or recommendations. Mr. Haas stated that on the agenda of the September meeting of the Committee would undoubtedly be the results of these studies on the part of the League organs which would be forwarded to the Committee through the agency of the Secretary-General. I will say parenthetically at this point with special regard to those portions of my despatch under reference which dealt with the financial phases of the question involved, that in a recent conversation with Mr. Loveday, Director of the Financial Section of the League Secretariat, he told me that he did not believe that the Financial Section would prepare any material for the Committee.

I inquired of Mr. Haas whether the question of a possible successor to Dr. Rajchman would also be on the agenda of the meeting or, if the matter was not placed on the agenda in precisely that form, whether the question would not arise as to what substitute arrangements would be made to care for the work which Dr. Rajchman had been performing. Mr. Haas stated in reply that while this question would probably not appear on the agenda in any concrete form, the question might indeed arise in the meeting as to the best method of liaison to be established between Geneva and China in this endeavor.

With respect to the foregoing it will be recalled that in my despatch under reference I discussed at considerable length the political forces which seemed to be in play both respecting Dr. Rajchman himself and this entire matter of the League's relations to China. While the circumstances that Dr. Rajchman could perhaps not well continue to serve the Chinese Government and retain indefinitely the particular post which he holds in the League Secretariat is probably sound from an administrative point of view, it is impossible to escape the conclusion that political influences were definitely at work which motivated the decisions which apparently have been taken in regard to these questions on the part of the Secretary-General and on the part of what perhaps may be considered to be the League itself. I am unable, nevertheless, to determine with any precision at this juncture just what these influences were and the reasons for their being brought to bear. One here can only read between the lines, observe trends, and draw inferences. I think it can be said in any event that the decision of Dr. Rajchman as related to me by the Secretary-General was not a voluntary one on the part of Dr. Rajchman nor that it is an expression of his personal desires.

It will further be recalled that in my despatch under reference I also discussed the underlying purpose and the ultimate aim of the League's endeavors in this connection respecting China in contrast to technical assistance per se, that is, these purposes and aims as seen by Dr. Rajchman and likewise as seen by a number of League

officials. In brief, these purposes and aims were that the program of technical assistance to China would serve to keep alive an interest in China in the western world in a psychological sense and also a practical interest through developments in finance and trade. The result sought was that these activities would serve the end of developing progressive diplomatic support for China in the international field with a consequent strengthening of the international and national position of China's central government.

In respect of this, I must report that there was no hint of any such League purpose in my conversations with Mr. Avenol and with Mr. Haas. In fact, quite the contrary was the case. The whole atmosphere of the conversations was almost precisely that which Mr. Avenol had displayed to me in a previous conversation on this subject before Dr. Rajchman returned to Geneva, a conversation which I reported in my telegram No. 61 dated April 28, 11 a. m.⁸⁸ I cannot express too strongly my impression of a decided intent to denude this League endeavor, insofar as may be possible, of any political connotations which might be offensive to Japan or embarrassing to any important government, notably perhaps the British. I may add, however, that this policy possesses a decidedly reasonable basis in that the plan of technical assistance was placed in effect before the Sino-Japanese conflict, which latter indeed gave it the political significance which it possesses in the eyes of Japan.

As related to the questions which I have discussed above, I may add that I inquired of Mr. Haas what progress Dr. Rajchman had made in his conversations with various European governments. It may be recalled that I stated in my despatch under reference that at that time Dr. Rajchman was on the point of leaving Geneva to visit a number of European capitals for the purpose of ascertaining to what extent they were prepared to support the League projects for assistance to China and that he had the intention of pointing out to these governments the advantages which might accrue to them in the field of trade should the position of the Chinese Government be strengthened. In reply to my inquiry Mr. Haas told me that Dr. Rajchman had visited only a very few capitals and that he had made no particular progress. From what I know of the situation here, I am inclined to believe that Dr. Rajchman was summoned to return to Geneva in the early stages of his trip and that from that point on he ceased to deal with Chinese affairs.

In conclusion I may say that there is a rumor current in Geneva to the effect that Mr. Haas himself would like to succeed Dr. Rajchman and is in fact seeking this post. In this connection I may say that in

⁸⁸ *Ante*, p. 145.

the conversations which I have described Mr. Haas was not as definite as Mr. Avenol in that no successor would be appointed to Dr. Rajchman. Whether there is any truth in this rumor or not or whether the apparent attitude of Mr. Haas toward this matter has any bearing on the question, I am unable to say. This might, however, merely be in line with a possible plan to return to the arrangement before Dr. Rajchman's appointment, whereby directors of the technical organizations of the League visited China periodically to give advice in the field and to keep the League informed of technical developments. It might easily be that Mr. Haas would be designated to visit China in such a capacity, without in carrying out this function being accorded any particular title.

Furthermore, Mr. Yokoyama, the Japanese representative here, told me recently with evident satisfaction that he had heard that Dr. Rajchman would not only not be permitted to return to China but that he believed that his association with the League in any capacity would shortly terminate. To what extent Mr. Yokoyama's statement to me was merely an expression of his wishes I cannot say. It is not to be questioned but that the Japanese would like to see Dr. Rajchman leave Geneva. And I likewise have a very strong belief that the Japanese played an important, if indirect, part in the decisions taken by the League Secretariat as I have discussed them. I may add that Mr. Yokoyama, in telling me what I have just related, also took occasion to impress upon me that should Dr. Rajchman leave the Secretariat his successor as Director of the Health Section would undoubtedly be Dr. Boudreau, a member of the Section, who is an American national.

Respectfully yours,

PRENTISS B. GILBERT

893.51/5937

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Conversation With Mr. Thomas W. Lamont, of J. P. Morgan & Co.

[WASHINGTON,] September 19, 1934.

[The first paragraph records telephone conversations arranging for Dr. Hornbeck to call on Mr. Lamont in New York.]

Mr. Hornbeck called at Mr. Lamont's office at one o'clock and there followed luncheon and a conversation lasting two hours.

I. Mr. Lamont said that his British and French associates in the Consortium and the Japanese—perhaps most of all—had been glad to learn that the American Group was disposed to continue its membership in the Consortium. He said that the American Group had made its decision on the basis of the statement made to him, Mr. Lamont,

in June last, by Mr. Hornbeck, in which Mr. Hornbeck had outlined the attitude of the Administration toward the Consortium, toward the American Group, and toward the question of continuance of the Consortium and of the American Group's membership therein. He said that the continuance of the American Group's membership was somewhat "specious" inasmuch as under the present law in this country the member banks would not be able to float portions of loans, if and when loans were made to China—for the reason that they are forbidden to issue securities. (Note: There followed some discussion of this point.)

Mr. Lamont continued to the effect that the Consortium had been created in consequence of suggestions made by the American Government (in 1918) and that the American Group had taken its place and part therein at the instance of the American Government; that, although, as had been stated by Mr. Lamont to Mr. Hornbeck in June, the continuance of that membership and the maintenance of the Consortium entail some expense without any tangible return, he and some other of the responsible personnel have felt that, if the present Administration prefers that there be made no change (for the present at least) and thinks that continuance in existence of the Consortium may serve a useful purpose and that perhaps some day the Consortium may do something constructive, the thing for them to do is to "continue". They therefore have not raised with other and less interested parties the question of possible discontinuance; and they have said to interested persons who have inquired that the present would not be an opportune time to make a change, that a change might be misunderstood in the Far East—especially in Japan, that this would perhaps create new difficulties (if only those of explaining) for the American Government, and that therefore no change should be made.

Mr. Hornbeck said that he was very glad to hear that the matter had thus unfolded, that he personally found this attitude and these developments gratifying, and that he thought that knowledge of them would be gratifying to the Secretary of State and the President.

II. Mr. Lamont then proceeded to give an account of the activities of Mr. Jean Monnet. He said that Monnet had been in 1919 "first choice" for the position of secretary general of the League of Nations, but that Monnet had declined—after which Sir Eric Drummond had been chosen and appointed. Monnet had, however, developed and maintained an active and serious interest in the League. Monnet had become a friend of Rajchman. Rajchman had been chosen by the League for work in China. In 1931, when the Japanese operations in Manchuria began, Rajchman—knowing China and not knowing Japan—had become an active partisan and participant in political developments. In particular, T. V. Soong and Baron Shidehara had

exchanged certain messages and were arranging to meet in order to try to devise and propose a plan of compromise and settlement (??); and at that point Rajchman had told Soong that this was not an advisable course, with the result that the project fell through. Rajchman's attitude and activities had made him distinctly *persona non grata* to the Japanese. Later Soong had come to this country and had succeeded in concluding the \$50,000,000 cotton and wheat credit per the R. F. C. Then Soong had gone to Europe. Soong's effort had been "to build himself up" for a contest for power with Chiang Kai-shek. In Europe he had not accomplished much. He had proposed the formation of his "advisory council". Both Mr. Lamont and Sir Charles Addis had told him that he should not plan to exclude the Japanese. Mr. Lamont had declined to serve—as had also Sir Charles. (Note: See memorandum of conversation between T. V. Soong and Mr. Hornbeck of August 8, 1933.⁸⁹) Then Soong had come back to this country, had seen the President at Hyde Park, had explained his project to the President, and had been given by the President the names of various Americans whom Soong might ask to have on his council. Among these was the president (?) of the New York, New Haven and Hartford Railway, who had in turn consulted Mr. Lamont as to whether he should accept the invitation which Soong subsequently had extended to him. But when Soong got back to China, Chiang Kai-shek had put him out of office and vetoed his project for an "advisory council".

Meanwhile, Mr. Lamont said, Soong had invited Jean Monnet and Sir Arthur Salter to come to China. They had gone. Salter produced a report on the economic situation in China. Monnet had developed the project and taken the initiative which brought into being the China Development Finance Corporation. The Japanese had been very suspicious of Monnet and had opposed his efforts and project. This, in part at least, had brought on the Japanese statement of policy (the Amau statement) in April last.⁹⁰ Among the Chinese, various of the bankers, among whom was Li Ming and the Bank of China, had been opposed to the China Development Finance Corporation project. But ultimately they had subscribed to it. Next, Monnet had set himself—and Mr. Lamont had suggested to him that he do so—to getting acquainted with the Japanese and allaying their suspicions and misunderstanding of him and the China Development Finance Corporation project. Monnet was now in New York and was expecting soon to come to Washington and would call on Mr. Hornbeck.

⁸⁹ *Foreign Relations*, 1933, vol. III, p. 643.

⁹⁰ See telegram No. 71, April 18, 5 p. m., from the Ambassador in Japan, p. 112.

Mr. Lamont next said that he conceived that the China Development Finance Corporation might develop or be developed into a link between China and the Consortium. Mr. Hornbeck remarked that the same thought had been running for some time, in the form of a query, in his mind: might not such a link develop. Mr. Lamont recalled the fact that he had always advocated the formation by the Chinese of a banking group which might have membership in or a definite and cooperative association with the Consortium; but antipathy to the Consortium idea had developed in the early days of the Consortium's existence to such an extent that nothing had ever been developed on that line. Now, however, the China Development Finance Corporation might meet that need. Mr. Hornbeck remarked that the fact that the Bank of China and other Chinese banks had finally given the China Development Finance Corporation their support might be regarded as an encouraging development in that connection.

III. Mr. Lamont adverted to a suggestion which he had made in the course of a conversation in June with Mr. Hornbeck; a suggestion in the form of a query whether a declaration of policy with regard to the Far East by the four powers most concerned might not be a helpful political move. (Note: See memorandum of June 18, 1934.) He said that he had given quite a little thought to this while on shipboard and had produced a memorandum; but that upon studying his own memorandum he had come to the conclusion that the idea probably was not practicable: he realized, among other things and for instance, that other powers, especially Great Britain, were, by virtue of their interests, concerned and would need to be included. But he would give Mr. Hornbeck, for what it might be worth, a copy of the memorandum. Mr. Hornbeck expressed interest, and both he and Mr. Lamont read the memorandum and exchanged comments upon its contents. Mr. Hornbeck said that he greatly appreciated Mr. Lamont's having worked out the statement and suggestion contained in the memorandum; that he would study it with care; that he must say at the moment in all frankness that he doubted whether the suggestion as it stood was one of which any practical use could be made; but that it contained suggestive materials and perhaps out of it there might be developed something for which at some time there might be found use. Mr. Lamont said that he was not putting it forward as a serious recommendation or as anything which he would urge, but that it was a follow-up on what he had orally offered in the form of a query in the earlier conversation referred to.

IV. Mr. Hornbeck said that he wished to refer to inquiries which Mr. Lamont had made in letters a few months ago with regard to the wheat and cotton credit to China. He said it was "our feeling" that

that transaction was not inconsistent with obligations of the U. S. Government relating to the Consortium agreement. Mr. Lamont said that he concurred. Mr. Hornbeck referred to the conversation which the Secretary of State had held with Mr. Lamont, and Mr. Lamont said that he had suggested to the Secretary that we ought to consult with or notify the Consortium members before concluding the transaction—but that the Reconstruction Finance Corporation had pushed ahead with it. He realized that the Department of State had had little or no part in the transaction.

V. Mr. Hornbeck then mentioned correspondence with regard to the Hukuang loan and the filing in Peiping of protests against certain of China's lapses in connection therewith.⁹¹ He said that on several occasions the British had proposed joint or simultaneous representations to the Chinese Government, and, in doing so, the British Legation in Peiping has offered drafts in the texts of which they make statements with regard to China's obligations under the Hukuang loan agreement to which statements the Department has found it impossible to subscribe. It was for that reason that Mr. Hornbeck had suggested to Mr. Lamont, in one letter, that the American Group's legal advisers scrutinize carefully that provision of the loan agreement which relates to substitution of securities. We had believed it expedient to rely upon general reference to that article of the loan agreement, without attempting to paraphrase it or attempting to declare in our own language just what the Chinese Government's obligation is. Mr. Lamont said that he "saw the point". He then said that the British are coming along with something new on this subject, something that differs apparently from the views of the legal advisers of the American Group,—and that something in that connection probably will be sent soon to the Department. (Note: It was not indicated whether this would come from the British Government or from Mr. Lamont.⁹²)

VI. In the concluding exchanges, Mr. Lamont requested that Mr. Hornbeck convey his greetings and an expression of his regard to the Secretary of State. Mr. Hornbeck said that he was very happy to be given that commission, as the Secretary of State had expressly asked him yesterday to convey his, the Secretary's, regards to Mr. Lamont; which he, Hornbeck, had up to this moment inadvertently failed to do. Mr. Lamont said that he appreciated the Secretary's thoughtfulness. Mr. Hornbeck said that he was sure the Secretary would appreciate Mr. Lamont's message. Mr. Lamont thanked Mr. Hornbeck for having made this conversation possible. Mr. Hornbeck thanked

⁹¹ For correspondence on claims, see pp. 542 ff.

⁹² Mr. Lamont's letter of September 24, with enclosures, not printed.

Mr. Lamont for having suggested it, for the time which he had given to it, and for the luncheon which he had been so good as to provide. And the conversation there ended.

S[TANLEY] K. H[ORNBECK]

800.503193/22

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*

[WASHINGTON,] September 20, 1934.

Mr. Monnet called and said that he had come to inform me of his experiences and developments in China in which he is interested, during the interval since his last call. He then gave me an account (similar to that which Mr. Lamont had given me yesterday—see memorandum of conversation with Mr. Lamont) of his efforts in China leading up to and resulting in the creation of the China Development Finance Corporation. He said that the Corporation was now a going concern and it had taken on its first piece of financing, the financing of the completion of the Shanghai-Hangchow-Ningpo Railway. In the course of the conversation it developed that the Hong Kong and Shanghai Banking Corporation is assisting in that financing.

Mr. Monnet went on to explain at length his theory of the way in which the C. D. F. C. may be able to be of use in developing business and industry in north China. Partly on his own initiative and partly in reply to questions which I asked, he said that he did not contemplate attempting to float issues of Chinese securities abroad until the Chinese had worked out some scheme for taking care of their outstanding public foreign debt. I endeavored repeatedly by indirect questioning to ascertain whether he had in contemplation the obtaining in the near future of capital from American sources. His answers were of a general character and to the effect that he thought only of bringing about, in connection with particular enterprises, a "sharing of risks". He said that he believed that in all enterprises undertaken in China there should be Chinese participation and cooperative investment. Finally, I said that I wished to ask a direct and specific question, which Mr. Monnet might feel at liberty to decline to answer if he so wished: I would be interested to know whether he planned to ask for funds from the R. F. C. He said that he was perfectly willing to answer: that he did not. However, he went on to say, he had been talking with Mr. Peek⁹³ and he had in mind the question of possible relations between the Export Bank and particular enterprises which might be undertaken in China. He said that he understood that there were a number of American firms which had in

⁹³ George N. Peek, president of the Export-Import Bank of Washington.

prospect possible sales of material and goods in China, which firms were casting about for means of financing the transactions. He made it perfectly evident to me that he had been talking of such matters with Mr. Peek. He said that if there was any particular enterprise which he undertook to present he would gladly let me know. He mentioned his association with the negotiation of the cotton and wheat credit last year,—and his mention of that gave me the opportunity to say that he knew and I knew that that transaction had caused a great deal of confusion and no end of unprofitable bother both to “us” and to “the Chinese”. He said that he well realized that such was the case. I then said that I did feel that if and when any projects of the character which he had been describing to me were “in the making”, this Department should be informed thereof at an early stage. He said that he quite agreed and that he personally would be only too glad to let us know insofar as he was concerned. I thanked him. He said that he would expect to call on me again in the not distant future. I said I would be glad to receive him at any time. And the conversation there ended.

S[TANLEY] K. H[ORNBECK]

893.50A/105 : Telegram

The Minister in Switzerland (Wilson) to the Secretary of State

GENEVA, September 27, 1934—5 p. m.
[Received September 27—12: 03 p. m.]

271. Convocation received for meeting Friday morning September 28 of Council Committee of Technical Cooperation between League and China. Haas states he anticipates meeting will be purely formal. Unless otherwise instructed Mayer will attend as formerly.

WILSON

893.50A/107 : Telegram (part air)

The Minister in Switzerland (Wilson) to the Secretary of State

GENEVA, September 28, 1934—2 p. m.
[Received September 29—4: 40 p. m.]

272. The China Technical Committee this morning took note in a report adopted unanimously of the observations of League technical organization on the report of the technical agent (my 255, May 17, 6 p. m.) and expressed its thanks to Rajchman whose mandate expired August 1st and who is resuming the directorship of the health section. Noting that it did not appear necessary for the time being to appoint another technical agent it invited the Secretary-General to take the necessary steps to insure continuance of the work more

especially by despatching to China for a short period a director of one of the competent sections of the League Secretariat.

The Chinese member read a long statement summarizing the work since the last meeting. There was no further discussion.

WILSON

893.50A/108 : Telegram

The Secretary of State to the Minister in Switzerland (Wilson)

WASHINGTON, October 5, 1934—7 p. m.

168. 1. Sweetser⁹⁴ has called at the Department and stated that in connection with the League of Nations program of technical assistance to China, the Transit Committee of the League is organizing a group of engineers to go to China to make a survey of water conservancy and highway transportation problems. He said that there had already been chosen for this work a British, an Italian, a French and a Dutch national and that the Chairman of the Transit Committee would like to include an American hydraulic expert.⁹⁵ In this connection Sweetser suggested the nomination of an American Army engineer.

2. The Department wishes to be informed (a) in regard to the present status of the matter, and (b) which, if any, of the engineers already selected are or have been in the active military service of their respective governments.

3. Please make oral inquiry and telegraph reply as soon as practicable.

HULL

893.50A/109 : Telegram

The Minister in Switzerland (Wilson) to the Secretary of State

GENEVA, October 8, 1934—9 a. m.

[Received October 8—6:30 a. m.]

274. Department's 168, October 5, 7 p. m. Regarding (a) paragraph 2. Haas confirms first two sentences paragraph 1 except no Dutch national invited.

⁹⁴ Arthur Sweetser, American director "hors section", League of Nations.

⁹⁵ This information was also transmitted to the Embassy in Great Britain (telegram No. 376, October 5, 9 p. m.), with the instruction: "Please inquire orally and in confidence of the Foreign Office whether within its knowledge the League Committee has given consideration to the question of offering the Japanese an opportunity to participate in this matter. In so doing, please keep clearly in mind the fact that the Department is not making a proposal that Japanese participation should be invited but that the Department, before arriving at a decision, desires to have such information on this point as the Foreign Office may be in position to furnish." (893.50A/108) No reply was received from the British Foreign Office. (893.50A/118)

Regarding (b) paragraph 2, the French engineer is a civil servant, whereas the British and Italian engineers are private consulting engineers. Haas explains that the suggestion of American Army engineer arises only from his understanding that our Army engineers have had the most experience with the type of river conservancy work to be investigated in China.

Haas disclaimed any political interest in this matter, his concern is to have four engineers of highest standing and ability without regard to their nationality.

Haas would appreciate as early a decision as practicable.

WILSON

893.50A/109 : Telegram

The Secretary of State to the Minister in Switzerland (Wilson)

WASHINGTON, October 9, 1934—6 p. m.

169. Your 274, October 8, 9 a. m. Department is informing Sweetser orally that the Department perceives no objection to participation by an American national in the work of this commission and is suggesting that, as not only the majority but apparently all of the other participants are civilians, the League proceed, if it wishes that there be an American engineer on the commission, to choose a qualified American who also is a civilian. The Department has also made informal suggestions to Sweetser in regard to the method of establishing contact with American civilian engineers.

You may inform Haas orally in the above sense.⁹⁶

HULL

893.51/5931

Mr. Thomas W. Lamont of J. P. Morgan & Co. to the Chief of the Division of Far Eastern Affairs (Hornbeck)

NEW YORK, October 11, 1934.

[Received October 19.]

DEAR DR. HORNBECK: Referring to our correspondence of last June and particularly to your personal letter of June 18⁹⁷ which arrived just as I was leaving for the other side: I had opportunity yesterday for the first time of discussing with the Managing Committee of the

⁹⁶ The League announced on November 7 that, following consultations with three experts (French, American, and German), a mission composed of four engineers (British, French, Dutch, and Italian) had left for China. (893.50A/120)

⁹⁷ Letter of June 18 not printed.

American Group the subject of my talks with you. I explained that there had been evinced in some quarters of the American Group a disposition looking towards the dissolution of the Group on two grounds: First, that the continuance of the Group was all expense and no income, even though the expense might not be very heavy, but with no factor in sight that would seem likely in the near future to reduce or eliminate it; and, second, that under the new Securities Bill⁹⁸ all but three or four members of the American Group were estopped from handling securities of any kind, the American Group being composed with only a few exceptions of incorporated banks or private bankers who are continuing their private business.

Preserving your confidence, I at the same time explained to the committee that in short the view of the Department of State was that the present would be an inopportune time for active consideration of Group dissolution, and that, therefore, we were prepared to recommend for the time being that the question be held entirely in abeyance. For your information, the Group concurred in this view, and I am accordingly transmitting this information to you.

As a matter of fact, in some way or other the knowledge that some such idea has been broached has gained some little currency, because I received a letter from the Japanese Consul General this morning, making inquiry on the subject, such inquiry having apparently been prompted from the Foreign Office in Japan. I am answering him briefly to the effect that no present consideration is being given by the American Group to any question of dissolution.

Sincerely yours,

THOMAS W. LAMONT

P. S. This letter was dictated last week, but only finished yesterday. T. W. L. Oct. 16.

800.503193/19

Memorandum by Mr. Raymond C. Mackay of the Division of Far Eastern Affairs

[WASHINGTON,] October 12, 1934.

Mr. Monnet⁹⁹ stated that the China Development Finance Corporation is progressing favorably; that an example of the sort of service which the Corporation intends to render may be found in its present participation, in conjunction with the Hong Kong and Shanghai Banking Corporation, in the flotation, on behalf of the Ministry of

⁹⁸ Securities Exchange Act approved June 6, 1934; 48 Stat. 881.

⁹⁹ Jean Monnet, accompanied by his assistant, Mr. Howe, conversed with Mr. Hamilton, Assistant Chief of the Division of Far Eastern Affairs, and Mr. Mackay.

Railways, of a \$16,000,000 bond issue for the completion of the Shanghai-Hangchow-Ningpo Railway; that the bonds, which bear interest at 5½ per cent, will be issued at 95 or 96; and that applications already received indicate that the issue will be greatly over-subscribed on the Shanghai market.

Mr. Monnet stated that the Corporation is also giving careful consideration to the question of facilitating the purchase by China of urgently required materials of foreign manufacture such as, for example, those now needed for the rehabilitation of Chinese railways; that due, on the one hand, to the Chinese Government's failure to effect payment of its long outstanding obligations and, on the other hand, to the fact that only through the extension to it of credits is the Chinese Government able to effect large-scale purchases, an impasse has been reached which the Corporation aims to eliminate; that the plan which the Corporation now has under consideration would operate somewhat as follows: an American firm, for example, would sell to China, subsequent to investigation and approval by the Corporation, a substantial order of goods on a five-year credit basis; the Corporation, which would make the necessary arrangements for such sale and for the collection of monies as due, would discount with its member banks sufficient of the buyer's obligations to obtain a cash payment of approximately one-third of the amount of the transaction, which payment would at once be transmitted to the American seller; the American seller would go to the Export-Import Bank, where, if the project received approval, the seller would receive a cash advance of possibly another one-third, or more, of the amount of the transaction, thus requiring the seller to finance the deal only in such part as would not greatly exceed the profits involved. Mr. Monnet stated that he had today discussed with Mr. Talley¹ and Mr. Peek and others the question of obtaining the cooperation of the Export-Import Bank as above indicated and that approval in principle had been expressed to him (Mr. Monnet) although it was stated that each particular case as it arose would require individual study and sanction by the Bank.

Mr. Monnet expressed the feeling that the Corporation would prove of great benefit to all concerned; that it would assume a very important role in the future development of China; and that opportunities for its development are almost limitless. Mr. Monnet cited, as an indication of the scope of the activities which the Corporation proposes to undertake, the extremely important and troublesome subject of China's outstanding railway obligations which, in no small measure, represent materials supplied by American and other foreign creditors. Mr. Monnet stated that the Corporation, due to its efficient

¹ Lynn Porter Talley, treasurer, trustee, and member of executive committee of the Export-Import Bank of Washington.

organization and effective control over its own activities and those of enterprises to which it lends its support, will inspire confidence to an extent which (in the opinion of Mr. Monnet) would render possible, within the not too distant future, a complete refinancing of China's railway debts due to the fact that, with any sort of a reliable guarantee of an efficient, businesslike administration of Chinese railways, at least half of the required \$200,000,000 can be obtained on the Shanghai market.

Mr. Mackay asked if Japanese interests are offering any serious objection to the Corporation. Mr. Monnet replied that at the time of its inception the project had been definitely and strongly opposed by the Japanese; that such opposition was due in a large measure to misunderstanding; that when the matter was explained in detail all serious opposition ceased; and that the Rengo news service was instructed to publish no press items which might react unfavorably on the Corporation. Mr. Monnet also stated that the Corporation had informed Japanese interests of the fact that, on "appropriate" projects, Japanese capital would be welcome.

Mr. Hamilton asked if the Corporation would conflict in any way with the China Consortium. Mr. Monnet replied that it would not; that the Consortium applied only to "public offerings abroad"; that the Corporation is "wholly within China"; and that even if, as is anticipated, foreign financial interests assist, collaborate, and provide funds for enterprises aimed at the development of China's commerce and industry for which long-term credits are required, such action would in no way conflict with the provisions of the Consortium Agreement.

Mr. Monnet stated that he would sail for Europe tonight and that he planned to return to the United States in about six weeks for a further brief sojourn before proceeding to China.²

EFFECT OF THE SILVER-PURCHASING PROGRAM OF THE UNITED STATES GOVERNMENT UPON CHINA'S ECONOMY

893.5151/358 : Telegram

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

SHANGHAI, February 17, 1934—10 a. m.
[Received February 17—4: 59 a. m.]

59. Private reports received in Shanghai yesterday indicate American action on silver might be taken at once. Arthur Young³

² For memorandum of conversation on December 28, see p. 459.

³ Arthur H. Young, American adviser to the Chinese Ministry of Finance.

at instance of Minister of Finance Kung called and informally discussed silver situation stating that Minister Kung in view of this report desired American Government to consider how the matter [would be?] regarded here. The following is summary in paraphrase: China entirely sympathetic with purpose of London silver agreement⁴ on stabilization silver prices and Minister Kung has urged ratification personally which is now pending. Since China's currency is silver China has vital interest in measures affecting its value and international exchange but of course has no desire to intrude upon questions of purely American internal concern. In view of reports here it may be observed that any action resulting in rise of China's currency out of relation of other currencies and especially out of relation of world commodities would have deflationary effect in China and further decrease her already reduced exports and so impair her ability to purchase goods from abroad. It would also probably increase present serious tendency toward heavy silver exports as necessary means of settling large adverse balances. In view therefore of China's vital interest it is hoped Government of China will be consulted in advance if measures concerning silver that might materially affect China's currency and exchange are in fact being contemplated.⁵

CUNNINGHAM

893.5151/363 : Telegram

The Chinese Bankers Association to the Chinese Minister (Sze) ⁶

[SHANGHAI, February 20 (?), 1934.]

Kindly forward the following message to His Excellency President Roosevelt.

Chinese Bankers Association appeal to Your Excellency from recognition of the fact that devaluation of United States currency with consequent effect on price level has averted monetary crisis in your country. Converse applies to here that any drastic enhancement of silver value unless accompanied by generous extension of credit to China will result in flight of silver from these shores and bring about credit stringency and collapse of internal commodity level. This great country already suffering from a recent series of calamity is in danger of sinking further into economic depression. We desirous of further commercial tie with your great people appeal to you to insure silver

⁴ *Foreign Relations*, 1933, vol. I, p. 763.

⁵ The Department stated in its telegram No. 38, February 17, 4 p. m.: "Treasury informed Minister Kung's views. Giving them fullest consideration."

⁶ Copy transmitted to the Department by the Chinese Minister under covering letter of February 20, 1934.

price stability and not drastic enhancement of silver price. Purchasing power of this country is dependent upon maintenance of exports and is endangered by rumors silver measure and we trust Your Excellency will avert policy likely to bring calamity upon the millions of our people.

CHINESE BANKERS ASSOCIATION

893.5151/361 : Telegram

The Counselor of Legation in China (Peck) to the Secretary of State

NANKING, February 21, 1934—2 p. m.

[Received February 21—10 a. m.]

19. Following supplements my February 21, 9 a. m. to the Legation.⁷ Arnold, Commercial Attaché, and I held conversation today with two Chinese bankers and we present following synopsis of their remarks:

(1) Chinese bankers and merchants are almost in a panic because of their apprehension that the American Government will take some measure to stabilize silver at a high level. The Chinese believe that if this were done it would result in draining silver from China causing restriction in credit, receding of loans, depressing of commodity prices and in short a financial panic.

(2) The Chinese Government is already giving serious consideration to a silver export embargo or at least to the imposing of an export duty on silver sufficient to correct the difference between the silver price in China and the price as may be determined by the American Government. Many Chinese fear, however, that such an export duty could not be made effective for the purpose in view as against all nationalities.

(3) The fear of the Chinese public opinion that the measures taken by the American Government may create an artificial value for silver is based on the belief that commodity values would not correspondingly rise and the net result would be draining of silver from China for export to the United States and possible investment there, without any stimulus to export trade and correcting of the present unusually unfavorable balance of China's trade. The net result would be a general depression of commodity prices further accentuating the economic crisis.

(4) Chinese bankers and merchants fear that if this situation arose the Chinese Government would feel driven to follow the example set by other countries and attempt to "manage" the currency and commerce and they are fearful of disastrous results therefrom.

(5) The Central Political Council is now giving consideration to the ratification of the London silver agreement and while public opinion is divided the general consensus seems to be that the Chinese Government should not ratify this agreement but should retain liberty of

⁷ See telegram No. 96, February 22, 11 a. m., from the Minister in China, *infra*.

action to take any measures which may be necessary to protect the interests of China in whatever silver situation may arise.

Arnold requests that copy of this be sent to Commerce.
Repeated to the Legation.

PECK

893.5151/364 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, February 22, 1934—11 a. m.

[Received February 22—4:40 a. m.]

96. Nanking's 19, February 21, 2 p. m. Following is Nanking's February 21, 9 a. m.:

"I have received information believed to be entirely reliable, although unofficial, that Kung, Minister of Finance, on February 20, sent telegram to the Chinese Minister at Washington reviewing Chinese position in reference to silver and then directing that the Chinese Minister make representations to the American Government setting forth the undesirability from the standpoint of China of measures calculated to raise the price of silver."

JOHNSON

893.5151/365 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, February 22, 1934—3 p. m.

[Received February 22—6:22 a. m.]

97. Your 43, February 17, 3 p. m.⁸

1. In well-informed circles, North China, it is not believed that the rise in price of silver has been an important factor in the increase in trade.

2. It is believed that depreciation of United States dollar has been a very important factor.

3. Other factors have been (a) increasing confidence among businessmen in the United States, (b) purchases by American importers of Chinese products in anticipation of further rise in price of silver.

4. There is a belief among North China foreign bankers that a stabilization of the price of silver would be a great benefit all around but they fear that if price is stabilized too high there would result a sharp contraction in trade and the Chinese Government might be inspired to depreciate Chinese silver dollars.

JOHNSON

⁸ Not printed.

893.5151/368 : Telegram

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

SHANGHAI, February 23, 1934—5 p. m.
[Received February 23—11:03 a. m.]

71. 1. Referring to Department's February 17, 3 p. m. to Tokyo,⁹ it is difficult for a layman to discuss intelligently international finance. However, after careful investigation and numerous conversations with bankers and persons who have made a careful study of exchange, both prior to and subsequent to receipt of Department's instructions, I have reached the following conclusions:

2. The recent sustained rise in silver has stimulated imports into China somewhat but trade is retarded owing to uncertainty of future silver prices.

3. A substantial rise in silver would temporarily increase imports into China especially if accompanied by a stabilization of silver within narrow fluctuations. There can be no substantial sustained increase in imports so long as internal political conditions remain disturbed and the United States share in China's import trade depends primarily on the comparative value of the currency of Great Britain and other competitors.

4. Higher-priced silver particularly if that price is reached by a gradual increase will not destroy but will benefit China's export trade. It is interesting to note that China's export trade was greatest when the price of silver was much higher than at present. The highest point in recent years for silver was in 1919 and 1920 which were very satisfactory years for the export trade. However, China's export trade was best during the years when the price of silver was from 5 to 7 cents per ounce higher than it is today. Present export trade is better than it was when silver was lowest about 18 months ago. It is admitted that many things must be taken into account when considering export trade but it would be exceedingly unsound to state that an increased price of silver would increase China's export trade.

5. Chinese bankers are in a state of panic and fear radical American action. They intend to demand embargo or other action by the Chinese Government in the event the United States paid high artificial price for silver bullion. The demand of Chinese bankers is similar but in reverse order to Shanghai demands made in February and March 1930 for a prohibitive import duty on silver in order that China's money would not reach a ruinously low price. The demand is now for an embargo or increased export duty which will have the result of placing China in the position of having a controlled currency.

⁹ Not printed.

At what price an embargo would be urged has not been ascertained but 60 cents per ounce has often been mentioned.

6. Those who within past few days have made representations to the United States against a high-priced silver profess to believe that a gradual increase to a point very much higher than it is at the present time would not be objectionable if commodity prices advanced correspondingly.

7. Chinese bankers are almost a unit in declaring that China must take precautionary measures in event of artificial high price of silver. If peradventure the raising of the price of silver should deleteriously affect export trade this could be partially counteracted by China's removing export and interport duties.

8. Finally it is difficult to anticipate what the reaction in China will be to action by United States alone in substantially raising silver. If such action should prove disadvantageous to China there is always to be kept in mind the possibility of anti-American agitation and this is particularly true when other nations may have a selfish purpose in assisting in the development of such a sentiment.

CUNNINGHAM

893.5151/376 : Telegram

*The Shanghai Chinese General Chamber of Commerce and the Shanghai Foreign General Chamber of Commerce to the Chinese Minister (Sze)*¹⁰

[SHANGHAI, March 5 (?), 1934.]

Kindly forward the following message to His Excellency President Roosevelt.

We jointly desire respectfully to endorse views telegraphed by Chinese Bankers Association deprecating artificial measures to raise the price of silver. We are convinced that a rise in the price of silver unless accompanied by a corresponding rise in all commodity prices would be likely to produce most harmful reaction in China.

SHANGHAI CHINESE GENERAL CHAMBER OF COMMERCE
SHANGHAI FOREIGN GENERAL CHAMBER OF COMMERCE

893.5151/378 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, March 14, 1934—5 p. m.

[Received March 14—4: 12 p. m.]

120. With further reference to Department's No. 43, February 17, 3 p. m.,¹¹ and supplementing my 97, February 22, 3 p. m.

¹⁰ Copy transmitted to the Department by the Chinese Chargé under covering letter of March 6.

¹¹ Not printed.

1. News despatches bearing Washington date line continue to report interest of Congress in legislation having for its object rehabilitation of silver. It is reported that a recent proposal would require United States Government to purchase silver until ratio of 16 to 1 between silver and gold had been reached.

2. These reports continue to cause agitation at Shanghai and in Nanking. Agitation at Shanghai is being carried on by foreign residents of Shanghai who are large holders of real estate and Shanghai silver investment bonds and by Chinese bankers.

3. Both elements feared stimulation of price of silver by American Government purchases would result in flight of silver to United States with consequent fall in China's commodity prices and financial panic.

4. Financial situation in South China has already been seriously disturbed by failure of remittances from Chinese emigrants.

5. Following remedies appear to be under consideration by Nanking Government should eventualities above mentioned threaten:

- (a) Embargo on export of silver
- (b) Export tax on silver
- (c) Reduction of silver content changing silver dollar.

6. It is not believed that remedies (a) or (b) can be made effective in view of extraterritoriality privileges of foreigners and attitude of the foreign powers.

7. Remedy (c) is advocated by those who contend that the purchasing power of [silver] has been increasing since middle of 1931 resulting in a decline of Chinese wholesale prices and that the purchasing power of silver will continue to increase. A parallel is drawn between this situation and that which existed in gold-standard countries which have been forced to abandon the fixed gold standard because of the economic consequences of the rising purchasing power of gold. They recommend that China in the event of rising ratio power of silver take similar steps and reduce silver certifications of the dollar selections, in other words abandon a fixed silver dollar standard for a currency standard applied to commodities.

8. Naturally both government and financial circles and private investors contemplate with considerable apprehension a situation such as might arise if above-described remedial steps were taken as it is not believed that the Chinese Government is sufficiently master within its own house to carry through such a complicated financial plan.

9. Financial and government circles of Shanghai and Nanking are additionally perturbed because they believe that in the face of a world-wide tendency to abandon silver the plan now being advocated in Congress might if carried through prove but a temporary expedient as United States Government would again as in 1893 find itself un-

willing further to buy large stocks of silver and would unload or discontinue purchase causing silver to resume its normal fall in terms of gold.

JOHNSON

033.1100 Rogers, James H./3 : Telegram

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

WASHINGTON, March 23, 1934—5 p. m.

63. 1. The Secretary of the Treasury¹² has informed me that Professor James Harvey Rogers¹³ is starting on a trip around the world for the Treasury Department in order to obtain a first-hand view of present day conditions in the monetary centers of the world. Professor Rogers is proceeding first to China and he plans later to visit Tokyo, Moscow and European centers. The Secretary of the Treasury states that any assistance that can be given to Professor Rogers in accomplishing the objectives of his mission will be appreciated.

2. I desire that American diplomatic and consular officers accord Professor Rogers and his mission all the cooperation and assistance that may be possible and appropriate.

3. Professor Rogers sails from San Francisco March 23 on the steamship *President Hoover*. He will be accompanied by two secretaries, Robert E. Landman and Edwin G. Arnold.

4. Please repeat to Peiping, Nanking and to Embassy and Consulate General at Tokyo; also, after Professor Rogers arrives, inform American diplomatic and consular officers at such other places in the Far East as Professor Rogers may plan to visit.

HULL

033.1100 Rogers, James H./17 : Telegram

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

SHANGHAI, April 17, 1934—10 p. m.

[Received April 17—2:30 p. m.]

173. For Morgenthau from Rogers. On one aspect of the silver problem in China there is a [no?] difference of opinion. Any considerable rise in silver price will aggravate greatly already depressed conditions in agriculture.

¹² Henry Morgenthau, Jr.

¹³ Professor of political economy at Yale University.

Reasons are: (1) Most Chinese farm products are international in no [a?] way with prices largely determined in markets outside China, (2) hence a rise in the price of silver carrying with it a rise in Chinese currency in terms of dollars, pounds and yen will produce corresponding slump in prices of most farm products whether imported or exported on balance, (3) the fact that gold price of silver has not risen substantially is temporarily of little importance as markets are largely outside gold countries.

Further depression in agriculture apparently very serious politically as well as economically. Will report further this aspect after other important conferences. [Rogers.]

CUNNINGHAM

033.1100 Rogers, James H./18: Telegram

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

SHANGHAI, April 19, 1934—9 p. m.

[Received April 19—3:10 p. m.]

183. For Morgenthau from Rogers. Careful conversation with 10 of the biggest American import firms (group apparently most favorably affected by higher silver price) has following opinions:

(1st) All except two are more interested in stability of silver price than in level at which stabilized. Reasons are every abrupt rise in price causes considerable loss in inventory and every abrupt fall requires upward price adjustments and hence leads to loss of business.

(2d) Of the three favoring a higher price of silver only one suggested as much as 60 cents American money. The impression prevails that any considerable rise at this time unless based on international action is apt to be short lived and hence may lead to further damaging fluctuations in near future.

(3d) Four said further sudden rise in price of silver would be disastrous to China and would react adversely on their business.

All four foreign financial advisers to the Minister for Foreign Affairs stress stability and oppose any further rise in the price of silver.

Chinese banker opinion virtually unanimous for stability and against further rise silver price.

So far have found no Chinese opinion favorable to further rise in silver price. Would appreciate suggestions from Pittman¹⁴ or others acquainted here.

Statistical investigation of available import and export data as related to silver price is progressing rapidly. Cable report will follow soon.

¹⁴ Senator Key Pittman, of Nevada, chairman of the Senate Committee on Foreign Relations.

To evaluate possibly [*possibility*] of making payments abroad in the event of increasingly adverse trade balance which might be anticipated from further rise in silver price, estimates of various other items in Chinese balance of international payments are being gathered. [Rogers.]

CUNNINGHAM

033.1100 Rogers, James H./19 : Telegram

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

SHANGHAI, April 21, 1934—9 p. m.

[Received April 21—2:35 p. m.]

187. For Morgenthau from Rogers. Further careful search for opinion sympathetic with higher silver price yields preliminary conclusions:

(1) At least in Shanghai there is no responsible Chinese opinion favoring further rise in price of silver.

(2) Even among importers the preponderance of opinion is adverse to further rise. Small minority of importers favors small rise as a stimulant to their own businesses.

(3) Banking opinion, Chinese and foreign, virtually unanimous in opposition to further rise and insists upon stability.

(4) Government's financial advisers as well as most bankers fear that further considerable rise in silver price would precipitate large silver outflows with resulting liquidation especially in Shanghai real estate market in which some banks are heavily involved. Reason is present tendency to convert Chinese holdings into foreign goods would be aggravated.

(5) Should such outflows occur the Government probably would not impose immediate silver embargo but doubtless would increase export tax on silver.

(6) Severe agricultural depression, which would be aggravated by substantial rise in silver price, is creating much internal unrest.

(7) In present tense diplomatic situation [it would be?] unfortunate precipitate further economic difficulties.

Our statistical studies indicate no long-run relationship between silver price and Chinese imports. Short-run relationships very slight.

Prevailing opinion among those who work with balance of international payments is that higher silver price would aggravate adverse balance with resultant increased silver outflows. Our unfinished studies tend to confirm this view. [Rogers.]

CUNNINGHAM

033.1100 Rogers, James H./20 : Telegram

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

SHANGHAI, April 23, 1934—5 p. m.
[Received April 23—7:45 a. m.]

189. For Morgenthau from Rogers. T. V. Soong¹⁵ last week took position United States Government could not undertake alone raising world price silver as too great purchases might be required. Minister of Finance Kung is publicly committed to stability silver price.

Account demand for stability by important groups already reported believe Nanking Government would welcome some plan assuring future stability silver price in terms of major currencies. [Rogers.]

CUNNINGHAM

033.1100 Rogers, James H./33 : Telegram

The Consul General at Hankow (Adams) to the Secretary of State

HANKOW, May 2, 1934—9 p. m.
[Received May 2—8 p. m.]

Following for Morgenthau from Rogers. Chiang Kai-shek¹⁶ undertaking big program agricultural rehabilitation. He stated to me Monday¹⁷ that higher silver at this time by further reducing agricultural prices would greatly retard this program. The tendency of certain Government officials to favor Dies bill¹⁸ apparently based purely on resulting profit from further use of cotton and wheat loan. Because of illness Finance Minister Kung I have been unable to discuss this with him. [Rogers.]

ADAMS

033.1100 Rogers, James H./35 : Telegram

The Consul General at Hankow (Adams) to the Secretary of State

HANKOW, May 8, 1934—11 p. m.
[Received May 8—8:17 p. m.]

For Morgenthau from Rogers. Study of Chinese balance of international payments has yielded following preliminary conclusions.

¹⁵ Member of standing committee of Chinese National Economic Council.

¹⁶ Chairman of Chinese Military Council and Commander in Chief of Army, Navy, and Air Forces.

¹⁷ April 30.

¹⁸ Congressman Martin Dies, of Texas, introduced a bill (H. R. 7581) under which the Treasury Department would accept silver in payment for exported farm surpluses; the House of Representatives passed it March 19.

1. Balance is increasingly adverse. One reason is the advance in the price of silver in terms of pounds, dollars and yen, has caused prices of Chinese exports, which are largely agricultural products, to decline greatly. Another reason is that remittances of Chinese emigrants, the largest single source of inflowing funds, have been reduced by depression conditions abroad and now by higher silver prices which have reduced the value in Chinese money of the sums remitted.

2. Unless this adverse balance can be soon checked considerable silver outflows seem likely.

3. Already drains of silver from the interior to treaty ports has reached considerable proportions, leading several of the provincial governments to impose restrictions on export of silver.

4. Finally, drains from the country districts seem to come from two sources: (a) the farmers are in such poor condition that many of them are drawing upon their silver hoards to meet living expenses. (b) the local money lenders and native banks unable to collect on many loans are fast liquidating and depositing their silver holdings in military banks which in turn send them to treaty ports for greater safety.

5. To replace these liquidating loan agencies which are necessary to keep agricultural production above the famine level, the Nanking Government is organizing agricultural cooperatives but the process is inevitably slow.

6. Any further rise in the price of silver in terms of major currencies at this time would aggravate this situation.

ADAMS

893.515/315

The Counselor of Legation in China (Peck) to the Secretary of State

NANKING, May 10, 1934.

[Received June 4.]

SIR: I have the honor to enclose herewith a memorandum¹⁹ of conversation dated May 9, 1934, held by the American Minister with Mr. C. C. Ch'ien, Secretary General of the National Defense Council, on the subject "The Price of Silver and Conditions in China".

The Department will note that Mr. Ch'ien is reliably believed to be intimate with General Chiang Kai-shek and the latter's associates in the National Government and that, among other interesting statements, Mr. Ch'ien expressed the opinion that any artificial stimulation of the price of silver at the present time would do injury to the economic stability of China; that there is no doubt but that there is a relationship between the world price of silver and wholesale commodity prices in China; and that the present promise of increased stability and unity would be jeopardized by an economic crisis growing out of the artificial stimulation of the price of silver.

Very respectfully yours,

WILLYS R. PECK

¹⁹ Not printed.

033.1100 Rogers, James H./36 : Telegram

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

SHANGHAI, May 16, 1934—6 p. m.

[Received May 16—2:40 p. m.]

For [Morgenthau] from Rogers. During the 2 weeks have visited Southwestern China, Canton and Hong Kong and West China as far as Chungking.

In both of these regions heavy restrictions on the movement of silver are in force and the money is depreciated. In the South the depreciation is sufficient to bring considerable relief but the monetary situation is complicated, the standard being temporarily based on defined silver content of subsidiary coins.

In Szechuan where the depreciation is only 12 to 15% and where the tax situation is acute, agriculture and trade are very depressed. While in each locality special conditions account for much of the distress, there is no doubt in the minds of business leaders that the higher prices of silver in terms of major currencies have aggravated export difficulties and hence have reduced considerably the prices of most farm products. The financial demands of the 21st Army for political as well as military purposes have led to increasingly heavy taxes not only on imports and on goods in transit but also on exports. These exactions combined with reduced prices for their products are leading some farmers to join the bandits as a means of livelihood. Chungking is under martial law for fear of communist uprising but during the 3 days I spent there all was quiet.

In the country districts of Szechuan most exchanges are in copper, agricultural products in particular being bought for copper. Nevertheless the purchasing agents reckon at least their maximum prices in silver as they must sell to other provinces or to exporters in terms of silver. Since all major agricultural products are exchanged at least between provinces prices received by farmers even in copper provinces are closely connected with silver.

The embargo on the exportation of silver from Szechuan is not effective. The drain of silver down river continues large.

An effective national embargo on silver is at least temporarily unlikely because unenforceable in important section of the country. Protection against further important rise in silver price with resulting increased outflow of silver would probably be sought in higher export taxes on silver. Increased import tax would probably be ineffective because of large-scale smuggling which would be further stimulated. [Rogers.]

CUNNINGHAM

033.1100 Rogers, James H. /37 : Telegram

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

SHANGHAI, May 17, 1934—5 p. m.

[Received May 17—9 : 25 a. m.]

226. For Morgenthau from Rogers. Further study Chinese balance of international payments reveals serious financial difficulties ahead: (1) Adverse trade balance continues large; (2) emigrant remittances, the largest single source of inflowing funds, are greatly reduced, first, by unseasonable conditions abroad and, second, by higher price of silver in terms of foreign currencies used by emigrants; (3) gold which by export in the past 3 years has yielded annually at least \$200,000,000 of general payments is according to best estimates almost exhausted; (4) because of unstable political conditions and uncertain currency conditions the inflow of private foreign capital is at a minimum; (5) hence in the absence of greatly increased foreign credits or effective governmental restrictions against export further silver outflows are likely; (6) while the silver holdings of the Shanghai banks are very large there is little question that any great outflow will be followed by a general curtailment of credit and very likely by a subsequent crisis in Shanghai; (7) the interior banks are largely subsidiary to Shanghai, hence credit difficulties are apt to spread rapidly and add to the already pronounced silver drain from the interior; (8) under such circumstances a further raising of the price of silver unless accompanied by liberal foreign credits to China will be very damaging.

In the past 3 weeks I have talked at length with Marshals Chiang Kai-shek, Chang Hsueh-liang, and Li Tsung-jen. In my opinion there is a growing centralization movement between Nanking and Southwest. However, this movement is seriously threatened by dialects, depressed agricultural conditions and by unemployment leading in each case to increased recruits for rival generals. To avoid civil war these generals must be paid off and the resulting drain on the Nanking Treasury is very great leading to serious budget difficulties.

Temporarily because of their very plentiful reserves the Shanghai banks are financing a great part of the Government's needs. This cannot continue in the event of heavy silver outflows.

To combat the serious agricultural situation Chiang Kai-shek has undertaken far-reaching farm rehabilitation program including Government credits to farmers on easy terms. He states that this program will be seriously retarded by higher silver.

On Minister of Finance Kung's invitation I spent 2 days with him privately on customs yacht early this week. He proposes rehabilita-

tion loan by American Government to Chinese Government, proceeds to be spent on highway construction, flood control, currency reorganization and other unifying projects. In this way he argues not only will national unification be hastened but by employing the destitute among farmers and laborers usual incentive to join rival military chiefs will be largely removed. He assures me of satisfactory security provisions which he will submit soon. I have agreed to receive from him detailed proposals.

My firm conviction is that higher silver at this time will add greatly to the difficulties of Nanking Government and may even destroy the slight but increasing unification of China which it has been able to accomplish. The only economic counteractive which would seem effective for China is some kind of foreign credits on a large scale.

On assumption that a unified China is of high importance to the United States I suggest that if the silver price is to be further raised simultaneous consideration be given to a Government loan to China. [Rogers]

CUNNINGHAM

033.1100 Rogers, James H./38 : Telegram

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

WASHINGTON, May 18, 1934—11 a. m.

136. Reference your May 17, 5 p. m. Please inform Rogers urgently that discussion with Chinese officials of possible loan involves traversing delicate political ground. Department believes he should under no circumstances receive or discuss any proposal for loan unless and until expressly instructed to do so. Department expects to discuss portions of his telegram with Treasury today.

HULL

033.1100 Rogers, James H./42 : Telegram

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

SHANGHAI, May 23, 1934—5 p. m.
[Received May 23—3:15 p. m.]

239. For Morgenthau from Rogers. The President's silver message²⁰ has been extremely well received in Shanghai. After spending much of today discussing it with prominent figures among

²⁰ For text of the President's message to Congress on May 22, 1934, see *Congressional Record*, vol. 78, pt. 9, p. 9209; or Department of State, *Press Releases*, May 26, 1934, p. 303.

the Chinese and American bankers, I am assured that the only important disappointed group is the speculator. The 50-cent limit is regarded as especially constructive because it seems to them to provide reasonable assurance against damagingly high silver price. At the same time against wide fluctuations in Chinese exchange. [Rogers.]

CUNNINGHAM

033.1100 Rogers, James H./70 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, June 28, 1934—5 p. m.

[Received June 28—1:10 p. m.]

275. For Morgenthau from Rogers. Gradual rise in silver price is causing some alarm in Chinese banking and governmental circles. Fear is expressed that exports of silver which were tending to decline may become greater, hence dangerous. While reserves of Shanghai banks are large any great or prolonged outflow would reduce their lending power and affect seriously Government credit as the banks are taking a very large portion of the Government issues.

Rising silver is also bringing hesitation in the apparently recovering import trade as the prospect of still higher silver prices leads buyers of foreign products to delay purchases.

Nanking Government is apparently considering protective measures as Finance Minister Kung yesterday asked my advice regarding raising export tax on silver.

Several influential bankers have come to me to express the hope that any silver price-raising program undertaken in America would be very gradual. [Rogers.]

JOHNSON

033.1100 Rogers, James H./75 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, July 6, 1934—6 p. m.

[Received July 6—8:35 a. m.]

149. For Morgenthau from Rogers. In view publicity American silver embargo I submit the following:

Optional destinations for silver shipments from Shanghai are not unusual being adopted for purpose of saving expense of reconsignment if during transit another destination should become more profitable. Because of wide variations in price of silver in various parts of world and because of uncertainty regarding American purchases such options have been usual.

Continuously substantial outflows of silver from Shanghai are apparently partly result of fear of silver embargo or of increase in export tax on silver. In my opinion national embargo unlikely at present but increase in export tax is apt to follow considerable further outflow. [Rogers.]

GREW

033.1100 Rogers, James H./82 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, July 11, 1934—4 p. m.
[Received July 11—8:25 a. m.]

155. For Morgenthau from Rogers. Your cable 116, July 9, 2 p. m.²¹ Silver drain from Shanghai small but persistent. Effect to date is apparently negligible except that resulting rumors of silver embargo, higher silver export tax or Chinese dollar devaluation have added to the uncertainties created by the recent indefinite silver price-rising program in United States and have had slightly unsettling effect on Chinese trade. So far am unable to ascertain significance gold export but apparently not serious.

In Japan effects are nil.

From conversations with Finance Minister Kung in Peiping June 27 I think immediate protective action by Nanking Government is unlikely unless silver outflow increases considerably but if drain persists eventual increase in silver export tax is not improbable in spite of resulting enhanced smuggling difficulties foreseen.

Because of practical impossibility of enforcement, silver embargo by Nanking Government will be avoided if possible although provincial embargoes may increase. Also silver dollar devaluation rumors here unfounded. In a chaotic money system like that of China the difficulties would be very great and are appreciated by the Finance Minister.

Increased silver outflows from China seem to me probable if price is further raised and not unlikely if present price is maintained. Yesterday's rates in Shanghai yielded 6 percent profit on shipments to New York after export tax and further early shipments were tentatively in prospect.

Apparently the very favorable reception of President's silver message and ensuing legislation which brought temporary stability to Chinese exchange at a rate considered constructive by leading Chinese business and banking interests has been considerably tempered by recent rises in silver price, wider exchange fluctuations and more persistent silver outflow. [Rogers.]

GREW

²¹ Not printed.

033.1100 Rogers, James H./95 : Telegram

The Consul at Hong Kong (Gourley) to the Secretary of State

HONG KONG, August 3, 1934—10 p. m.

[Received August 3—12:45 p. m.]

For Morgenthau from Rogers.²² Silver drain from Shanghai persistent but still not alarming. However in both banking and central banking circles is growing apprehension lest large exports may be precipitated at any time and there is much discussion of possible protective measures.

Meanwhile the drain of silver from the interior continues at a rate about adequate to counterbalance exports so that the reserves of Shanghai banks continue large and approximately constant.

Drought conditions in Yangtze Valley will probably cut rice production in Central China by 50 percent making necessary considerably increased food imports. While wheat crop in North China is good further imports of American wheat under arrangement similar to cotton-wheat loan would probably be welcomed.

Larger imports with no present prospect of increase in exports however indicate more adverse balance of international payments and inducing larger silver exports. Such a situation is not imminent however as increased food imports can be delayed several months.

Nevertheless once the situation becomes apparent there is danger of a financial crisis in Shanghai. As I have already reported many of the banks are heavily interested in real estate loans which cannot be liquidated and once the banks begin calling in such loans (as they would do should silver exports become very large) many bankruptcies will be forced.

Higher silver prices would aggravate this situation. [Rogers.]

GOURLEY

811.515 Silver/6 : Telegram

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

SHANGHAI, August 20, 1934—5 p. m.

[Received August 20—9:20 a. m.]

372. Have been requested by Dr. H. H. Kung, Minister of Finance, to transmit by cable to President Roosevelt, the following in paraphrase:

The London silver agreement of July 1933²³ received the signature of China's representative and has more recently been ratified by the

²² Professor Rogers was returning to the United States by way of Hong Kong and India.

²³ *Foreign Relations*, 1933, vol. I, p. 763.

National Government of the Republic of China with the understanding that its major purpose was to assure the stability of the price of silver which was thought menaced by the large surplus stocks held by the Government of India and Spain. The preamble of the agreement states in part that it is to the advantage of China that sales from monetary stocks of silver be offset by purchases as herein provided, with a view to its effective stabilization.

It now appears that under the Silver Purchase Act of 1934²⁴ the stability of the price of silver and the interests of China are as much menaced as by the previous situation of potential sellers. China would therefore appreciate an indication of the probable policy of the United States in the future purchase of silver in order that China may properly safeguard her currency, which has recently been flowing out of the country to a degree that is potentially alarming.

CUNNINGHAM

811.515 Silver/21 : Telegram

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

WASHINGTON, September 22, 1934—noon.

227. Your 372, August 20, 5 p. m.

1. In letter of August 21 Department conveyed to the Secretary of the Treasury a paraphrase of Minister Kung's message as contained in your telegram under reference. In letter of September 19 the Secretary of the Treasury suggests that the reply to Minister Kung's message should read as follows:²⁵

"The United States Government welcomes the opportunity to state its policy with respect to silver to the Government of China. It considers the request to be within the contemplation of Paragraph 6 of the Memorandum of Agreement, signed at London on July 22, 1933, by delegates of China and the United States, among others.

The Policy of the United States in the Purchase of Silver will be guided by the following considerations: The Silver Purchase Act of 1934 declares it to be the policy of the United States that 'the proportion of silver to gold in the monetary stocks of the United States should be increased, with the ultimate objective of having and maintaining, one-fourth of the monetary value of such stocks in silver'. The Secretary of the Treasury is directed to purchase silver to that end at such times and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest. By such an increase in the monetary use of silver, the Government of the United States believes that it is furthering the purposes of the Resolution unanimously adopted on Thursday, July 20, 1933 at the meeting

²⁴ Approved June 19, 1934; 48 Stat. 1178.

²⁵ The Consul General in his telegram No. 462, October 1, 5 p. m., explained that due to garbles in transmission the reply was not delivered to Finance Minister Kung until the morning of October 1. (811.515 Silver/23)

of Sub-Commission II (Permanent Measures) of the Monetary and Financial Commission of the Monetary and Economic Conference.²⁶

In such Resolution, it was recommended to all the Governments parties to the Conference that they should substitute silver coins for low-valued paper currency in so far as the budgetary and local conditions of each country would permit. While the Government of the United States will probably issue a relatively small amount of silver coins from the silver purchased, it is in effect putting silver to the same monetary use by pledging it to secure silver certificates issued in an amount not less than the cost of the silver.

The Government of the United States appreciates that the greatest care must be exercised in carrying out the policy declared in the Silver Purchase Act of 1934. It recognizes the unfortunate effects on its own currency and that of other nations which an excessively high price of silver would have. This was recognized also in the Resolution referred to in the provision that 'Governments may take any action relative to their silver coinage that they may deem necessary to prevent the flight or destruction of their silver coinage by reason of a rise in the bullion price of the silver content of their coin above the nominal or parity value of such silver coin'.

In making purchases under the authority contained in the Silver Purchase Act of 1934, the United States is desirous of avoiding any action which would hamper the action which any other government might take relative to its silver coinage to prevent the flight or destruction thereof. Should the Government of China at any time find it necessary, in order to protect its coinage, to adopt a policy of discouraging the export of silver, this Government will be glad to receive the views of the Chinese Government of the manner in which the purchasing program may be carried forward in coordination with such policy of the Chinese Government."

For your information: In this instance the Department is prepared to overlook the obvious irregularity of the channel of communication employed by Minister Kung in presenting his message, which should have been sent through the Ministry of Foreign Affairs. However, should you again be requested by Chinese officials to render a similar service you should, unless you perceive substantial reason to the contrary, inform the officials presenting the matters to you that they should employ the usual diplomatic channels.

Inform Peiping and Nanking.

HULL

811.515 Silver/22

The Chinese Minister (Sze) to the Secretary of State

WASHINGTON, September 24, 1934.

MY DEAR MR. SECRETARY: I beg to enclose herewith the following cable message from Dr. H. H. Kung, Minister of Finance at Nanking, which I am requested to deliver to you:

²⁶ League of Nations, *Journal of the Monetary and Economic Conference*, London, 1933, No. 35, July 21, 1933, p. 209.

China, as a leading silver standard country, considers silver has much more vital concern to it than any other country, and in view of the American silver purchase act presents to the American Government the following views supplementing previous informal communications. Since 1931 the rising of silver value in terms of foreign currency has involved severe deflation and economic losses to China and has dislocated China's balance of payments in part at least by hampering exports. Recently the stimulation of silver prices abroad to which exchange has not fully responded, has caused serious drain of silver creating great alarm. Silver exports of this year to date are over three times greater than any previous full year. Further material silver price increase would cause very serious injury to China, possibly severe panics. Although influential American circles advocate higher silver prices the Chinese Government of course makes no assumption concerning the American policy in this regard.

China is certain that the American Government desires to avoid any action that may aggravate present conditions and therefore would appreciate an assurance that the American Government would refrain from any action that might cause a continuation of the present silver drain from China and accordingly would cooperate to prevent further rise and to maintain the stability of silver which the London agreement contemplates. Indeed from China's viewpoint the stabilization level should be somewhat lower than the present price.

The National Government feels obliged actively to seek means of avoiding further hardships of silver fluctuations. It considers that China should not alone maintain the silver standard and is considering the gradual introduction of a gold basis currency which will necessitate the acquiring of gold. Since the American Government desires an increased proportion of silver in its monetary reserve the National Government desires also to ascertain in principle whether the American Government is willing to exchange with the Chinese Government gold for silver.

I am [etc.]

SAO-KE ALFRED SZE

811.515 Silver/26

The Chinese Legation to the Department of State

Mr. H. H. Kung, Chinese Minister of Finance, has telegraphed to the Chinese Minister denying that China has placed an embargo on silver.

The recent order issued was intended to curb speculation in exchange and gold bar and it should not be misinterpreted as in any way connected with the free movement of silver.

WASHINGTON, September 28, 1934.

811.515 Silver/30

Memorandum by the Secretary of State

[WASHINGTON,] October 2, 1934.

The Chinese Minister called at my request and, after thanking him, I referred to the latest message received from the Chinese Minister of

Finance, under date of September 24, in which some inquiry was made as to an exchange of a given amount of silver from China for a given amount of gold from the United States. I then stated that it was not exactly a normal procedure for governments to take up the question of specific exchanges of given amounts of money, such as an exchange of gold and silver; that there were three [*free?*] world markets where gold could be purchased in the usual and normal way,—at London and at other points,—and that this would be the natural and desirable manner for China to acquire gold if she desired to do so; that nations ordinarily exchanged goods and services and only utilized money for the settlement of unfavorable balances; and that it might disrupt the normal flow of international finance and commerce to a more or less extent should China and the United States depart from the usual commercial and trade policies and methods in connection with the suggested exchange of gold and silver. I then, in effect, stated (my entire conversation with the Chinese Minister was oral) two paragraphs from the President's message to Congress of May 22, 1934, which paragraphs are as follows:

“We can proceed with this program of increasing our store of silver for use as a part of the metallic reserves for our paper currency without seriously disturbing adjustments in world trade. However, because of the great world supply of silver and its use in varying forms by the world's population, concerted action by all nations, or at least a large group of nations, is necessary if a permanent measure of value, including both gold and silver, is eventually to be made a world standard. To arrive at that point, we must seek every possibility for world agreement, although it may turn out that this Nation will ultimately have to take such independent action on this phase of the matter as its interests require.

“The success of the London Conference in consummating an international agreement on silver, which has now been ratified by all the governments concerned, makes such further agreement worth seeking. The ebb and flow of values in almost all parts of the world have created many points of pressure for readjustments of internal and international standards. At no time since the efforts of this Nation to secure international agreement on silver began in 1878 have conditions been more favorable for making progress along this line.”

I thereupon told the Minister that my Government would be disposed to talk in a purely informal way with representatives of the Chinese Government in regard to the use of both silver and gold, preferably on a coordinated basis, as a standard of monetary value, such a proposed agreement being considered an important step toward a monetary unit of value more equitable and stable in its purchasing and debt paying power. I added that similar casual and wholly informal talks had been participated in with such countries as Canada and Mexico. The Chinese Minister made no definite comment on what I said to him.

Dr. Sze said that he must propound a question to me, although he had an idea in advance as to what my reply would be. His question was whether the United States Government contemplates any change of policy with reference to the non-recognition of Manchukuo. I replied that all I cared to state at the time was that I had nothing further to say; that there was nothing new to be said on this subject so far as I knew.

The Minister then returned to our original subject of silver and inquired if my Government would not be willing to agree to restrict its purchases for a time at least to silver within the United States. I replied that the Executive Department of the Government has a mandate from Congress in the form of certain well known legislation under which it is performing the duty of making certain purchases of silver and that it really would be a violation to limit these purchases to our own country. I added that I thought not more than five hundred thousand ounces of silver thus far had been purchased direct from China.

I concluded with a statement to the effect that naturally my Government in making such purchases was specially concerned to avoid to every feasible extent any undue interference with the stability of silver prices or with monetary conditions elsewhere; and that the spirit in which the United States Government would continue to proceed in this regard was well set forth in the message of this Government to the Chinese Government in reply to the latter's message dated August 20th.

The Minister at the end of the conversation handed me what he said was a translation of a cable from Dr. Kung, received on October 1, 1934, a copy of which is hereto attached.²⁷ As it is heretofore indicated in this statement, I made oral reply to the extent called for to the questions contained in this translated message.

C[ORDELL] H[ULL]

811.515 Silver/28

The Chinese Minister (Sze) to the Secretary of State

WASHINGTON, October 2, 1934.

MY DEAR MR. SECRETARY: I beg to inform you that I have received a cablegram from Dr. H. H. Kung, Minister of Finance at Nanking, with the request that it be communicated to you. It reads as follows:

The message of September 22 received today through the American Consulate is understood to have been delayed by mutilations which necessitate several repetitions.²⁸ Please at once reply that China is gratified that the American Government recognizes the unfortunate

²⁷ See *infra*.

²⁸ See footnote 25, p. 441.

effects excessive price of silver would have and would appreciate the earliest practicable reply to our telegram of September 23²⁹ in order to assist China in deciding on a policy to meet a potentially serious monetary situation resulting from the present rise in price and drain of silver. American cooperation to prevent further rise in the price of silver and to maintain stability as contemplated in the London Agreement is particularly vital to China. In this connection it may be pointed out that the rise of silver discourages the export of commodities and thereby impairs China's purchasing power for imports. Also a reply is desired to our inquiry regarding the exchange of silver for gold. With respect to discouraging the export of silver from China it may be explained that this condition results largely from artificial stimulation of the price of silver abroad and that restrictive measures would create difficulty here which the Government has striven to avoid particularly because restrictions would probably create severe breaks in exchange detrimental to trade and, it is feared, would aggravate the present difficulty in the local financial market. Could not the American Government for the present restrict its purchases to silver already in America to avoid further promoting the drain from China?

I am [etc.]

SAO-KE ALFRED SZE

811.515 Silver/33 : Telegram

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

SHANGHAI, October 9, 1934—10 a. m.

[Received October 9—9:35 a. m.]

477. From the American Minister:

"The Department will receive by radio from Peiping text of a memorandum explanatory of situation which threatens to exist in China if price of silver continues to mount producing increasing flight of silver from China. This memorandum is expository of situation and contains no proposals. It was handed to me by Dr. Young with a letter signed by Finance Minister Dr. Kung. Kung thought Department might wish to consider statements contained in memorandum before making reply to Chinese representations on silver situation."

Repeated to Legation.

CUNNINGHAM

811.515 Silver/35 : Telegram

The Counselor of Legation in China (Gauss) to the Secretary of State

PEIPING, October 11, 1934—noon.

[Received October 11—10:40 a. m.³⁰]

462. By instruction from Nanking received last evening the Minister directs me to transmit by radio to the Department the following

²⁹ See letter of September 24 from the Chinese Minister, p. 442.

³⁰ Telegram in nine sections.

memorandum on the exportation of silver from China copy of which was communicated to him for his confidential information on October 5th by Dr. Kung, Minister of Finance, who has asked that it be sent to the Department with the request that the Department permit Chinese Minister Sze to have a copy, he being told that the memorandum is on its way to him by mail. The Minister directs me to add that the memorandum expresses the views of Dr. Kung and that these views are concurred in by the American advisers to the Finance Ministry notably Dr. A. N. Young. The memorandum follows:

October 5, 1934.

MEMORANDUM ON THE EXPORTATION OF SILVER FROM CHINA

Extent of Exportation.

During the 10 years ending with December 1931 China imported an average of about \$100,000,000 worth of silver annually. Beginning with 1932, the movement was reversed. According to published customs returns aggregate net exports in 1932 and 1933 were \$10,395,000 and \$14,423,000 respectively and were \$132,167,000 in the first 8 months of 1934. Export applications furnished to the Central Bank by the customs in Shanghai amounted to \$35,586,000.

Thus total net exports in the first 9 months of 1934 were about \$168,000,000 or more than three times as much as was exported in any preceding year, \$49,000,000 in 1907 being the maximum.

Stocks of Silver in Shanghai.

For various reasons, including both banking developments and the general economic situation, there has been a gradual accumulation of silver in Shanghai in recent years. This has no doubt facilitated rapidity of export, but it has also therefore increased the scope of the difficulties which heavy exports of silver may set in train. Total stocks of silver in Shanghai were reported as follows as at the end of each of the last 5 years and as of June 28 and September 25, 1934.

1929	\$268, 019, 000
1930	277, 804, 000
1931	252, 008, 000
1932	393, 038, 000
1933	508, 430, 000
June 28, 1934	544, 248, 000
September 25, 1934	417, 100, 000

Stocks in Chinese banks as of September 25, 1934 were \$275,938,000 or 66 percent of the total.

Causes of Exportation.

The immediate explanation is that silver in terms of United States dollars and/or sterling has become more valuable abroad than at Shanghai, to such an extent that a profit can be made from shipment. However, the difference must exceed about 6 percent of the price abroad, since otherwise expenses would not be covered. The difference has been as high as 10 percent in recent weeks, and on October 5 was about 6 $\frac{2}{3}$ percent.

Stated differently the banks export silver to replenish balances abroad. This export becomes necessary when they are confronted with a demand for foreign currencies, arising, for example, out of merchandise import transactions at a time when they have not a sufficient supply of foreign credits arising from merchandise export bills, involving remittances of overseas Chinese, et cetera. For some time merchandise exports from China have been greatly depressed because of the world's reduced buying power for these goods and because China's rising exchange puts China at a disadvantage in obtaining what market there is. Similarly remittances to China from overseas Chinese are much reduced.

Moreover the rising price of silver abroad stimulated by the American buying unduly aggravates the drain. In addition to exports of silver to replenish bank balances abroad, a potential drain is developing because many holders of silver in China are coming to feel that the American buying program will put up silver abroad to such an extent that the Chinese Government will be forced by circumstances to take measures that would restrict a corresponding increase in the value of silver in China. Consequently such holders are inclined to ship out silver rather than risk possible interference by the President at a later date. Similar action may be taken by holders of investments in China if the situation becomes more aggravated. This latter would amount to a flight of capital.

Due to the foregoing conditions, the balance of payments is for the time being out of equilibrium, and threatens to be further disturbed. During 1932 and 1933, the drain on China's stock of precious metal was reflected chiefly in gold exports, which amounted to \$110,163,000 and \$68,608,000 net, respectively, in those years. During the first 6 months of 1934, net exports of gold were \$36,327,000; during July they were \$5,815,000; and during August they were nil. The available stock of gold were seen approaching exhaustion, and the stock of monetary silver is being drawn upon increasingly.

Consequences of Silver Exports.

If exportation of silver should continue on a considerable scale, the gradual decrease of stocks of silver at Shanghai would tend to cause money to become tighter. This would be reflected in higher interest rates, selling of Government bonds and other securities, lower prices for domestic commodities, and a tendency of banks to restrict credit.

Under ordinary conditions reserve forces would be operating which would tend to check these tendencies. Exports of silver tend to restore equilibrium by providing exchange. Likewise such shipments tend to reduce the differential between silver abroad and in China, because the sale of silver abroad tends to reduce the price there, whereas exchange sold against shipment tends to raise the value of silver in China in terms of foreign currencies. Higher interest rates, higher yield on Government bonds and other securities, and lower commodity prices would tend also to keep funds in China. But these forces are harshly deflationary and their operation would cause very severe hardship, including reduced business profits, increasing business failures, unemployment and loss of Government revenue.

Operation of these corrective forces, however, is impeded by the artificial stimulus to the silver price abroad resulting from actual and prospective American purchases. Declaration of war upon this

drain of silver threatens to destroy sooner or later metallic basis of clearing currency.

The crucial element in the situation is public confidence, which might receive a shock if silver exports go beyond a certain point or if the deflationary forces begin operating more vigorously, so that some incident such as a business failure might cause the market to become panicky.

The adoption by the Government of restrictive measures such as an embargo or an export duty on the exportation of silver would be a severe shock to the local market. Such action would be taken as an announcement that the Government considers the situation extremely serious, and would thus impair confidence. It would cause a very severe break in the exchange value of the dollar, and the value of silver in China would tend to diminish because of restriction of its free movement. In consequence, the disparity creating the value of silver in China and abroad would increase further and this would lead to extensive smuggling which because of China's large area would be difficult to combat.

The fear has been expressed that an embargo would be a step away from a metallic currency basis in China, while the divorcing of silver in China from silver abroad undoubtedly would add materially to fluctuations in exchange and thus interfere with trade. A separate Shanghai market for silver would be materially less stable even than the world market.

GAUSS

811.515 Silver/31

The Secretary of State to the Chinese Minister (Sze)

WASHINGTON, October 12, 1934.

SIR: I wish to acknowledge the cablegram from Dr. H. H. Kung, Minister of Finance at Nanking, transmitted by you to the Department on October 2, 1934, and request that you be kind enough to transmit the following reply:

I regret the delay in the delivery of my message of September 22. I have endeavored in conversation with the Chinese Minister at Washington to state fully the attitude of this Government in regard to the preoccupations and suggestions put forward by the Chinese Government in your two messages, in connection with the execution of the American program of silver purchases.

In my discussion with the Minister, I have tried to indicate the purposes animating this Government in its silver purchasing program. This program is embodied in an Act of Congress which is mandatory, as to its general objective, upon the Executive. The ways and means to be used for carrying out this objective are left within the discretion of the Executive but of course must be consistent with the achievement of that objective.

This Government is desirous of so carrying out the program as to produce the general benefit that would result from the enhancement

and stabilization of the price of silver, and to avoid so far as may be possible disturbances to the economy and public finances of China. Therefore in conducting operations under the Silver Purchase Act this Government while necessarily keeping within the general purposes of enactment, will give the closest possible attention to the possibilities of so arranging the time, the place and the quantity of its purchases as will keep in view the considerations put forward by the Chinese Government in its communication.

Free markets in which gold or silver could be acquired by purchases are now open to all nations, and therefore direct intergovernmental transactions have not been undertaken. The availability of such markets in the future is open to friendly discussion, especially because of our common desire to work towards common standards. We shall be glad at any time to explore these larger problems with your representatives.

Accept [etc.]

CORDELL HULL

811.515 Silver/36

The Chinese Minister (Sze) to the Secretary of State

WASHINGTON, October 15, 1934.

SIR: I have the honor to acknowledge the receipt of your note of October 12, 1934, in which you are good enough to send me your reply to the cablegram on the silver question from Dr. H. H. Kung, Minister of Finance at Nanking, which I transmitted to the Department on October 2, 1934.

I cabled at once your reply to Dr. Kung, who now requests me to express to you the thanks of our Government for the attention which the American Government has given to our representations and for the assurance that it is its desire to carry out the silver purchase program so as to avoid so far as may be possible disturbances to the economy and public finances of China, and to state that our Government is specially appreciative of the American Government's willingness to have further friendly discussions in order to explore the larger problems in connection with this subject.

Accept [etc.]

SAO-KE ALFRED SZE

893.515/329 : Telegram

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

SHANGHAI, October 15, 1934—noon.

[Received October 15—9:20 a. m.]

489. Referring to telegram 482, October 12, 11 a. m.,³¹ following published by Kuomin News Agency dated Nanking, October 14th:

³¹ Not printed.

“The Government today issued the following order:

‘In view of the undue rise of silver out of relation to the level of general commodity prices, the National Government, in order to safeguard China’s economic interests and to protect its currency, has fixed the customs duty on exports of silver, effective October 15, as follows:

On silver dollars and mint bars, 10 percent less $2\frac{1}{4}$ percent minting charges paid, i. e. $7\frac{3}{4}$ percent net.

On other forms of silver, 10 percent (in lieu of $2\frac{1}{4}$ percent).

In addition, an equalization charge will be imposed on exports of silver equal to the deficiency, if any, existing between the theoretical parity of London silver and a rate of exchange officially fixed by the Central Bank of China, after making allowance for the export duty.’

In commenting upon the order, His Excellency Dr. H. H. Kung, Minister of Finance, stated that there is no reason to expect that the forces that have been stimulating the price of silver abroad will soon cease to operate. Therefore the Government, out of regard for the economic welfare of the people who live in China, had taken this measure as a necessary step to safeguard China currency from a potentially dangerous drain of the country’s monetary reserves, and to place a check upon the operation of the harsh deflationary forces which have been reflected in falling internal prices.

The measure has been determined upon, said Dr. Kung, after most careful consideration of various proposals for meeting the emergency, and after full consultation with leaders of business and finance. Among these proposals, an embargo has most frequently been suggested. The Government considered, however, that an embargo should not be imposed, and preferred a flexible duty that will restrain exports of silver within the limits actually required by the balance of payments. Dr. Kung expressed assurance that the measure would allay the misgivings that have lately disturbed the markets and by stabilizing the situation would permit legitimate business to proceed with renewed confidence.

Dr. Kung when asked concerning rumors about the possibility of reduction of the silver content of the dollar, stated that this subject had never been mentioned at any of the conferences and that he would not even consider such a proposal if made.”

Have confirmed accuracy of Government order from Central Bank of China. Following notice published by Central Bank of China, October 14th.

“Notice is hereby given that the Central Bank of China will notify to the Customs at 11:30 a. m., on every business day, beginning October 15th, 1934, its official rate for determining the deficiency between the theoretical parity of London silver and the rate on London in Shanghai, in accordance with the terms of the Government order fixing the duty and imposing an equalization charge on exports of silver.”

Repeated to Legation.

CUNNINGHAM

893.515/339 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, October 18, 1934—4 p. m.

[Received October 18—6 a. m.]

473. Reference Shanghai's 498, October 16, 7 p. m.,³² following from American Consul General at Shanghai October 17, 4 p. m.

"1. The chairman of the Shanghai Foreign Exchange Bankers Association under date October 15th has circulated to its committed banks the following:

I am today informed that the Central Bank of China intends to ship silver, presumably free of duty, and has announced that the shipment is to be made for patriotic reasons and to support the market.

Shipments of silver by foreign bank[s] have been virtually prohibited by the new export duty, and I suggest that members make representations through their respective consulates to ensure that the new regulations are made applicable to all banks Chinese as well as foreign.

The duty was imposed on the plea that further shipments of silver were detrimental to China, and I consider it advisable that Chinese be requested to give an assurance that no shipments will be allowed to be made unless full duty is paid.'

2. The National City Bank has requested that a strong protest be registered insisting that the new silver regulations if put into force be made applicable to all banks Chinese as well as foreign or that no shipments will be allowed to be made unless the duty is paid. The proposal is a clear discrimination against all banks other than the Central Bank of China. This office has had no opportunity to investigate regarding the statements made in the Foreign Exchange Bankers Association letter but instructions are requested as to what action this Consulate General should take in the event that facts support this statement."

Following instruction has been sent in reply:

"October 18, 4 p. m. Your October 17, 7 [4?] p. m. The Legation considers that the matter is one in which no action should be taken except on instructions of the Department. Your message is being repeated to the Department. When you have completed your inquiries please inform the Department as well as the Legation."

GAUSS

893.515/339 : Telegram

The Acting Secretary of State to the Chargé in China (Gauss)

WASHINGTON, October 18, 1934—7 p. m.

331. Your 473, October 18, 4 p. m., last sentence, in regard to export of silver. Department will await receipt of Shanghai's report which should contain a detailed statement of the situation and, if possible,

³² Not printed.

an indication of the views of and the action, if any, contemplated by the representatives of the other principally interested powers.

In the absence of further instructions, Department does not desire that protest in regard to this subject be lodged with the Chinese Government.

PHILLIPS

893.515/345 : Telegram

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

SHANGHAI, October 24, 1934—4 p. m.

[Received 9:25 p. m.]

512. The following are the regulations governing the newly established Foreign Exchange Stabilization Committee as published October 23rd by Kuomin News Agency:

“(1) This Committee shall be organized jointly by the Central Bank of China, the Bank of China, and the Bank of Communications, in accordance with the instructions of the Ministry of Finance.

(2) This Committee shall have three members, one each designated from the Central Bank of China, the Bank of China, and the Bank of Communications. A chairman shall be elected by and from the members and said election shall be duly reported to the Ministry of Finance for record.

(3) The daily equalization charge shall be fixed by this Committee.

(4) This Committee, in order to meet the requirements of the market may request Central Bank of China to buy and/or sell foreign exchange and gold or silver bullion with a view to stabilizing the foreign exchange market.

(5) This Committee may, in time of necessity, request the Central Bank of China to import or export gold or silver bullion.

(6) The proceeds of the equalization charge on the export of silver shall be handed over to the Committee as a stabilization fund. Upon instructions of the Ministry of Finance to the Inspector General of Customs this fund shall be deposited in a special account with the Central Bank of China.

(7) The Committee may make use of the stabilization fund to meet any loss suffered as a result of its operations. Should the fund be insufficient to meet such loss, the Ministry of Finance shall be responsible for the deficit.

(8) The Committee shall submit a confidential report of its accounts monthly to the Ministry of Finance for record.

(9) In case of necessity, the Committee shall transfer the required number of staff members from the three banks to assist in its operations.

(10) These regulations shall be effective upon approval by the Ministry of Finance.”

2. Rule (5) would seem to justify the apprehension expressed by the National City Bank that the Central Bank of China intends to export

silver probably without payment of export duty, referred to in my telegram to the Legation of October 17, 4 p. m.³³

Repeated to Legation.

CUNNINGHAM

893.515/350 : Telegram

The Acting Secretary of State to the Chargé in China (Gauss)

WASHINGTON, November 5, 1934—6 p. m.

352. Your 503, November 1, 3 p. m., and 505, November 2, 3 p. m.³⁴ Department is not prepared to authorize representations to the Chinese Government in protest against either the imposition by that Government without prior notice of a duty on the export of silver or the claim of the Chinese Customs to the effect that its control over export cargo continues until clearance of the exporting vessel.

In view of the foregoing, Department is of the opinion that the Legation should cause to have brought to the attention of the concerned banks the fact that the American Government is not prepared to intercede on their behalf in regard to the claims outlined in the Legation's telegrams under reference and that the banks should on their own responsibility determine whether their best interests would be served by the initiation or continuance of direct negotiations with the Chinese authorities.

Treasury Department states orally that United States Customs exercise complete control over export cargoes until clearance of the exporting vessels and that under certain conditions such control continues as long as the exporting vessels remain within the territorial waters of the United States.

PHILLIPS

893.515/370

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] December 10, 1934.

The Chinese Minister handed me the enclosed cablegram³⁵ which he had just received from his Government; he said he had instructions to present it informally and was, therefore, not making any written communication other than to hand the text of the cablegram to me;

³³ See telegram No. 473, October 18, 4 p. m., from the Chargé in China, p. 452.

³⁴ Neither printed; these telegrams concerned export duties on silver for which export permits had been obtained and which had been loaded on vessels prior to the effective date of the order providing export duty. (893.515/349, 350.)

³⁵ *Infra.*

he would appreciate very much a reply as soon as possible. I assured the Minister that we would take up the matter at once with the Treasury Department.

W[ILLIAM] P[HILLIPS]

893.515/370

*The Chinese Minister of Finance (Kung) to the Chinese Minister in Washington (Sze)*³⁶

[NANKING, December 9 (?), 1934.]

The American Government's communication of October 12 expressed a desire to conduct its silver purchases so as to avoid disturbing China's economy and expressed its willingness to discuss the problem involved. In this spirit and having in mind America's traditional interest in China's welfare and the President's special friendship the Chinese Government frankly lays before the American Government the present difficulties resulting from the rise of silver and requests American cooperation. Notwithstanding the silver export restrictions of October 15 China is now involved in a dilemma:—If the present disparity persists there will be continued silver drain through legal and illegal export and hoarding which create fear and consequent capital flight. If however the Government endeavors to raise the exchange toward a foreign parity this would only cause further severe deflation and necessitate further heavy silver export and create again a situation similar to that before October 15. The adoption of a gold basis involves transition difficulties and risks which the Government is reluctant to take up unless supported by substantial foreign credit. Regardless of which alternative chosen as to the silver policy drain and hoarding would continue threatening metallic basis. China therefore wishes to inquire whether the American Government would cooperate by announcing it would not pay over say 45 cents per ounce except American domestic silver. If the American Government wishes to be in a position to do whatever is desired about silver without hurting China an alternative would be some form of cooperation to facilitate currency reorganization. The Chinese Government would appreciate the views of the American Government concerning the subject entirely.

893.515/370

The Under Secretary of State (Phillips) to President Roosevelt

WASHINGTON, December 10, 1934.

DEAR MR. PRESIDENT: I believe that you will be interested to have before you a copy of a cablegram from Dr. H. H. Kung, Minister of

³⁶ Copy handed to the Under Secretary of State by the Chinese Minister on December 10.

Finance, which the Chinese Minister has just handed to me and which relates to our silver purchases. I have already sent a copy of this communication to Secretary Morgenthau. In this connection I am also sending you a message dated the seventh instant which we have received from the American Consul General in Shanghai,⁸⁷ in which the statement is made that American business and prestige are suffering because of the fact that the Chinese are asserting that present distressing financial conditions are due to America's silver policy and purchases.

In addition to the foregoing, the Treasury has sent to us a copy of a cable to the Chase Bank from its representative in Shanghai in which the following sentence occurs:

“Anti-American feeling growing. If Chinese Government cannot stop outflow Shanghai silver stock not sufficient to meet requirements and Chinese currency may be forced off silver. Confidential report Japanese Government will make loan China and Chinese currency will be managed in line with Japanese yen.”

In view of the situation which appears to be rapidly developing, I am wondering whether you would care to consider any modification of our present policy.

Faithfully yours,

WILLIAM PHILLIPS

893.515/385

Memorandum by the Economic Adviser (Feis)

[WASHINGTON,] December 18, 1934.

The Treasury having made this morning a revised draft of the text of the message to be given to the Chinese Government,⁸⁸ the Chinese Minister was asked to call and was received by the Secretary. Mr. Hamilton of the Far Eastern Division and myself were present. The Secretary explained to the Minister that a cable was about to be sent through him from the Federal Reserve Bank of New York to the Central Bank of China in response to the note of the Chinese Government asking this Government to take certain steps in regard to its silver program. The Secretary gave the Minister orally the substance of the four points as drafted by the Treasury, and the[n] explained that the Secretary of the Treasury would receive the Minister at 12:15 today in order to answer any questions the Minister might wish to ask in regard to this matter.

The question of publicity was raised and the Chinese Minister agreed that he would give out no statement at all except such as might

⁸⁷ Not printed.

⁸⁸ *Infra*.

be agreed upon by him and the Secretary of the Treasury at the meeting at the Treasury.

H[ERBERT] F[EIS]

893.515/385

*The Treasury Department to the Department of State*³⁹

[WASHINGTON,] December 18, 1934.

DRAFT OF CABLE TO BE SENT TO THE CENTRAL BANK OF CHINA BY THE FEDERAL RESERVE BANK OF NEW YORK THROUGH THE CHINESE LEGATION IN WASHINGTON

As Fiscal Agent of the United States for the purchase of silver, we beg to advise you that for the time being the following program will be pursued with respect to purchases of silver for the account of the United States:

(a) No silver in China will be purchased above fifty-five cents per fine ounce and none except from you on the basis of a mutually satisfactory arrangement;

(b) When the world price of silver outside of China is at or below fifty-five cents per fine ounce purchases of silver at home or abroad will be made as may be deemed advisable and steps will be taken to prevent the world price of silver from falling substantially below fifty-five cents per fine ounce;

(c) This program may be terminated at any time on one week's notice;

(d) You are invited to send a representative at your earliest convenience to discuss these and related matters.

893.515/367: Telegram

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

SHANGHAI, December 19, 1934—9 p. m.

[Received December 19—7:50 a. m.]

596. For Hornbeck and Johnson⁴⁰ from Arthur Young.

"Unless way found to maintain metallic currency basis there is grave danger of financial panic threatening Government stability and China's economic structure involving heavy loss to Chinese and Americans and others having interests here. Such disturbances would impair China's purchasing power for imports and world recovery Raising exchange to foreign silver parity, as proposed in British bank

³⁹ Notation by the Economic Adviser: "This was handed to Mr. Feis by Secretary Morgenthau, Dec. 18—to take the place of the photostat draft attached [not printed]. H[ERBERT] F[EIS]."

⁴⁰ The Minister to China was on leave in the United States.

credit scheme to be secured upon pledged silver not to be exported for 2 years, would be no remedy unless accompanying American action to effect lower silver price since otherwise scheme would involve further deflation and probably lead to eventually losing of monetary reserves. See no desirable alternatives except (1) American Government cooperation in reducing foreign silver to say 45 cents thus checking silver drain and restoring confidence or (2) constructive external cooperation for currency reform such as American credit possibly against deferred delivery of silver or through Export-Import Bank or otherwise. Hope latter can be seriously considered in view of extraordinary circumstances causing crisis. Particularly important now to avoid collapse that would jeopardize promising results of Government's efforts to consolidate internal situation."

2. In connection with the foregoing I am reliably informed that he confirmed that propaganda is being circulated alleging the United States silver policy ruined Chinese currency and that the British banks exported Chinese silver reserves consequently only help from Japan which would offer large loan and cancel Nishihara loans⁴¹ if its assistance sought and further that Japan acted in Manchuria following paper money regime and that paper regime here would bring like consequences.

CUNNINGHAM

893.515/376

The Chinese Minister (Sze) to the Secretary of State

WASHINGTON, December 27, 1934.

MY DEAR MR. SECRETARY: I beg to inform you that I have received the following cablegram dated December 27, 1934, from Dr. H. H. Kung, Minister of Finance at Nanking, with the request that it be communicated to you:

"China deeply appreciates American Government's meeting China's difficulty regarding silver. The Reserve Bank's message is receiving most careful consideration and the views of China will be communicated as soon as practicable. Meanwhile I am instructed to request that you transmit the following from the Central Bank of China to the Federal Reserve Bank:

'As Chinese Government's fiscal agent we have noted the silver purchase program set forth in your communication. We gladly accept your invitation to send a representative to discuss the matter set forth in your message together with related matters and shall shortly advise you of his name and the date of his sailing.'

I am [etc.]

SAO-KE ALFRED SZE

⁴¹ Loans negotiated by Komezo Nishihara, Japanese banking group representative at Peking in 1918.

893.515/379

Memorandum by Mr. Raymond C. Mackay, of the Division of Far Eastern Affairs, of a Conversation Between the Chief of the Division (Hornbeck), the Economic Adviser (Feis), and Mr. Jean Monnet of Paris

[WASHINGTON,] December 28, 1934.

Mr. Monnet stated that, with a view to effectively putting a stop to the outflow of silver from China and to reestablishing confidence in the Chinese financial structure, the Chinese Government hopes to float a bond issue in China which will attract both foreign and Chinese capital. Mr. Monnet stated that the proposed issue, which will be handled by the China Development Finance Corporation, will consist of foreign currency bonds, probably sterling bonds; that the returned portions of the Italian, German and Russian Boxer Indemnities, which should permit of a capitalization of twenty million sterling, will be used as security for the proposed bond issue; and that, with a view to strengthening the position of Chinese banks it has been suggested that a portion of the new foreign currency bonds be issued to Chinese banks in exchange for old Chinese currency bonds.

Mr. Monnet further stated that as a practical matter the proposed bond issue could not be floated abroad; that, although most of the members of the American Group of the China Consortium are by law prohibited from participation in such an issue, a few of the members are free to act and have indicated an interest in the new issue; that the Hong Kong and Shanghai Banking Corporation is prepared to participate if approval of the British Treasury can be obtained; that the British Treasury, however, has indicated its disapproval of that part of the proposed project which provides for the exchange of old Chinese currency bonds for bonds of the new issue; that Mr. Norman⁴² of the Bank of England has indicated that in his opinion the proposed project should be handled by the China Consortium.

Mr. Hornbeck inquired what practical measures could be taken to assist the Chinese Government in its present financial difficulties. Mr. Monnet replied that deflation has already occurred; that the fear now exists that banks in China will be unable to redeem their note issues; and that what is most urgently required is a reestablishment of confidence in Chinese currency.

Dr. Feis stated that exports of silver from China automatically create assets in some other form and that he did not understand what has become of such assets. Mr. Monnet stated that in his opinion most of the silver exports from China have been effected by foreign banks and that Chinese exports of silver to a large measure have been confined to satisfying the heavy adverse balance of trade.

⁴² Montagu C. Norman, Governor of the Bank of England.

Mr. Hornbeck again asked what concrete proposals Mr. Monnet had to offer. Mr. Monnet replied that there must be occasioned a heavy inflow of silver into China; that the proposed bond issue will prove helpful but that the new funds thus acquired will not be sufficient to stem the tide; that he therefore wished to know whether the American Government would grant a loan to China, possibly through the medium of the Export-Import Bank.

Dr. Feis stated that the Export-Import Bank is by law prevented from acquiring foreign securities. Dr. Feis inquired whether the situation would not be improved materially if it became known that the price of silver had been pegged at its present level. Mr. Monnet expressed doubt and stated "The shock has been too great."

Dr. Feis inquired whether the Chinese Government could force banks in China to cause the return of their silver exports. Mr. Monnet replied "what is gone, is gone."

Dr. Feis inquired whether delayed delivery of silver purchases would prove helpful. Mr. Monnet replied that it would not as silver so purchased is earmarked and therefore out of circulation.

Mr. Hornbeck stated that the American Government has repeatedly indicated its willingness to discuss the situation with representatives of the Chinese Government; that if any concrete plan is proposed by the Chinese Government it will receive careful scrutiny; and that statistical data and definite proposals have not been presented. Dr. Feis added that the silver policy of the United States is largely in the hands of the Treasury Department and the Federal Reserve Bank.

Mr. Monnet, in taking his leave, stated that he would call at the Department next week and that in the meantime he would endeavor to obtain such additional facts and figures as might prove helpful in an attempt to clarify the situation.

Note: Mr. Monnet handed to Mr. Hornbeck a copy of a self-explanatory telegram (attached hereto⁴³) dated December 20, which telegram contains a confidential message addressed to Mr. Monnet by Mr. T. V. Soong.

893.515/367 : Telegram

*The Secretary of State to the Consul General at Shanghai
(Cunningham)*⁴⁴

WASHINGTON, December 29, 1934—2 p. m.

272. Your 596, December 19, 9 p. m. Please deliver to Arthur Young as coming from Hornbeck the following:

⁴³ Not printed.

⁴⁴ Notation by the Economic Adviser: "Read to and approved by Mr. Coolidge, Undersecretary of Treas[ury] Dec. 28/1934—H[ERBERT] F[EIS]."

“Reference your telegram for Hornbeck and Johnson :

The silver policy of the United States, particularly its effects on the economy of China, has received and will continue to receive earnest consideration by the highest officials of the American Government and it is hoped that the procedure outlined in the text of the message from the Federal Reserve Bank of New York, which message was on December 18 handed to the Chinese Minister here for transmission to the Central Bank of China, may prove helpful. Season’s Greetings.”

HULL

893.515/376½

The Secretary of the Treasury (Morgenthau) to the Secretary of State

WASHINGTON, December 31, 1934.

MY DEAR MR. HULL: In accordance with my conversation with you over the telephone I am sending you herewith a copy of the memorandum which I submitted to the President this morning.⁴⁵ I took this matter up directly with the President as it refers only to the price of silver.

I am also enclosing a copy of the message which will be handed to the Chinese Minister and which we will ask him to transmit at once to the Central Bank of China.

Sincerely yours,

H. MORGENTHAU, JR.

[Enclosure]

[WASHINGTON,] December 31, 1934.

The Federal Reserve Bank of New York as fiscal agent of the United States requests the Chinese Legation in Washington to transmit the following cablegram to the Central Bank of China.

“As fiscal agent of the United States for the purchase of silver, we beg to advise you that the program with reference to such purchase outlined in our cable to you of December 18, 1934⁴⁶ will, pursuant to Clause C in our cable of December 18, be deemed terminated one week after your receipt of the present communication.

“We shall welcome an opportunity to discuss the whole matter with the representative mentioned in Clause D in our previous cable.

Federal Reserve Bank of China [*sic*]”

893.515/378

Memorandum by the Secretary of State

[WASHINGTON,] December 31, 1934.

The Minister of China called and stated that the one week’s notice that had been given him by the Treasury, to the effect that the recent

⁴⁵ Not printed; however, the message mentioned below and printed herewith is President Roosevelt’s revision of this memorandum.

⁴⁶ For draft of cable, see p. 457.

silver arrangement between this government and that of China would be abrogated, was calculated to upset or dislocate the exchange and financial situation in certain important commercial centers of China; that the inference would be that this government would probably make some large purchases of silver with the results aforementioned; and that, therefore, he would be glad to get any assurance possible from this Government that no major silver-purchasing operations were in immediate contemplation.

I replied that there was little I could say to him myself in addition to what he had learned at the Treasury; that I knew of nothing on which one might base a conclusion or a surmise that the Treasury was contemplating any immediate purchase of silver on a large scale, and the Minister might say that to his government if he should see fit; that if he should desire any further information during the coming days, I would be glad to cooperate with him to secure whatever the Treasury would be disposed to impart.

C[ORDELL] H[ULL]

**MEASURES TAKEN BY THE UNITED STATES FOR THE PROTECTION OF
AMERICAN LIVES AND PROPERTY IN CHINA ⁴⁸**

893.00/12630 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, January 10, 1934—5 p. m.

[Received January 10—8:50 a. m.]

26. Reference Legation's 20, January 8, 2 p. m.⁴⁹ Following from Counselor Peck: ⁵⁰

"January 9, 1 p. m. Your December 31, 3 p. m. An official of the Foreign Office has just called to inform the Legation in connection with its representations regarding bombing operations in Fukien that General Chiang⁵¹ has requested that the Foreign Office inform the Legations interested in affairs at Amoy and Foochow that military operations are reaching a critical stage during which there is a possibility that Amoy and Foochow may be bombed. In view of this possibility, General Chiang asks that instructions be telegraphed to American Consuls at those ports to advise American oil companies to place over tanks and buildings containing petroleum stocks pieces of white cloth at least 10 feet square bearing the Chinese characters "Mei Yu" or simply "Yu" meaning kerosene or oil. I promised to transmit this message immediately to the Legation and

⁴⁸ Continued from *Foreign Relations*, 1933, vol. III, pp. 525-558.

⁴⁹ Not printed.

⁵⁰ Willys R. Peck, Counselor of Legation and Consul General at Nanking.

⁵¹ Generalissimo Chiang Kai-shek, Chairman of the Chinese Military Council and Commander in Chief of the Army, Navy, and Air Forces.

again reminded informant of the presence of large numbers of American citizens at Kulangsu and Nantai as well as elsewhere in Amoy and Foochow. Repeated to Foochow and Amoy by land wire."

To insure its receipt by Consul at Foochow the Legation repeated message by Navy Radio through American warship at Pagoda Anchorage advising American naval vessel at Amoy.

JOHNSON

893.00/12638 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, January 13, 1934—6 p. m.
[Received January 13—10:05 a. m.]

33. The following telegram has been received from Vice Consul at Foochow:

"January 13, 7 a. m. My Japanese colleague states that he has received news confirming the defeat of the Nineteenth Route Army. Nineteenth Route Army soldiers have been retreating southwards through Foochow and Nantai Island last night and this morning. This retreat has been orderly. Reported that negotiations are under way looking to the peaceful taking over of Foochow by Nanking through the Navy.

Japanese have landed an armed force estimated at between 300 and 400 men on Nantai Island. Japanese Consul General advised consular body that he informed Eugene Chen⁵² that this was to be done for the protection of Japanese lives and property and that Eugene Chen agreed. Chinese and foreigners generally feel that this action ensures the peace of Nantai Island and has eased the situation."

JOHNSON

893.00/12641 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, January 15, 1934—6 p. m.
[Received January 15—8:30 a. m.]

37. Vice Consul at Foochow reports January 14, 4 p. m. that the Senior Consul has sent a message to the Doyen of diplomatic body as follows:

"Nineteenth Route Army has for last 2 days been retreating in orderly fashion toward south, but Nanking planes are now bombing line of retreat from Nantai Island to mainland and troops are returning to city, which will cause serious situation here.

⁵² Minister for Foreign Affairs in rebel regime set up at Foochow in November 1933.

Please make urgent representations to Nanking Government to cease bombardment.”

He further states that Admiral Chen Shao-kwan and Admiral Chen Chi-liang has arrived at Pagoda Anchorage; that their marines have so far been prevented from taking over Foochow; and that all rebel leaders reported to have left Foochow.

Vice Consul also reports January 15, 9 a. m. that the British landed armed guard of 40 men on the 14th and that the U. S. S. *Tulsa* landed 20 armed marines the morning of the 15th.

JOHNSON

493.11 Skinsnes, Casper C./3

The Acting Secretary of State to the Minister in China (Johnson)

No. 1273

WASHINGTON, January 15, 1934.

SIR: Reference is made to your despatch No. 2336 dated October 20, 1933,⁵³ in which you request the Department's authorization to file a formal demand with the Chinese Foreign Office for the payment by the National Government of pecuniary losses sustained by Doctor Casper C. Skinsnes in connection with his efforts to procure the release of Reverend Bert Nelson, a missionary connected with the Lutheran United Mission at Sinyang, Honan, who was captured at Kwangshan, Honan, on October 5, 1930, by Chinese Communists then operating in Northern Hupeh and Southern Honan.⁵⁴

According to the statements made by Doctor Skinsnes in a letter of October 5, 1933, addressed to American Consul General A. W. [W. A.] Adams, Hankow, China, Doctor Skinsnes has been indefatigable in his efforts to obtain the release of the Reverend Mr. Nelson; that, after his failure to procure direct action by the Chinese military authorities at Sinyang and upon the appeal of the captive to procure his release by the payment of a ransom, arrangements were finally made for the captive's release upon the payment of \$5,000 Shanghai currency, part of which was to be in medical supplies and part in cash. The captive, who had been beaten and threatened, feared that he would be killed. The arrangement for the release of the captive on payment of a ransom was based upon a written agreement obtained from the communist headquarters by a go-between, Wei Koan Chi. Doctor Skinsnes states that, inasmuch as the Mission could not pay

⁵³ Not printed.

⁵⁴ For correspondence on this case, see *Foreign Relations*, 1930, vol. II, pp. 197-222 *passim*; *ibid.*, 1931, vol. III, pp. 934-977 *passim*; *ibid.*, 1932, vol. IV, pp. 470-550 *passim*; and *ibid.*, 1933, vol. III, pp. 526-558.

the ransom, he borrowed the money on his own responsibility and obtained the necessary medical supplies, worth about \$1,000, which were to be sent on with \$2,000 in cash, the balance of \$2,000 to be forwarded upon the successful termination of the first expedition. In view of the success of the go-between, Chi, in obtaining the necessary pass to enable his party to go through, he returned and obtained the other \$2,000 in cash. With the money and the medical supplies and after obtaining an escort of three Chinese militiamen from the Chinese commander, Chiou Y joh, who asserted that he could not be responsible for the safety of the party unless he sent an armed escort with it, they proceeded on their way. When a considerable distance had been traversed, the escorting militiamen gave a signal, whereupon the party was surrounded by about ten or fifteen armed men of the local militia. They took the pass and tore it up, a small part of the medical supplies, and all of the money, amounting to \$4,045. The militiamen insisted upon killing the ransom party, but, upon the pleading of the men, they apparently abandoned that intention and left with the stolen money. The ransom party then returned to Kwangshan and reported to the magistrate, Chen, who at once arrested the elder brother of Chiou Y joh, who was the real commander in that district. Apparently active steps were being taken by Magistrate Chen to try and punish the robbers who had been apprehended, but, before results could be obtained, he was succeeded by other magistrates who not only were dilatory in going on with the prosecution but who Doctor Skinsnes states were bribed to release the culprits. It appears from the letter of Doctor Skinsnes that the local authorities were furnished the names of the men who did the actual looting. He also states that efforts were made to have the Honan Government transfer the matter to Kaifeng in the belief that justice would be had if that was done.

The record of this case in the Department shows that every appropriate effort was made by the American consular and diplomatic officials in China to bring about the release of the Reverend Mr. Nelson, but without avail. The record discloses a consistent apathetic attitude on the part of the local Chinese authorities, with the exception of Magistrate Chen. This seems more or less to have been the attitude of the central authorities, although strong representations were made from time to time by the Legation to such authorities, who were supplied with complete information as to the course of local events in connection with the attempted payment of the ransom money. The statements of the Legation were supported by full details as supplied by the Mission party, the local inhabitants, the local gentry and the local authorities.

The Department concurs in the belief of the Legation "that the only recourse remaining is compliance with the request of Dr. Skinsnes

that a formal demand be made upon the National Government for an indemnity in an amount equal to the amount stolen by the local militiamen against whom the Chinese authorities refused to take appropriate action when in a position to do so", and in the soundness of the Legation's views, "that the money would have been recovered and the culprits punished had it not been for the venality of the local authorities and the unwarranted refusal of the provincial and national authorities to take effective action".

The Legation is, therefore, authorized to bring this claim to the attention of the National Government in the sense of the foregoing and make a formal demand for an indemnity in the amount of \$4,045.00 Chinese currency. It may be that an informal discussion of the matter with the Chinese Foreign Office would possibly result in an amicable adjustment of the claim and thus obviate the necessity of presenting a formal demand for the payment of the money. However, the Legation may use its own judgment regarding the appropriate course to pursue.

Very truly yours,

WILLIAM PHILLIPS

893.00/12645 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, January 16, 1934—3 p. m.
[Received January 16—7:37 a. m.]

41. The Vice Consul at Foochow reports January 15, 4 p. m., that he has been informed an agreement has been reached by which the Nineteenth Route Army continues to move southward, the Navy facilitating the movements by furnishing ferryboats for crossing from Nantai Island to south bank of river. He reports January 15, 7 p. m., that Nationalist forces are said to be up the Min River 10 miles from Foochow; that firing from that direction was audible during the afternoon of that day; and that according to the United States ship *Tulsa* at Pagoda Anchorage the Chinese steamer *Hwaan* arrived the 15th with 3,000 troops. He further reports that he has been reliably informed that Tsai Ting-kai⁵⁵ had requested Admiral Sah Chen-ping to assume responsibility for local situation as Tsai was leaving Foochow on the 15th. According to American sources Tsai was seen outside of Foochow proceeding westward on horseback on the afternoon of the 15th.

JOHNSON

⁵⁵ Chairman of the rebel government's military affairs commission.

893.00/12647 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, January 17, 1934—2 p. m.
 [Received January 17—1:30 p. m.]

43. The Vice Consul at Foochow reports January 16, 4 p. m. that two Nationalist gunboats and Nationalist marines arrived early that morning; that these marines landed after an exchange of fire with remnants of the Nineteenth Route Army and are now in control at Foochow; that Nationalist troops from up the Min River entered Foochow the same day; that all Nineteenth Route Army soldiers are believed to have withdrawn from Foochow and Nantai Island with the exception of a few stragglers, sick and wounded; and that Nationalist flag is again flying at Foochow. He further reports that American marines returned to U.S.S. *Tulsa* afternoon of the 16th and that the Consuls concerned intend to have the British and Japanese landing parties withdrawn on the 17th if warranted by conditions.

JOHNSON

393.1163/672

*The American Minister in China (Johnson) to the Chinese Acting
 Minister for Foreign Affairs (Wang Ching-wei)*⁵⁶

No. 720

PEIPING, March 3, 1934.

EXCELLENCY: I have the honor to refer to my *Aide-Mémoire* of July 31, 1931,⁵⁷ and to various other communications addressed to the Ministry of Foreign Affairs on the subject of the forcible occupation and violation of American missionary property in various parts of China by armed forces under the direct control of the Chinese Government, and to invite Your Excellency's attention to the serious proportions to which this problem has developed in the Province of Fukien since the arrival there of the armies of the National Government.

The forcible occupation by certain armies of the National Government of American-owned mission property or of property used by American missionary societies to carry on their missionary work in six places in Fukien has been brought officially to my attention. In the Futsing District where an inspection has been made by an American member of the Methodist mission various chapels, middle schools and parsonages in the towns of Yüki, Lungtien, Hunglu and Polan have

⁵⁶ Copy transmitted to the Department by the Minister in China in his despatch No. 2583, March 10; received April 9.

⁵⁷ *Foreign Relations*, 1931, vol. III, p. 972.

at different times been occupied by the 36th, 87th and 88th Division without the consent or approval of the American missionary authorities. In some cases occupation was characterized by much wanton and uncalled-for destruction of property. At Polan doors were torn off buildings and used for firewood or beds. At Hunglu nothing is left but the walls of the church and parsonage and a few of the church benches. Property at Yüki and Lungtien has also suffered damage as a result of occupation, and at the latter place soldiers entered the property of the Ming I school and carried off tables and chairs for use at the Headquarters of the Special Detachment.

At Kienyang the American Dominican Order has reported the forcible occupation of its mission station by military units under the command of General Liu Ho-ting, commander of the 32nd Division (formerly the 56th Division) with damage to the property and interference with the work of the mission. The same Order has reported the forcible occupation of its mission station at Kienou by a communications unit under the command of General Yü Fei-peng, understood to be Political Vice-Minister of Communications. In these two cases even the bedrooms of the American priests were forcibly occupied. I have also heard of the forcible occupation of American mission property in other parts of Fukien Province by National Government troops, but as American missionaries have not yet returned to their stations to make investigations details are still lacking.

The forcible occupation of American mission property in Fukien has in almost every case resulted in personal inconvenience to American missionaries, interference with their missionary work, and considerable financial loss to both missionaries and missionary organizations through destruction or removal of property.

I cannot but express surprise at the continued disregard of American property rights by armed forces under the direct control of the National Government, especially in view of the assurances repeatedly given that the American rights would be respected. The frequency with which the occupation of American mission property in Fukien was, and, I am inclined to believe is still being undertaken by undisciplined troops of presumably responsible units of the armies now in occupation of that Province indicates that it is deliberately done. I wish, therefore, to state in advance that I am unable to accept the usual excuses put forward by commanding officers in justification of such conduct. Needless to say, the property in question was not damaged in actual fighting, nor during the period when the province was under the effective control of the 19th Route Army whose soldiers in almost all cases respected property rights and in so doing won for themselves an enviable reputation among Chinese and foreigners alike.

I am informed that the notable observance of property rights by the soldiers of the 19th Route Army was accomplished by the issuance and enforcement of strict orders by the responsible leaders of that Army and by providing severe punishment for violation of the orders.

Prompted by a desire permanently to remove this source of friction, I have the honor to request that Your Excellency, who I assume is equally interested, bring the seriousness of this problem of the forcible occupation of American missionary property to the attention of the Military Council with a view to the issuance and enforcement by it of equally strict orders in the armies under its control in the Province of Fukien and elsewhere.

I have the honor also to request, as a matter requiring immediate action, that urgent and effective instructions be issued to the commanders of the military units concerned for the immediate evacuation of the American Methodist mission property at Yüki, Lungtien, Hunglu and Polan in the Futsing District of Fukien and of the American Dominican Mission stations at Kienyang and Kienou, Fukien.

In case either of these American missionary societies wishes to be indemnified for the losses sustained by them as a direct result of the forcible occupation of their premises by soldiers of the National Government, I must reserve for them all rights to such indemnification.

I avail myself [etc.]

NELSON TRUSLER JOHNSON

493.11 Skinsnes, Casper C./4

The Minister in China (Johnson) to the Secretary of State

No. 2586

PEIPING, March 13, 1934.

[Received April 9.]

SIR: I have the honor to refer to the Department's instruction No. 1273, of January 15, 1934, relative to securing payment by the National Government of pecuniary losses sustained by Doctor Casper C. Skinsnes in connection with his efforts to procure the release of Reverend Bert Nelson, who was captured by Chinese communists in Honan in 1930, and to enclose herewith copies of my communication to the Counselor of Legation, Nanking, of February 16, 1934, and his reply thereto of March 6, 1934.⁵⁸ It will be noted that in the memorandum of his conversation with the Director of the Department of European and American Affairs Mr. Peck states that this official informed him that the latest information received from the provincial authorities

⁵⁸ Enclosures not printed.

in this case was that they would recover the money. Should this optimistic statement be fulfilled the Department will be informed immediately, as it will be of any progress in this case.⁵⁹

Respectfully yours,

NELSON TRUSLER JOHNSON

393.1163 Am 32/68 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, July 20, 1934—6 p. m.

221. Department's 216, July 18, 5 p. m.⁶⁰

1. Dr. Robbins, foreign secretary of the mission, called today and discussed case with officers of the Department. He stated orally that he would (a) send a telegram to the mission at Bana instructing William M. Young to leave China at once and (b) instruct Vincent Young to refrain from corresponding with British authorities in Burma and from making lengthy trips into the interior during the present disturbed period and until some of the agitation against the mission has died down.

2. Dr. Robbins stated also that he would write to Dr. Herman Liu, President of the Shanghai (Baptist) University, who is familiar with the past history of this case, asking that he intercede with his friends among the Chinese officials at Nanking to the end that the work of the mission might be continued under the direction of Vincent Young.

3. Dr. Robbins also stated that the mission would welcome a thorough investigation of this case by a responsible Chinese official for the purpose of verifying or disproving the charges which have been raised against the mission. He would prefer a joint investigation by both Chinese and American officials. The Department, however, did not give encouragement to that suggestion on account of the inaccessibility of the region where the mission is situated and on account of the fact that, even if the results of such an investigation were favorable to the mission, it would probably not remove the friction existing between the local officials and the present members of the mission.

4. In reply to the communication which the Legation has received from the Ministry of Foreign Affairs, the Legation should inform it of the action which the home office of the mission has stated that it would

⁵⁹ The Minister in China in his despatch No. 311, March 14, 1936 (493.11 Skinsnes, Casper C./5) reported the payment on February 19, 1936, by the Chinese Government of \$4,000 Chinese currency in settlement of this claim, while at the same time reserving the question of responsibility in the matter.

⁶⁰ This telegram reported: "The Department is expecting a call on July 20th by a representative of the American Baptist Foreign Mission Society in regard to the Youngs."

take, and should state that, following conference with a responsible official of the mission in the United States, the Department believes that the sole purpose of the mission as such is to carry on missionary work in accordance with the provisions of the treaties between the United States and China, and that there has not been deliberate intent on the part of the mission to interfere in the political affairs of China. You should then request that the Chinese authorities telegraph the local authorities, directing that they accord protection to the members of the mission and to the native Christians in accordance with the provisions of Article 14 of the Sino-American Treaty of 1903.⁶¹

5. Inform Yunnanfu and keep Department informed in regard to developments.

HULL

893.00/12776 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, August 2, 1934—5 p. m.
[Received August 2—2:50 p. m.]

334. Legation has sent following telegram to the Commander in Chief of the United States Asiatic Fleet:

“August 2, 4 p. m. Following three telegrams have been received from the American Consul at Foochow:

‘August 1, 2 p. m. Provincial government source confirms that communist bandits numbering between 1,000 and 2,000 have reached the Min River just above Shuikow which is half way between Yenping and Foochow. Also that Communists have surrounded Yuki which is 40 miles south of Yenping. Telegraph line between Foochow and Yenping cut.

Chinese authorities assert that Americans in Yenping, Kienningfu and Kienyang are not in danger.

Foochow not thought to be endangered for the present at least.

August 2, 1 a. m. Japanese Consul General informed consular body tonight that Chairman Chen Yi advised him that Shuikow fell to Communists at 5 p. m., August 1st. Japanese Consul General also said that at midnight tonight some Communists had already reached Paisha, which is on Min River approximately half way between Foochow and Shuikow.

August 2, 10 a. m. In view of the uncertainty of the situation and the desirability of having a sure means of communication I think the presence of a United States naval vessel at Foochow highly desirable. My Japanese, French and British colleagues have also requested naval vessels.’”

2. Legation agrees with Consul as to desirability of presence of American naval vessel at Pagoda Anchorage.

Foochow informed.

JOHNSON

⁶¹ Signed at Shanghai, October 8, 1903, *Foreign Relations*, 1903, p. 91.

893.00/12777 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, August 3, 1934—3 p. m.
 [Received August 3—9:35 a. m.]

337. Reference the Legation's telegram No. 334 of August 2, 5 p. m., Commander in Chief of the United States Asiatic Fleet informs me that he has ordered U. S. S. *Sacramento* to proceed immediately to Pagoda Anchorage. Foochow informed.

JOHNSON

393.11/1682

The Minister in China (Johnson) to the Secretary of State

No. 2921

PEIPING, August 17, 1934.
 [Received September 24.]

SIR: I have the honor to enclose for the Department's information a copy of my personal letter of July 17, 1934,⁶² to General Ho Ying-chin, Chairman of the Peiping Branch Military Council, with reference to a rather ambiguous reply made by him to a letter from Consul Acheson at Tientsin in regard to steps which had been taken more adequately to protect American citizens sojourning or traveling in the Western Hills and other districts not far removed from Peiping. There is also enclosed a copy of General Ho's personal reply⁶² which clarifies the ambiguity contained in his letter to Consul Acheson and gives assurance that effective measures have been taken to insure such protection of American citizens.

From personal observation I am aware that, as a result of General Ho's orders and those of General Yu Hsueh-chung, the Provincial Chairman, the Western Hills area is now policed in a seemingly very effective manner with numerous patrols etc., which policing, it is hoped, will go far toward obviating a repetition of incidents such as the recent one which resulted in the death of Dr. J. H. Ingram⁶³ at the hands of local bandits, five of whom paid the death penalty on August 14th.

Respectfully yours,

NELSON TRUSLER JOHNSON

893.00/12798 : Telegram

The Vice Consul at Foochow (Burke) to the Secretary of State

FOOCHOW, August 27, 1934—11 a. m.
 [Received August 27—9:30 a. m.]

My August 21, 9 a. m.⁶² Reliably reported that there are no Kiangsi Communists in the Yungtai district. River traffic to Yenping is now

⁶² Not printed.⁶³ American medical missionary.

open but merchants hesitate to ship cargo. Kiangsi Communists in Northeastern Fukien are reported to have been reduced to a small group.

Presence of United States naval vessels not considered absolutely necessary but one should be ready to return to Foochow immediately.

Repeated to the Department and Nanking.

BURKE

393.1163 Am 32/74: Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, September 13, 1934—9 a. m.
[Received September 14—9:15 a. m.]

413. Reference despatch No. 198, July 19, 1934 from Consulate at Yunnanfu⁶⁴ concerning activities of William M. Young and his two sons of American Baptist Mission in Lantsang District, Western Yunnan. In despatch of yesterday's date⁶⁴ Legation has reviewed case and earnestly suggested that during the presence in the United States on furlough of Harold M. Young the Department seek to bring emphatic pressure upon Baptist Foreign Mission Society and upon Young in person to play full part in terminating extra treaty activities of the Youngs in the district where they work. Unless Young plans to leave the United States at an early date for return to mission station the Legation suggests that the Department await receipt of Legation's despatch of September 12th before communicating with mission.

2. Foreign Office note of August 12 [7]⁶⁴ reiterates former and additional charges against William M. Young and his two sons and renews request that they be ordered to leave China. Note also specifically charges Harold Young with consulting in person with certain "ambitious politicians of India plotting to conquer wild Kawa territory" in the disputed zone along the Yunnan-Burma [border?] with transmitting mineral specimens to Rangoon, et cetera. Legation's despatch discusses such charges. Latest report from American Consulate at Yunnanfu expresses its opinion that question of personal safety and protection of missionaries is for the time being satisfactorily resolved. Legation is convinced that such situation is but temporary unless William M. Young has left Yunnan in response to the promised instructions of his mission board. If the board has not yet received assurances that William Young has left, it is urged that measures be taken by board to ensure that he departs

⁶⁴ Not printed.

from Yunnan and that his sons strictly confine themselves to missionary work as clearly defined by the treaties failing which they too should be ordered removed from China.

JOHNSON

893.00/12832 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, October 10, 1934—5 p. m.
[Received October 10—11:30 a. m.]

460. Legation's 455, October 9, 11 a. m.⁶⁶ Following from Consul at Yunnanfu:

"October 9, 6 pm. With reference to my telegram October 8, 11 a. m., it is reported by China Inland Mission that [*in?*] Kweichow, two British subjects and one who may be Swiss, have been seized by Communists at Kiuchow and carried off toward Szechwan. Mission secretary [at] Yunnanfu has telegraphed that if there is a possibility of communist occupation British Consul General [at] Yunnanfu urges immediate evacuation and has so informed British Legation. If reports in Yunnanfu are to be believed a serious danger is imminent and the evacuation of all foreigners from Kweichow will be advisable. Smith⁶⁷ who arrived yesterday afternoon from Kweichow suggests that if communist menace becomes much more serious missionaries should concentrate at Anshun from which place evacuation by way of Kwangsi or Yunnan is possible. Road to Chungking from Kweiyang believed to be unsafe and Kwangsi Road may be objective of Communists in which case evacuation by way of Kwangsi only feasible by bus and with military protection which might be difficult to obtain if Communists were closely pressing provincial troops. Depending upon developments Yunnan may be the only safe route of evacuation if such becomes necessary.

Canton is being informed."

The Legation has instructed the Consul General at Canton as follows:

"October 10, 4 p. m. Reference Yunnanfu's message concerning situation in Kweichow. Legation suggests that, in view of apparent serious character of communist menace, you consider recommending to Americans in Kweichow Province the desirability of withdrawing promptly from threatened areas before means of communication are interrupted."

GAUSS

⁶⁶ Not printed.

⁶⁷ Horace M. Smith, Vice Consul at Canton, on leave.

893.00/12835 : Telegram

The Consul at Canton (Paxton) to the Secretary of State

CANTON, October 14, 1934—2 p. m.
 [Received October 14—10:20 a. m.]

With reference to the Legation's October 10, 5 [4[?]] p. m.⁶⁸ and Ballantine's October 10, midnight⁶⁹ regarding evacuation from Kweichow, I have received a telegram in reply to his stating that Americans are withdrawing from eastern and northern stations, women and children leaving Kweiyang. Concentration at Anshun and Tuhshan. Repeated to the Department, the Legation, Nanking and Hankow. Yunnanfu briefly informed.

PAXTON

893.00/12840 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, October 17, 1934—2 p. m.
 [Received 3 p. m.]

472. Legation's 463, October 12, 9 a. m.⁷⁰ Following from Yunnanfu:

"October 15, 4 p. m. Referring to Canton's telegraphic report of China Inland Mission concentration at Anshun and Tushan, evacuation appears imminent.

In view of the probable danger to American lives and property if evacuation of missionaries becomes necessary Vice Consul Smith, on leave status, has remained Yunnanfu awaiting developments or possible orders from the Legation.

During Smith's Kweichow visit missionaries intimated that in case of evacuation presence of a consular officer would be required to secure adequate protection and necessary Government aid in arranging for transportation as well as the use of the Army wireless apparatus which may be the only means of communication by consuls, and to secure cooperation between scattered groups of missionaries. Smith believes there is a great danger of Kweichow chairman's army turning communist if faced by strong force. After interviews with the Kweichow leaders Smith agrees with the missionaries and believes there is great difficulty for even a consular officer to obtain real assistance from leaders in an emergency although he thinks that local authorities may assist more effectively in the presence of a consular officer who might also prevent friction between missionary groups.

⁶⁸ See telegram No. 460, October 10, 5 p. m., from the Chargé in China, *supra*.

⁶⁹ Not found in Department files. Joseph W. Ballantine, Consul General at Canton, had been assigned to Mukden and relinquished his duties at Canton October 11, 1934.

⁷⁰ It stated: "Canton Consul General reports having taken action suggested." (893.00/12833.)

British Consul General [at] Yunnanfu informs me neither he nor his noncareer assistant are in a position to go to Kweichow.

In an interview this afternoon Chairman Lung Yun stated that in his opinion American citizens are unsafe in Kweichow and should be advised to evacuate during the unsettled situation. He considered motor road to Kwangsi dangerous for foreigners and recommended evacuation through southwest Kweichow and Yunnan, assuring me that he is prepared to take steps to ensure safety of Americans evacuating in Yu Kuo-tsai's territory⁷¹ and Yunnan. If it becomes necessary that a consular officer go to Kweichow to assist evacuation Smith could reach Kweiyang in 7 days by double staging. In view of these circumstances it may be desirable that the request in my telegram of October 15, 11 a. m. be disregarded. Repeated to Canton."

The Legation instructed as follows:

"October 17, 2 p. m. Your October 15, 4 p. m. The Legation perceives no reason why Smith should proceed to Kweiyang. It is of the opinion that if the menace to the safety of Americans in Kweichow is as serious as reported in your report then they should evacuate the Province immediately and should not delay their withdrawal to await the arrival of a consular officer whose assistance admittedly would be of but limited value.

Repeated to Canton and Department.

Reference penultimate sentence of your telegram the Legation believes that you should plan to await arrival of your successor."

Also following telegram has been sent to Counselor of Legation at Nanking:

"October 17, 2 p. m. Please address a formal note to the Minister for Foreign Affairs expressing the Legation's concern because of reports to the effect that the safety of Americans residing in Kweichow Province is being menaced by the activities of communist forces and express the hope that adequate measures will be taken to protect the lives of such Americans and to facilitate their withdrawal from threatened areas should such action become necessary."

GAUSS

393.1163 Am 32/84

The Secretary of State to the Chargé in China (Gauss)

No. 1515

WASHINGTON, November 19, 1934.

SIR: Reference is made to the Legation's despatch No. 2973, of September 12, 1934, with enclosed copy, in translation, of a note dated August 7, 1934, from the Ministry of Foreign Affairs, and to the Legation's telegram No. 466 of October 13, 1 p. m.,⁷² in regard to the alleged plots against the lives of American missionaries and the perse-

⁷¹ In Kweichow.

⁷² None printed.

cution of native converts of the American Baptist Mission in southwestern Yunnan, stating that the Ministry of Foreign Affairs requests that the Reverend William M. Young and his two sons, Harold and Vincent, be withdrawn from China. Reference is also made to Yunnanfu's despatch No. 206 of September 28, 1934, to the Legation,⁷³ reporting the issuance of a proclamation by the Yunnan provincial government in the matter of religious liberty and non-interference with the work of the American Baptist Mission.

The Department informed Dr. J. C. Robbins, Foreign Secretary of the American Baptist Foreign Mission Society, New York, of pertinent parts of the Legation's despatch No. 2973 of September 12, 1934, and forwarded to him a copy, in translation, of the note from the Ministry of Foreign Affairs, together with copies of five enclosures thereto in which are set forth charges of the Chinese authorities against Mr. William M. Young and his two sons.

Dr. Robbins called at the Department on November 7, 1934, to discuss the difficulties in which the mission finds itself and a copy of memorandum of the conversation which took place on that day is enclosed ⁷³ for the information of the Legation. It will be noted that Dr. Robbins stated that, subject to the approval of the mission board, he would instruct Vincent Young to keep the local Chinese authorities informed of the general policies of the mission; advise Vincent Young to refrain from concerning himself with or appearing to countenance the destruction of idols and altars and to refrain from suggesting or supporting in any way the refusal of the Christians to make donations for the upkeep of village property; endeavor to send a new family to the mission station at Bana to assist Mr. Vincent Young and eventually to take over his duties if that became necessary in the interest of the mission work; endeavor to keep Harold Young away from Yunnan until such time as the relations of the mission with the Chinese authorities had materially improved; and suggest to the mission the advisability of its undertaking some practical welfare work among the Chinese and being more assiduous in cultivating them than has been done in the past. It is believed that Dr. Robbins fully appreciates that, unless the relations of the mission with the local Chinese authorities are appreciably improved, the mission will find it difficult to continue its work in that field.

In view of recent developments in the case, particularly the reported intention of Mr. William M. Young to leave Yunnan early in November 1934 and the issuance by the provincial government of Yunnan of a proclamation in regard to religious liberty and non-

⁷³ Not printed.

interference with the work of the American Baptist Mission, it is suggested that the Legation, if it perceives no objection, refrain from further communicating with the Foreign Office in regard to this case unless new developments arise requiring further representations or the Foreign Office persists in pressing for the withdrawal of all the Youngs from China. The Department's suggestion is based upon the conclusions of the Vice Consul at Yunnanfu, given in his despatch No. 206 of September 28, 1934, to the effect that provided Mr. William M. Young is withdrawn from China and the missionaries restrict their activities and those of the mission within treaty limits, there is every likelihood that no further agitation against the mission will occur.⁷⁶

It is desired, of course, that the Legation continue to keep the Department currently informed of any developments that may occur.

Very truly yours,

For the Secretary of State:

WILLIAM PHILLIPS

893.00/12863 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, November 20, 1934—4 p. m.

[Received November 20—6:25 a. m.]

532. Reference Legation's 514, November 8, 3 p. m.,⁷⁷ following has been received from the Consul General at Hankow:

"November 20, noon. In view of capture of Yungshun northwestern Hunan by Ho Lung and his advance on Yuanling have advised all Americans in western Hunan to evacuate. Americans have returned to Chenhsien southern Hunan since main body of Reds has moved further west and there are now some 15,000 troops in that city."

GAUSS

393.1163 Am 32/87

The Chargé in China (Gauss) to the Secretary of State

No. 3155

PEIPING, November 23, 1934.

[Received December 15.]

SIR: I have the honor to refer to the Legation's telegram No. 466 of October 13, 1 p. m.,⁷⁷ concerning the above-mentioned subject,⁷⁸

⁷⁶ The Department in its No. 1533, December 7, 1934, informed the Chargé that the Board of Managers of the American Baptist Foreign Mission Society, at a meeting held November 19-21, 1934, decided not to return the Reverend and Mrs. Harold Young to China (393.1163 Am 32/85). Rev. William M. Young, meanwhile, had left Yunnan for the United States on November 1, 1934 (393.1163 Am 32/92).

⁷⁷ Not printed.

⁷⁸ Reference to the Young case in Yunnan.

and to enclose for the information of the Department a translation of a formal note, dated September 22, 1934, from the Ministry of Foreign Affairs to the Legation, together with a copy of the Legation's reply thereto, dated November 23, 1934.⁷⁹

The Department will note that I have informed the Ministry of Foreign Affairs that I have referred the matter to the Department for instructions, but that I feel constrained to point out that the Legation cannot accept the Chinese Government's denial of responsibility for the protection of the American missionaries in question. I have therefore again requested that the Chinese authorities concerned be instructed fully to protect the lives and property of these American missionaries, as well as their legitimate missionary activities, in accordance with the appropriate treaty provisions.

The text of the proclamation issued under the seal of the Yunnan Provincial Government, mentioned in my note to the Foreign Office, was forwarded to the Department under cover of a despatch, No. 231, dated September 28, 1934, from the American Consul at Yunnanfu to the Department.⁸⁰

Respectfully yours,

C. E. GAUSS

393.1111 Stam, John C./1 : Telegram

The Consul General at Nanking (Peck) to the Secretary of State

NANKING, December 12, 1934—10 a. m.

[Received December 12—4:07 a. m.]

81. Reliable information just received that John Cornelius Stam and his wife and infant were captured by communist bandits at Tsingteh, southern Anhwei within last few days. Stam registered Nanking under date of February 6, 1934. Urgent representations have been made to the Anhwei Provincial Government and to the National Government to take immediate steps for release.

Repeated to Legation.

PECK

393.1111 Stam, John C./8 : Telegram

The Acting Secretary of State to the Chargé in China (Gauss)

WASHINGTON, December 13, 1934—1 p. m.

384. Nanking's 84, December 13, 7 p. m.,⁸⁰ reporting that the bodies of Mr. and Mrs. Stam have been found but that the baby has not been found.

⁷⁹ Neither printed.

⁸⁰ Not printed.

Department assumes that Legation will make immediate representations to the Chinese Government expressing this Government's deep concern, and requesting that prompt and vigorous steps be taken to effect the rescue of the child, if alive, and to apprehend and punish the culprits in accordance with law.

Report by telegraph.

Department has informed Stam's father of Nanking's telegram.
PHILLIPS

393.1111 Stam, John C./7 : Telegram

The Consul General at Nanking (Peck) to the Secretary of State

NANKING, December 14, 1934—9 a. m.

[Received December 14—8:35 a. m.]

85. My 84, December 13, 7 p. m.⁸² Following message from Commander of the U. S. S. *Monocacy* received this morning:

"Mr. and Mrs. Stam and infant child United States nationals were kidnaped during communist raid at Tsingteh 70 miles south of Wuhu on Friday 7 December. Official report received at Wuhu from Provincial Government, Anhwei, at 2 p. m. today, Thursday; that (both) of parents have been murdered and their bodies recovered at Miaoshow, 2 miles west of Tsingteh.

Child still missing. Foreigners apprehensive due to activities of Communists, spies and assassins in Wuhu. Also communist assassin made attempt on life of local Chinese magistrate and was executed Monday 10 December."

Repeated to Legation.

PECK

393.1111 Stam, John C./11 : Telegram

The Consul General at Nanking (Peck) to the Secretary of State

NANKING, December 14, 1934—3 p. m.

[Received 3:52 p. m.]

86. My 85, December 14, 9 a. m.

1. Vice Consul Jenkins⁸³ reached Wuhu December 13, 4 p. m. and returned to Nanking December 14, noon. At Wuhu he interviewed American missionaries and officers of the U. S. S. *Monocacy*. I have suggested that *Monocacy* remain at Wuhu until December 16, 8 a. m.

2. Among other items of evidence Jenkins has brought back copy of a letter dated December 13, from the superintendent of the second administrative district of Anhwei residing at Takacheng to Birch⁸⁴ of

⁸² Not printed.

⁸³ Douglas Jenkins, Jr., Vice Consul at Nanking.

⁸⁴ George A. Birch, Canadian missionary at Suancheng, Anhwei.

the China Inland Mission indicating that the superintendent had been informed by Birch orally of the capture of the Stam family and that the superintendent had telegraphed the Provincial Chairman then at Chihle in asking that rescue measures be taken. The reply from the Provincial Chairman to the superintendent dated December 11 stated that the Chairman immediately ordered troops to take every possible step towards rescue but that he had received a telegram dated December 8 before midnight stating that the "Kiangsi bandits" were defeated that noon and Miaoshou recaptured and that the bodies of Stam and his wife were found on the battlefield. The local authorities had been ordered to enclose the bodies and take steps to find the child. The Provincial Chairman added that he was reporting the matter to Chiang Kai-shek and was issuing orders that every effort be made to rescue the infant.

3. Jenkins also brought back copy of letter dated December 8 mailed at Tsingteh from Stam's cook which stated that the Peace Preservation Corps and local militia attempted to defend Tsingteh from "Red bandits" who attacked the city on December 6, 10 a. m. and easily entered subsequently looting the city one day and one night. Several score of Chinese captives were carried away.

PECK

393.1111 Stam, John C./15 : Telegram

The Consul General at Nanking (Peck) to the Secretary of State

NANKING, December 17, 1934—1 p. m.

[Received 4:10 p. m.]

89. My December 14, 3 p. m.

1. I regarded it as most important that the bodies of Mr. and Mrs. Stam be brought back in dignified way to Wuhu for identification and burial and on December 14, 4 p. m. I telegraphed Chairman of the Anhwei Provincial Government then understood to be at Tunki as follows:

"Your telegram December 13. China Inland Mission reports that the bodies of the American missionary Stam and his wife have been found. I request that their bodies be sent to Wuhu for identification and that investigations be made regarding the fate of their child aged 3 months and rescue be effected. Please reply."

I also informed mission at Wuhu regarding this telegram. December 14, 11 p.m. I received telegram from the mission that the baby was safe at Wuhu.

2. December 15, 2 p. m. I sent a note to the Foreign Office as directed in a telegraphic instruction from the Department transmitted in the Legation's December 14, 10 a. m. December 15, 11 a. m. I received

a letter from the Foreign Office transmitting a telegraphic report from the Anhwei Provincial Government dated December 13 confirming information regarding finding of the bodies (see paragraph 2, my December 14, 3 p. m.).

3. Radio from the *Monocacy* [at] Wuhu dated December 16, 8 a. m. transmitted report that Hanna ⁸⁵ had obtained assurance from the Chinese authorities at Suancheng on December 14 that the bodies would be transported to Wuhu by military truck arriving on the 17th or 18th. Another message same source and date read as follows:

“Upon as complete investigation as practicable it was established that Mr. and Mrs. Stam were beheaded just outside Miaoshow and bodies left lying. Mr. Lo, a Chinese Christian evangelist following day placed bodies in coffins but was unable to move them. Mr. Lo then carried baby to Mr. Birch, a missionary at Suancheng. Both then brought baby to Wuhu. Mr. Hanna of China Inland Mission has made arrangements to have bodies brought to Wuhu, probable time of arrival 17 or 18 December.”

4. December 16, 4 p. m. I have received following telegram from Hanna at Wuhu dated December 16, (?) p. m.: “Message from Suancheng, ‘Trouble prevents removal bodies. Kohfield ⁸⁶.’”

5. Consul Atcheson ⁸⁷ left Nanking by motorcar December 17, 10 a. m. with clerk Hsi ⁸⁸ under my instructions to proceed to Wuhu and if necessary Suancheng and Tsingteh in order to collect additional information regarding all aspects of the capture and death of the Stams, take charge of belongings if any, bring bodies to Wuhu and represent the Consulate General at the burial. I have telegraphed the Anhwei provincial authorities concerned regarding his mission.

6. Shanghai papers of December 16 report that letters written by Stam following his capture have been sent to C. E. Scott, ⁸⁹ Tsinanfu, and I have requested Consul Stevens ⁹⁰ by telegraph to send me certified copies.

7. I have telephoned to the Foreign Office regarding mission of Atcheson and have been told that the Foreign Office has telegraphed instruction to Semoc [*Kuangson Young?*] to be constituted the Ministry's special representative at Hankow to proceed to Wuhu to collaborate with the provincial authorities in this case. Repeated to the Legation.

PECK

⁸⁵ W. J. Hanna, Canadian superintendent at Wuhu of the China Inland Mission.

⁸⁶ E. A. Kohfield, American missionary at Tunki, Anhwei.

⁸⁷ George Atcheson, Jr., Consul at Nanking.

⁸⁸ Hsi Rwen, Chinese interpreter at the American Consulate General, Nanking.

⁸⁹ Charles E. Scott, American missionary, father of Mrs. Stam.

⁹⁰ Harry E. Stevens, Consul at Tsinan.

893.00/12896 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, December 18, 1934—3 p. m.

[Received 3 : 20 p. m.]

581. Following telegram was sent by Peck on December 17th to commander of Yangtze patrol and repeated to Legation for information.

“Consul Atcheson stationed temporarily at Wuhu reports by telephone that supervising magistrate at Suancheng stated this morning that there are 6,000 well-armed Communists in southern Anhwei moving north. Tsingteh was recaptured December 15th. Fighting has been going on at Maolin today and Kingsien may be taken tonight. If Government troops prevent Communists from entering Kingsien they probably will head for Wuhu and the magistrate strongly recommends that foreigners around Wuhu concentrate there. Consul states that United States naval vessel at Wuhu would greatly reassure American citizens. I request that if possible vessel be stationed at Wuhu until advised emergency is over.[”]

GAUSS

893.00/12895 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, December 18, 1934—5 p. m.

[Received December 18—10:35 a. m.]

583. Reference Legation's 581, December 18, 3 p. m. Following has been received from Peck at Nanking :

“December 18, 11 a. m.

1. In response to my request that naval vessel be sent to Wuhu *Panay* left Nanking December 18, 6 a. m. No American vessel here now.

2. All American citizens in southern Anhwei now reported to be in Wuhu with possible exception of Olson family at Tatung on the Yangtze.

3. I have telephoned to the Foreign Office substance of my radio message to commander of the Yangtze patrol of December 17, 11 p. m. which was repeated to the Legation and have asked for confirmation thereof and for information concerning measures taken to meet possible emergency at Wuhu.”

GAUSS

893.00/12895 : Telegram

The Secretary of State to the Chargé in China (Gauss)

WASHINGTON, December 19, 1934—noon.

389. Your 581, December 18, 3 p. m. and 583, December 18, 5 p. m. The Department desires that the Legation, if it perceives no objection,

instruct Peck to inform the Foreign Office as under instructions from the Department that the American Government is gravely concerned over the disturbed state of affairs in Anhwei province which has already caused the death of two American citizens and is endangering the lives of others and that the American Government expects that the Chinese Government will immediately take effective steps to meet this menacing situation and to insure the safety of American citizens.

HULL

893.00/12898 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, December 21, 1934—2 p. m.
[Received December 21—10:50 a. m.]

590. Reference Legation's 565, December 11, 11 a. m.⁹² concerning situation in Hunan. Consul General at Hankow telegraphed December 20, 4 p. m., that five American Catholic Fathers, McDermott, Maloney, Berard, Fogarty and Flaherty left Changteh, Hunan on 17th and arrived at Hankow on 19th. They reported that Reds were attacking Changteh when they departed. Red attack was apparently unexpected, Reds having broken through Government lines between Taoyuan and Changteh. Changteh was reported to be holding out and Government troops advancing from Changsha.

Legation has telegraphically instructed Peck to bring Hunan situation to the attention of the Foreign Office immediately and to request protection for Americans there. Peck has also been instructed to make representations in the sense of Department's 388 [389], December 19, noon, including Hunan as well as Anhwei Province.

GAUSS

893.00/12899 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, December 21, 1934—4 p. m.
[Received December 21—1:20 p. m.]

591. Reference Legation's 587, December 19, 5 p. m.⁹² Atcheson telegraphed Peck at Nanking December 20th from Wuhu that Olsons and Jacobsons have proceeded to Hankow and that all Americans are now evacuated from southern Anhwei except those at Wuhu. He added that Wuhu was quiet. He telegraphed Peck on December 21,

⁹² Not printed.

2 p. m., that he could not say Wuhu was adequately guarded by Chinese unless more troops are stationed there nor that emergency was over until Communists are definitely checked or diverted to some distance.

One American, one British and one Japanese gunboat now at Wuhu.

GAUSS

393.1111 Stam, John C./19 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, December 25, 1934—noon.
[Received December 25—3:25 a. m.]

599. Reference Legation's 592, December 22, 11 a. m.⁹³ In view of lurid accounts of atrociousness of Stam murder appearing in the press and presumably telegraphed to United States, Legation requested Peck to telegraph whether he has any information to substantiate these reports. Following is Peck's reply:

"December 24, 5 p. m. Your December 24, 1 p. m., my 89, December 17, 1 p. m.

(1) Consul Atcheson returned from investigation at Wuhu December 22, 7 p. m. Basic facts of his report now in preparation regarding the Stam murder follow: On October 25 magistrate at Tsingteh informed Stam and Kohfield there was no danger from Communists but some banditry. Kohfield states magistrate promised full protection. Letter from Stam to Gibb⁹⁴ at Shanghai dated December 3 reads: 'The district seems quiet, peaceful now. The magistrate here has built forts at strategic positions surrounding the town, ordered to do so by higher-ups so we understand.' Letter to mission at Shanghai dated December 6 reads: 'My wife, baby and myself are today in the hands of the Communists in the city of Tsingteh. Things happened so quickly this a. m. They were in the city just a few hours after the persistent rumors really became alarming so that we could not prepare to leave in time. We were just too late.'

(2) Apparently reliable reports are that the bandits on December 7 conveyed Stam family about 15 miles westward to Miaoshou and executed Mr. and Mrs. Stam December 8, at 10 a. m. by crude method of decapitation. Bandits apparently ignored the child which was found on December 9, by native Christian Lo and conveyed during next few days to Wuhu where it is still in custody of Hanna, China Inland Mission.

(3) Stam bodies were placed by Lo in coffins and remain on hillside near Miaoshou. Chinese local authorities there professed inability to comply with request made by me on December 14, that bodies be removed to Wuhu on the ground that Tsingteh area was reoccupied by Communists on December 15.

⁹³ Not printed.

⁹⁴ G. W. Gibb, China director at Shanghai of China Inland Mission.

(4) Acheson was orally and confidentially informed by Hanna that Lo's inspection showed that the bodies of Mr. and Mrs. Stam were brutally mutilated after death in an unmentionable manner. This information has not been published and the Chinese authorities as well as the mission appear anxious that publicity be avoided."

GAUSS

393.1111 Stam, John C./20 : Telegram

The Secretary of State to the Chargé in China (Gauss)

WASHINGTON, December 28, 1934—4 p. m.

397. Your No. 599, December 25, noon, and previous telegrams from the Legation and Nanking, in regard to the murder of Mr. and Mrs. Stam.

1. In view of the circumstances surrounding the death of Mr. and Mrs. Stam, particularly the seeming negligence of the local authorities which led to the capture of the Stams by communists and the failure to date of the Chinese Government to take effective steps to remove the bodies to Wuhu and to capture and punish the murderers, the Department desires that the Legation, unless it perceives objection, address a formal note to the Minister for Foreign Affairs making, as under express instruction from the American Government, strong representations in regard to the atrocity along the following lines:

The American Government cannot avoid taking a serious view of the capture and subsequent execution by alleged Chinese communists of Mr. and Mrs. Stam, American missionaries. According to available information, on December 6 the Chinese who committed the outrage occupied the district city of Tsingteh where the Stams resided and on the following day carried them, together with a number of Chinese, westward to Miaoshou about 15 miles away, at which place at about 10 a. m., December 8, the Stams were executed by decapitation. Although their bodies were encased by Christian friends and placed on a hillside near Miaoshou, the local authorities, on the ground that the Tsingteh area had been reoccupied by communists on December 15, professed their inability to comply with the request made on December 14 by the American Government's representative at Nanking that the bodies of Mr. and Mrs. Stam be removed to Wuhu. It appears that the local authorities not only failed to take necessary precautions and provide adequate protection for these unfortunate Americans but that since their death no serious effort has been made to capture and punish the persons who committed this barbarous crime. The American Government confidently expects that the Chinese Government will immediately take such measures as may be necessary and adequate to ensure the prompt capture and punishment of all persons who participated in the murders and that it will arrange at once for the removal of the bodies of the deceased to Wuhu. The American Government further makes full reservation of its rights under the treaties and international practice.

2. The Department desires that Peck deliver this note in person to the Minister for Foreign Affairs, accompanied by an oral statement emphasizing this Government's concern over the apparent indifference of the Chinese Government to this outrage, and pointing out that the commission of this barbarous crime within 150 miles of the capital and the failure of the Chinese Government to make possible the removal of the bodies of the victims and to capture and punish the perpetrators have created a most unfortunate impression throughout the United States. He should also state that, in the opinion of the Department, this case should be brought urgently to the personal attention of General Chiang Kai-shek with a strong recommendation that the Government of China demonstrate its abhorrence of these detestable crimes and its determination and ability to punish the murderers, and that, when the perpetrators of the crimes have been apprehended, punishment commensurate with the crimes be publicly administered at the place where the murders were committed. Peck should also suggest the desirability of appropriate participation of the Chinese Government in the funeral service after the bodies of the victims have been removed from Tsingteh.

3. The Legation and Peck should continue to press this case vigorously and, if warranted, should make as soon as practicable further investigations especially in regard to the capture of the Stams and the conditions then existing in the Tsingteh area.

HULL

393.1111 Stam, John C./21 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, December 30, 1934—noon.
[Received December 30—3:05 a. m.]

606. Reference Department's 397, December 28, 4 p. m. concerning Stam case. Peck at Nanking reports December 29, 3 p. m. that bodies of Stams have reached Wuhu, that he has requested that they be placed in the care of the mission, that he has requested American missionary doctor at Wuhu to make medical examination, and that affidavits of identification and medical findings will be taken by a representative of the Consulate General who will proceed to Wuhu to attend the funeral. Peck also reports that Stam baby is en route to Tsinanfu to maternal grandparents.

I have telegraphed urgent instructions to Peck to request immediate interview with the Minister of Foreign Affairs and to make oral representations to him as under express instructions of the American Government along the lines of paragraph number 2 of the Department's 397, December 28, 4 p. m.

I suggest that the proposed formal note to the Foreign Office await the receipt of Atcheson's full report of his investigation which is understood to have been completed and mailed but has not yet reached the Legation.⁹⁵

GAUSS

393.1111 Stam, John C./23 : Telegram

The Consul General at Nanking (Peck) to the Secretary of State

NANKING, December 31, 1934—2 a. m.

[Received 11:30 a. m.]

91. [To the Legation:] Your December 31 [30], 11 p. m. [*a. m.*], paragraph 3. I have instructed Atcheson while he is in Wuhu on January 1st and 2nd to take official action giving results of the examination of the bodies of Mr. and Mrs. Stam, likewise to collect any information which may be available to supplement that which he has already obtained regarding the capture of the Stams and conditions then existing in the Tsingteh area. Statements made to me by Hanna on December 28 indicate that the Tsingteh area is still unsafe and I have directed Atcheson not to proceed south of Wuhu unless he received further instructions.

Repeated to Department.

PECK

393.1111 Stam, John C./25 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, January 3, 1935—10 a. m.

[Received January 3—5:40 a. m.]

3. Reference Legation's 606, December 30, noon, concerning Stam case. Peck reports that he made oral representations to the Minister for Foreign Affairs on December 31. The Minister expressed his grief at the terrible tragedy and described measures being taken to suppress the Communists. Kuangson Young was instructed to assist in arrangements for the funeral and to represent the Chinese Government.

I have addressed formal note to the Foreign Office dated January 2nd along the line suggested in Department's 397, December 28, 4 p. m. amended to conform with recent information and Atcheson's report.

GAUSS

⁹⁵ The Department's telegram No. 402, December 31, 3 p. m., approved, adding: "Proposed formal note should, of course, be amended to conform with most recent information and Atcheson's report." (393.1111 Stam, John C./24)

393.1111 Stam, John C./26 : Telegram

The Consul General at Nanking (Peck) to the Secretary of State

NANKING, January 3, 1935—noon.

[Received January 3—9:50 a. m.]

1. My December 24, 5 p. m. [to the Legation.]⁹⁶

(1) Atcheson returned from Wuhu last night after Stam funeral which was attended by Wuhu administrative superintendent (on own volition) and by secretary of Kuangson Young. Young was not present but sent wreath. Japanese Consul and Japanese gunboat commander attended.

(2) Stam's two servants, a cook-boy and amah, had arrived at Wuhu and were questioned on January [1?] for 7 hours by Atcheson who took sworn statements. Amah testified that Tsingteh magistrate sent chairman [of] Tsingteh Chamber of Commerce at 8 a. m. December 6 to warn Stams to leave at once but Stam refused to believe danger near and, against servants urging, delayed preparation for departure until too late, communist bandits entering city shortly after 10 a. m. She said she heard others of household say that meantime two further messengers came from magistrate's yamen to warn them but she did not see those messengers. Cook testified that Chamber of Commerce chairman arrived at Stam residence 8 a. m. at behest of magistrate and merely warned Stam to be on guard because Reds had been only some 15 or 20 miles distant night before and to leave "if rumors should become alarming", but Stam replied "wait a while"; that although cook urged Stam to leave at once no preparations for departure were made until about 10:30 a. m. when city gates were closed following return to Tsingteh of yamen spy who reported Reds 3 miles away; that meantime at 10 magistrate sent soldiers to warn Stams to leave at once and 20 minutes after sent member of personal bodyguard on same errand; that no Chinese forces were now available and that at 11 a. m. Reds entered city without real resistance as there being only some 60 *paonautui* and 30 local militia in Tsingteh.

(3) Although magistrate himself escaped, China Inland Mission at Wuhu feels that he did his best in way of warning Stams.

(4) Examination of bodies by Methodist Hospital American physician and Atcheson revealed that although both had been practically decapitated reports of further mutilation made by evangelist Lo were incorrect, supposition being Lo mistook blood stains and operation scar for wounds (see paragraph 4 of my December 24, 5 p. m.). Mrs. Stam's body showed few small bruises on chest and thigh which might have been caused by falling; wrists of both bodies were bruised as if

⁹⁶ See telegram No. 599, December 25, noon, from the Chargé in China, p. 485.

by having been bound; but there was no mutilation of either body other than decapitation.

(5) Full report, including sworn statements of servants, affidavits of identification and coroner's verdict follows.

PECK

ATTITUDE OF THE DEPARTMENT OF STATE ON THE EXPORT TO CHINA OF ARMS OR MUNITIONS, INCLUDING MILITARY AIRCRAFT⁹⁷

893.113/1525 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 13, 1934—7 p. m.

[Received April 14—5:30 a. m.]

167. Mr. Tsai Yuan, Director of the Department of Foreign Affairs of the subcommittee of Military Affairs, brought to me from the Minister of War yesterday an *aide-mémoire* stating that it was learned that Kwangtung and other Chinese provinces have secretly ordered and purchased a large number of aeroplanes from the United States. *Aide-mémoire* requests that no aeroplanes or military weapons of any kind be sold to any province or municipality in China unless they be covered by *huchaus* issued by Central Government of China.

I have informed Minister of War of procedure outlined in paragraph 3 of statement dated June 30, 1933⁹⁸ regarding exportation of arms to China enclosed with Department's written instruction No. 1123 of July 13, 1933.⁹⁹

Realizing that the official request contemplated [under] present regulations should come through the Ministry of Foreign Affairs the above is submitted for the Department's information only.

The Legation is endeavoring discreetly to ascertain whether similar request has been made in the same manner of other Legations whose aircraft are strongly competitive with American aircraft in China.¹

JOHNSON

893.113/1528

The Chinese Minister (Sze) to the Secretary of State

WASHINGTON, April 20, 1934.

MY DEAR MR. SECRETARY: I beg to inform you that I have just received cable advices from my Government to the effect that the

⁹⁷ Continued from *Foreign Relations*, 1933, vol. III, pp. 559-566.

⁹⁸ *Ibid.*, p. 563.

⁹⁹ *Ibid.*, p. 564.

¹ The Minister in China reported in his telegram No. 169, April 14, 1934, 1 p. m.: "Later information discloses that similar representations have not been made to other Legations." (893.113/1526)

importation of war materials into China from other countries, according to regulations, unless covered by official *Huchaos* from the Central Government or permits from the proper Legation should be prohibited by the country of exportation, and that any departure from this procedure will render the goods liable to confiscation.

I shall be greatly obliged if you will be so kind as to transmit this information to the appropriate branches of your Government.

I am [etc.]

SAO-KE ALFRED SZE

893.113/1530 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 28, 1934—noon.
[Received April 28—5:40 a. m.]

196. Legation's 167, April 13, 7 p. m. Following formal note under date of April 21 received from Minister for Foreign Affairs:

"I have the honor to refer to my repeated notes informing you that the shipment of munitions of war from abroad into China must be covered by permits formally issued by the Central Government; that the said permits must be submitted to the Chinese diplomatic mission in the country of export for examination and certification prior to the time of shipment; and that no foreign merchant may conclude contracts directly with any local government for the purchase of munitions of war until a permit has been issued by the Central Government. You were requested to take action accordingly.

Recently it has been found that occasionally foreign merchants, in their greed for profits, have secretly concluded contracts for the sale of munitions and that without awaiting the issuance of a permit (*huchau*) and without submitting a permit to the Chinese diplomatic mission for certification have arbitrarily exported such munitions of war from the country of origin. This not only violates the usual procedure, but also adds to our troubles. I find it urgently necessary to reiterate our intentions as stated above in order to control and prevent malpractices.

I have the honor to request that you take note of the above request, transmit the same to the American Government, and issue instructions to American merchants to the effect that in the future all exportations of munitions to China not made in conformity with the several regulations enumerated above will be prohibited in order that friendly relations may be strengthened.

I have the honor to indite this formal note for your information and guidance and action."

For the Minister:
GAUSS

893.113/1544

Memorandum by the Assistant Chief of the Division of Far Eastern Affairs (Hamilton) of a Conversation With the Chinese Minister (Sze) ²

[WASHINGTON,] April 28, 1934.

Acting on the authorization of Mr. Phillips ³ and Mr. Hornbeck,⁴ Mr. Hamilton referred to Dr. Sze's note to the Department under date April 20, 1934, in regard to the shipment to China of arms and munitions of war and, as more fully explained in the attached memorandum of April 26, 1934,⁵ called Dr. Sze's attention to the constant wish of the American Government to cooperate with the Chinese Government in effectively controlling the shipment to China of arms and munitions of war. Mr. Hamilton stated that, in considering the request made of the Department to the effect that export licenses be withheld unless the arms and munitions of war in question are covered by official *huchaos* of the Central Government or permits from the Chinese Legation, the Department desired to be more adequately informed in regard to the factors underlying such a request; that according to the Department's records there would appear to be no basis for the statement contained in the *aide-mémoire* of the Chinese Minister of War to the effect that large purchases have been made of American aircraft by provinces not under the complete control of the Central Government; that, judging by past experience, compliance with the request contained in the Chinese Legation's note of April 20, 1934, would place American shippers to south China under a serious handicap, particularly with regard to their British competitors; that the Department wishes to know whether the Chinese Government has made of other governments requests in regard to this subject similar to that made of the American Government; and that confidentially, and entirely off the record, the feeling has been expressed by some individuals that the action of the Chinese Government in regard to this matter may have been Japanese inspired. Mr. Hamilton stated that if in connection with a particular shipment to a particular area the Chinese Government should desire the Department to enforce restrictive measures, such measures could be taken without conflicting with existing regulations. Mr. Hamilton also stated that there are now before the Department for consideration only two applications for export licenses and that as both cover goods destined for the Central Government, and therefore presumably not open to objection, the present intention is to approve of such applications.

² Raymond C. Mackay, of the Division of Far Eastern Affairs, was also present.

³ William Phillips, Under Secretary of State.

⁴ Stanley K. Hornbeck, Chief of the Division of Far Eastern Affairs.

⁵ Not printed.

Dr. Sze recalled the fact that the Department's procedure in regard to the issuance of export licenses for the shipment to China of arms and munitions of war was last year discussed with him and with Dr. T. V. Soong by Dr. Hornbeck.⁶ Dr. Sze asked if in considering applications for export licenses the Department is supplied with information in regard to the consignees in China of the goods in question. Dr. Sze was informed in the affirmative and was given copies of the Department's form of application. Dr. Sze made certain penciled notes in regard to the Department's desire for additional information and in his remarks at leave-taking created the impression that he would at once communicate with his Government by telegraph.

M[AXWELL] M. H[AMILTON]

893.113/1533 : Telegram

The Counselor of Legation in China (Gauss) to the Secretary of State

PEIPING, May 3, 1934—noon.

[Received May 3—3 : 10 a.m.]

199. Legation's 196, April 28, noon and 197, April 30, noon.⁷ Following telegram has been received from the Minister at Nanking:

"May 2, 5 p.m. Vice Minister for Foreign Affairs asked me to inform the Department that identic notes were addressed to other interested powers on April 21 and that China hoped the United States would assist in preventing shipments [of] arms not covered by Chinese Government *huchau*. During conversation with General Chiang Kai-shek⁸ at Kuling latter also expressed similar hope."

GAUSS

893.113/1545

Memorandum by the Assistant Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] May 7, 1934.

The Chinese Minister called and said that he had received a telegram from the Chinese Government stating that the Chinese Government requirements were that exporters of arms to China from foreign countries must obtain prior to export a *huchao* from the Chinese

⁶ See point 4 of memorandum dated May 19, 1933, handed to Dr. Soong by Dr. Hornbeck, *Foreign Relations*, 1933, vol. III, p. 528.

⁷ Telegram No. 197 reported: "British Legation has received similar note." (893.113/1532)

⁸ Chairman of the Chinese Military Council and Commander in Chief of the Army, Navy, and Air Forces.

Government or a permit from the Chinese Legation concerned. The Minister said also that the Foreign Office had pointed out that the new requirements were inaugurated because of conditions in south-west China. The Minister asked that this factor in the situation be treated as strictly confidential. He said that the Foreign Office telegram instructed him to urge the State Department to act in conformity with the Chinese request in regulating the export of arms from the United States to China in order that stability in China might be increased. The Minister said further that the Foreign Office telegram indicated that the Chinese Government was appreciative of the cooperative efforts of the American Government in the past in this matter and that the Chinese Government had addressed to all interested powers a request similar to that addressed to the American Government.

I explained to the Minister that we were preparing a telegram to Minister Johnson requesting Minister Johnson to inform the Chinese Foreign Office that we were inclined to acquiesce in the request made by the Chinese Government but that before making final decision we wished to be informed in regard to the attitude and action of the governments of other important arms exporting countries. I inquired of the Minister whether he wished to have us make our inquiries through him or through Minister Johnson in Peiping. Dr. Sze replied that he preferred that we make the inquiries through Minister Johnson. I then said that we would endeavor to keep him informed with regard to any action taken by the Department and in regard to our final decision.

M[AXWELL] M. H[AMILTON]

893.113/1533 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, May 8, 1934—1 p.m.

141. Legation's telegram No. 199 of May 3, noon, and previous telegrams, concerning the recent regulations of the Chinese Government in regard to the importation of arms.

The Minister, in his telegram to the Legation of May 2, 5 p.m., expresses the hope of the Vice Minister for Foreign Affairs that this Government will assist the Chinese Government in preventing shipments of arms not covered by a Chinese Government *huchao*. I am in receipt of a note of April 20 from the Chinese Minister, making a similar request, but differing from that of the Foreign Office in that request is made that shipments be prohibited unless either a *huchao*

from the Government at Nanking or a permit from the Chinese Legation in Washington has been obtained.

Inform the Minister that he is requested to obtain if possible from the Foreign Office a list of the powers to which the identic notes, mentioned by the Vice Minister, were addressed. On receipt of this list, he should request the appropriate representatives of the powers so addressed for an expression of the views of their respective governments, at the same time informing them of the procedure in regard to the export of arms now being followed by this Government, which is explained in instruction No. 1123 of July 13, 1933.⁹ He may add that we are disposed to accede to the request of the Chinese Government as outlined by the Chinese Minister in his note of April 20. Compliance with this request would involve a return to the former procedure of this Government which was explained in instruction No. 974 of January 16, 1933.¹⁰ He may add further that before arriving at a final decision this Government desires to be informed in regard to the attitude and action taken by the governments of other arms exporting countries.

Department desires that the Minister inform the Foreign Office that we are considering its request and are disposed to comply with it, pointing out, however, that our decisions may be influenced to some degree by the decisions of the other governments referred to above. He should also invite the attention of the Foreign Office to the discrepancy between the request made in Nanking and that made by the Chinese Minister in Washington, pointing out that the alternative procedure suggested by the latter would appear to be preferable in that its administration would be simpler and it would obviate the long delays in the issuance by the Department of export licenses which would inevitably result from the procedure suggested by the Foreign Office. He should further state the Department's assumption that the new requirements will not be made applicable to shipments already en route. He should express the hope that the new requirements shall not be held to be applicable to goods for the trade, such as for example sporting arms, pointing out that such shipments are of relatively small value and that this Government requires a license for the export to China of these articles, but that even prior to June 30, 1933, when the procedure was altered, permits from the Chinese Legation were not prerequisite to the issuance of export licenses.

Report fully by telegraph.

HULL

⁹ *Foreign Relations*, 1933, vol. III, p. 564.

¹⁰ *Ibid.*, p. 559.

893.113/1535: Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, May 15, 1934—11 a. m.

[Received 11:25 a. m.]

209. Department's 141, May 5 [8], 1 p. m. was repeated to the Minister at Nanking. Following telegram has been received from the Minister:

"May 14, 10 a. m. Foreign Office gives following list of countries to which identic note was sent in addition to ourselves with each country's reaction thus far known:

'Belgium (no reply), Great Britain (willing to act upon China's request), Czechoslovakia (reply indicates Czechoslovak merchants have already been informed), France (French Government replied it had advised manufacturers and shippers to abide by rules of Chinese Government), Germany (cannot export arms but shipments may pass in transit), Italy (will exercise absolute control over exportation of arms into China in accordance with wishes of Chinese Government), Japan (no reply), Norway (reply indicates Norwegian Government already advised merchants), Spain (already notified authorities concerned), Sweden (has never permitted exportation of arms to China without approval of Chinese Government), Switzerland (already notified authorities concerned but Swiss Government seems to have peculiar laws on exportation of arms).'

I suggest that the Legation proceed to consult representatives of above-mentioned countries for purpose of complying with Department's request contained in paragraph 2 of Department's telegram.

I communicated Department's message to political Vice Minister Hsu Mo who stated that Foreign Office preferred to follow both methods represented in paragraph 3 Department's telegram using permit of Chinese Minister in Washington when time will not permit of obtaining *huchau* from Nanking. General procedure would be for shipper to obtain *huchau* in Nanking which would have to accompany shipment from the United States after being visaed by Chinese Minister at Washington. Foreign Office assumes that shipments already en route are accompanied by regular *huchau*. I understand that procedure above described refers specifically to military arms. Present practice regarding sporting arms unchanged."

Legation is consulting other Legations in Peiping and will report later.

For the Minister:

GAUSS

893.113/1536: Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, May 17, 1934—1 p. m.

[Received May 17—9:10 a. m.]

213. Legation's 209, May 15, 11 a. m., final paragraph. Inquiry has been made of Belgian, British, French, German, Italian, Japanese

and Spanish Legations. None of the other powers concerned have offices at Peiping. No Legation has any definite information as to attitude its Government will assume. French Chargé d'Affaires repeated note to his Foreign Office with request for instructions and was informed that similar note had been received from Chinese Minister at Paris and action would be taken there. British Legation says that exportation has been permitted only under authority of the Board of Trade which is issued only on presentation of Chinese Central Government's permit. British Government was understood to be contemplating modification of this procedure along the lines of recent American procedure when the Chinese note was received. German Legation has repeated note to consular officers for information of merchants. Belgian Counselor of Legation has not received note which was probably delivered to Nanking office. No information on the attitude of his Government. Japanese and Italian Legations have no information on attitude which will be taken by their Governments. Spanish Legation has mailed note to Madrid.

For the Minister :
GAUSS

893.113/1538 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, May 19, 1934—3 p. m.
[Received May 19—11:50 a. m.]

218. Legation's 213, May 17, 1 p. m. The Legation has been informed by the British Legation that British Minister in conversation with Acting Minister for Foreign Affairs gave assurances that British Government would continue present policy provided Chinese Government would enforce its import regulations and provided other countries complied with Chinese request but that if it develops that other countries disregarded Chinese request or that Chinese Government could not enforce its regulations then British Government might find it desirable alter policy.

For the Minister :
GAUSS

893.113/1541

Statement Issued by the Department of State, May 28, 1934

REVISED REGULATIONS IN REGARD TO THE EXPORT TO CHINA OF ARMS AND
MUNITIONS OF WAR

In order to make clear the American Government's position in reference to the exportation of arms from the United States to China, the Secretary of State announces that the exportation of arms and

munitions of war from the United States to China has been governed and will continue to be governed by the President's Proclamation of March 4, 1922, issued in pursuance of the Joint Resolution of Congress approved January 31, 1922.¹¹

Under the provisions of the Joint Resolution and of the President's Proclamation it is, until otherwise ordered by the President or by Congress, unlawful to export to China "except under such limitations and exceptions as the President prescribes, any arms or munitions of war from any place in the United States". By the provisions of the Proclamation the Secretary of State is authorized to prescribe the limitations and exceptions to the application of the Resolution.

In accordance with the authority thus conferred upon him, the Secretary of State announces that exportation of arms and munitions of war for the use of Chinese official authorities (including those of subdivisions) will be permitted when (a) an application for license to export has been submitted by the firm or firms in the United States which desire to make shipment and (b) the Department of State has been informed through appropriate diplomatic channels (ordinarily, the Chinese Legation in Washington) that it is the desire of the Chinese Government that export of the shipment be authorized.

The question of bringing about notification to the Department of State, through the Chinese Legation, that the Chinese Government desires that export of a shipment be authorized is a matter with regard to which the initiative and responsibility lie with the Chinese Government and the potential shipper.

In connection with license to export, the Department of State provides a form of application for license and requires that application be submitted to the Department on such forms fully filled out by the prospective exporters.

Export licenses will be required henceforth for the exportation to China of the following articles:

1. Arms and small arms of all kinds, other than those classed as toys, and spare parts thereof.
2. Guns, machine guns, and spare parts thereof, and gun grease.
3. Gun mountings and limbers; tanks, armored motor cars, armored trucks, and armor plate.
4. Shot, shells and cartridges for arms and small arms, both loaded and empty, and their component parts.
5. Projectiles, charges, cartridges, and grenades of all kinds and their component parts.
6. Machinery, such as cartridge-making machines, specially manufactured for use in making arms and ammunition.
7. Explosives as follows: Gun powders, smokeless powders, blasting powders, all forms of high explosives including dynamite, nitro-

¹¹ *Foreign Relations*, 1922, vol. I, p. 726.

glycerine and TNT, and blasting materials, fuses, detonators and other detonating agents.

8. Land and submarine mines, bombs and torpedoes.

9. Tear gas ($C_6H_5COCH_2Cl$) and other non-toxic gases and apparatus designed for the storage or the projection of such gases. (No licenses will be issued for toxic gases and flame acids or for apparatus designed for their storage or projection.)

10. Range finders and gun-sighting apparatus and their component parts.

11. Radio apparatus designed expressly for military use.

12. Military aircraft (including all types of aircraft fitted with armor, guns, machine guns, gun mounts, bomb dropping or other military devices) together with spare parts and equipment therefor.

13. Vessels of war of all kinds.

14. Other equipment for military purposes.

In connection with the foregoing, it is the understanding of the Department of State that the Chinese Government is now exercising strict control over the import into China of arms and munitions of war; that the Chinese Government requires that shipments from abroad of arms and munitions of war be covered by permits issued by the appropriate authorities in China; and that such permits be submitted to the Chinese diplomatic mission in the country of export for examination and certification prior to the shipment of the goods under consideration. In the absence of sufficient time to permit American exporters to obtain required import permits from the Chinese Government and to forward such permits to the Chinese Legation at Washington, it is understood that the Chinese Government will give consideration to requests received from the representatives in China of American exporters for the transmission by telegraph to the Chinese Legation in Washington of information to the effect that the Chinese Government has issued the necessary import permit and that it desires that the export from the United States of the goods in question be authorized by the Department of State.

893.113/1538 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, May 28, 1934—8 p. m.

156. Your 218, May 19, 3 p. m., and previous, in regard to the export of arms and munitions to China.

1. You are authorized to inform the Chinese Foreign Office¹² in reply to its note of April 21 that the American Government will continue, as heretofore, to exercise strict control over the export to

¹² The Legation's note to the Foreign Office in accordance with this instruction was dated June 4, 1934 (893.113/1552).

China from the United States of arms and munitions of war; and that in response to the request contained in the Foreign Office's note under reference and in a note received by the Department of State, under date April 20, from the Chinese Minister at Washington, the regulations governing the exportation from the United States of arms and munitions to China, as amended, now provide that exportation will be permitted when (a) an application for license to export has been submitted by the firm or firms in the United States which desire to make shipment and (b) the Department of State has been informed through appropriate diplomatic channels (ordinarily, the Chinese Legation in Washington) that it is the desire of the Chinese Government that export of the shipment be authorized. You should add that the American Government effects this change in procedure upon the understanding that the Chinese Government will enforce its regulations uniformly in respect to all imports of arms and munitions of war irrespective of source and in such manner as to insure that American exporters will not be placed at a disadvantage as compared with exporters of other nationalities.¹³

2. In informing consulates in China and at Hong Kong of the foregoing please request all consular officers to follow with care the situation in regard to the import into China of arms and munitions of war and to report promptly to the Legation and to the Department important developments, especially those which may indicate that the Chinese regulations, as enforced, result in placing American exporters at a disadvantage as compared with their principal foreign competitors. In this connection the Consulates General at Hong Kong and Canton should study carefully British procedure at Hong Kong particularly with a view to ascertaining whether *huchaos* issued by the Canton Government are acceptable to the British authorities and whether such authorities continue in their past practice of considering all aircraft as commercial, and therefore not subject to restrictions unless actually armed at the moment of importation.

HULL

893.113/1541

*The Acting Secretary of State to the Secretary of Commerce (Roper)*¹⁴

WASHINGTON, June 2, 1934.

MY DEAR MR. SECRETARY: Referring to my letter of July 13, 1933,¹⁵ in regard to the exportation of arms and munitions of war from the

¹³ The above was reported by the Department's note of June 1, 1934, to the Chinese Minister in reply to his note of April 20, p. 490 (893.113/1541).

¹⁴ The first two paragraphs of this letter were sent on June 2 to the Secretary of the Treasury.

¹⁵ Not printed.

United States to China, I enclose herewith for your information two copies, dated May 28, 1934, of Revised Regulations in Regard to the Export to China of Arms and Munitions of War.¹⁶

In this connection you will note that, under the regulations now in force, this Department requires, as a condition precedent to the issuance of an export license, that it shall have received through appropriate diplomatic channels a request from the Chinese Government that the shipment in question be permitted.

Although it is the intention of this Department, as occasion arises, to inform interested American firms and individuals in regard to the altered procedure governing the exportation to China of arms and munitions of war, it is deemed advisable that no general publicity be given the matter, and the cooperation of your Department in this regard will be appreciated.

Sincerely yours,

WILLIAM PHILLIPS

893.113/1557

The Minister in China (Johnson) to the Secretary of State

No. 2774

PEIPING, June 7, 1934.

[Received July 23.]

SIR: I have the honor to refer to the Legation's despatch No. 2759, June 4, 1934,¹⁷ in regard to the export of arms and munitions of war to China, and to enclose for the completion of the Department's files copies of memoranda of conversations¹⁸ upon this subject.

The Department's attention is particularly invited to enclosure No. 6,¹⁸ being a memorandum of conversation between an officer of this Legation and the First Secretary in charge of the Peiping office of the Japanese Legation, from which it will be seen that the Japanese position in the matter is that they will not acquiesce in what they call the Chinese effort unilaterally to impose additional restrictions in a matter already regulated by joint rules—the joint rules referred to being Rule III of the 1902 Tariff¹⁹ and the 1908 regulations governing the importation of arms and ammunition into China.²⁰

There is also enclosed a copy of a letter from Dr. Hsu Mo, Political

¹⁶ *Ante*, p. 497.

¹⁷ Not printed; it transmitted copies of Legation's note to the Foreign Office and instructions to consular officers in accordance with Department's telegram No. 156, May 28, 8 p. m., p. 499.

¹⁸ Not printed.

¹⁹ Signed at Shanghai, September 6, 1902; see Annex III, "Treaty Between the United States and China for the Extension of the Commercial Relations Between Them," and attached schedule of tariff duties, *Foreign Relations*, 1903, pp. 100, 101, 118.

²⁰ Dated May 30, 1908, MacMurray, *Treaties*, 1894-1919, vol. I, p. 737.

Vice Minister for Foreign Affairs,²¹ confirming previous assurances that sporting arms and ammunition would not be affected by the regulations governing the importation of munitions of war.

Respectfully yours,

NELSON TRUSLER JOHNSON

893.113/1563

The Minister in China (Johnson) to the Secretary of State

No. 2810

PEIPING, June 27, 1934.

[Received August 6.]

SIR: I have the honor to refer to the Legation's despatch No. 2309, September 29, 1933,²¹ in regard to the importation into China of arms and munitions of war for the armed forces of the United States, and to the Department's instruction in reply No. 1244, November 24, 1933,²² approving the action proposed by the Legation, namely to reply to the Chinese Government, if pressed to do so, to the effect that the Legation would be glad to give consideration from time to time to requests of that Government for statistical information in regard to American armed forces in China, but that with regard to the request of the Chinese Government for information regarding the importation of supplies for such forces, the Legation did not find it practicable to obtain and submit to that Government in advance lists of such supplies, but that, as heretofore, where necessary, proper certificates would be made by American consular officers for the importation of supplies through the customs at the several ports.

Although the Ministry of Foreign Affairs has not pressed for a reply to its previous note,²³ under date April 20, 1934, it addressed a further note upon this subject to the Legation. A translation of this note is enclosed.²⁴ Other interested Legations have received similar notes.

This note of the Ministry of Foreign Affairs encloses a set of regulations governing duty exemption on articles other than munitions of war imported into China for the use of foreign armed forces stationed in China, and requests compliance therewith.

The regulations provide: 1) that all applications for the duty-free importation of supplies for the foreign armed forces must be submitted directly by the forces concerned to the appropriate customs authority; 2) that so-called luxuries shall not be exempted from the payment of duty; 3) that supplies imported duty-free must be consumed on the premises of the military or naval establishment

²¹ Not printed.

²² *Foreign Relations*, 1933, vol. III, p. 565.

²³ Dated August 15, 1933; not printed.

or vessel; 4) that a semi-annual report in advance of the requirements of all armed forces in China must be submitted by the Legation concerned to the Ministry of Foreign Affairs—provision is, however, made for supplement lists; and 5) that “duty-free privileges” will be withdrawn from any armed forces where they have indulged in malpractices.

Copies of the translation of this note were supplied by the Legation to the Naval and Military Attachés, and through the Consuls General concerned to the interested commanders of the various armed forces of the United States in China, and their comments were requested. Their replies, copies of which are enclosed,²⁴ uniformly stress the impracticability of the regulations and their repugnance to the integrity of the various commands. Although each commander, depending upon the peculiar status of his command in China, has specific grounds for denying the right of the Chinese Government to interfere in any way with the importation of supplies for the use of his forces, the Legation is inclined to believe that Colonel Burt,²⁵ in command of the 15th Infantry in Tientsin, has given sufficient basis for a complete refusal to acquiesce in the enforcement of the regulations when he says that he finds the regulations to be totally inconsistent with the fundamental rule of International Law that troops in occupation of foreign territory are wholly without the jurisdiction of the territorial sovereign.

There are also enclosed copies of memoranda of conversations between members of the staff of the Legation and those of other interested Legations in Peiping.²⁴ From these memoranda, the Department will note that no Legation, other than the Japanese, has reached a decision as to the nature of the reply, if any, that they will make to the Ministry of Foreign Affairs. Each Legation concerned has expressed the opinion that it would be impracticable to comply with the regulations in their present form, but only the Japanese Government appears to have reached a definite decision in the matter.

From the memoranda of conversations with officers of the Japanese Legation (Enclosures Nos. 12 and 14) there would appear to be no doubt that the Japanese Government has replied to the Chinese Government categorically rejecting the proposed regulations for the reason that they represent restrictions imposed unilaterally by China without prior consultation with the interested Powers.

As no date appears to have been set for the enforcement of the regulations and as no complaints have been received from foreign armed forces in China, the whole matter appears for the time being to be

²⁴ Not printed.

²⁵ Col. Reynolds J. Burt, United States Army.

quiescent. Each interested Legation has agreed to inform each other interested Legation when its attitude has been determined, but so far no one other than the Japanese has replied to the Foreign Office.

However, as these regulations would appear to represent a formal effort of the Chinese Government to assert an authority to impose regulations on the armed forces of the United States in China, the Legation believes that a reply should be made to the Ministry of Foreign Affairs, and it believes that this reply should contain the mere statement that while careful consideration has been given to the regulations, they have been found to be impracticable.

We might add that, as heretofore, where necessary, proper certificates will be issued by the American consular, military, and naval authorities to cover importations of supplies through the customs at the several ports, and that the American authorities, being desirous of preventing any improper practices and any misuse of supplies imported for military and naval use, will give attentive consideration to and cause strict investigation to be made of any complaints of such improper practices and misuse of supplies which may be received from the appropriate Chinese authorities.

Respectfully yours,

NELSON TRUSLER JOHNSON

893.113/1561

The Consul General at Hong Kong (Jenkins) to the Secretary of State

No. 942

HONG KONG, June 30, 1934.

[Received August 4.]

SIR: I have the honor to refer to Circular No. 287, of June 4, 1934, from the American Minister at Peiping,²⁷ in respect to the shipment of arms and munitions to China. It is observed that the Chinese Government has recently asked that the exportation of munitions of war to China be prohibited, unless covered by a permit from the Chinese National Government.

Reference is also made to a strictly confidential letter dated June 4, 1934, from the American Minister at Peiping²⁷ calling attention to a special instruction from the Department directing this Consulate General and the Consulate General at Canton to study British procedure at Hong Kong in connection with the movement of arms and munitions (including aircraft) through this port to China.

In reply, the writer has to report that he recently discussed this matter of the shipment of arms to China informally with the Colonial

²⁷ Not printed.

Secretary, Sir Thomas Southorn. Sir Thomas said that the new note from China would not affect British policy, which was substantially as follows:

1. The exportation of arms and munitions of war to China from Great Britain was prohibited except with a permit from the Nanking Government.

2. The policy of the Hong Kong Government, however, was not the same as that of Great Britain. The Hong Kong Government permitted through shipments to Canton and elsewhere in China in accordance with the provisions of the Barcelona Convention.²⁸ No Nanking permit was, Sir Thomas said, required for these shipments. Sir Thomas added that there were many through shipments from various foreign countries which did not take the same attitude as Great Britain and the arrangement was to the disadvantage of British trade.

3. According to Sir Thomas, Nanking Government permits are required for shipments from Hong Kong to Canton, other than through shipments.

The writer of this despatch also talked with Mr. J. W. Fisher, leading American airplane salesman in South China. Mr. Fisher's version of the present regulations covering shipments from Hong Kong varies slightly from Sir Thomas Southorn's. According to Mr. Fisher the Hong Kong Government requires either Nanking or Canton (South West Political Council) permits for the export of arms and munitions (including armed planes) to China. Mr. Fisher confirmed Sir Thomas' statement that Nanking permits are required for exports from Great Britain.

According to Mr. Fisher, both the British and Hong Kong Governments class armed planes as munitions of war, and an armed plane is one actually fitted with arms or having provision for arms, such as mountings for guns or bomb racks. The latter cannot be shipped from Hong Kong to China without permits from Nanking, or Canton, as the case may be. This would appear to mean that the British Government will permit the exportation to China of aircraft of military type provided such craft is without arms or mountings for arms.

Mr. Fisher feels that the Hong Kong authorities are fair and honest in the administration of the regulations for the export of arms and planes. He says that about 70 military planes of American origin have passed through Hong Kong for Canton during the past two years. However, he added that Canton was "full" of British-made anti-aircraft guns and other British war materials. How these happened to get out of England, he did not know.

²⁸ Signed April 20, 1921, League of Nations Treaty Series, vol. VII, p. 11.

In conclusion, the attention of the Department is invited to a number of despatches in 1932 from this office²⁹ discussing the question of arms shipments and aircraft to China.

Respectfully yours,

DOUGLAS JENKINS

893.113/1565

The Vice Consul at Yunnanfu (Reed) to the Secretary of State

No. 199

YUNNANFU, July 21, 1934.

[Received September 4.]

SIR: In accordance with the Legation's Confidential Circular No. 287, dated June 4, 1934,³⁰ concerning the regulations to be enforced for the exportation of arms and munitions of war to China, in which it was instructed that the Department and Legation should be informed of any circumstance which made such regulations inequitable and placed American exporters at a disadvantage, I have the honor to transmit herewith copies in quintuplicate of this Consulate's Despatch No. 176 to the Legation, dated July 21, 1934.³⁰

As far as the authorities in Yunnan are concerned there is no discrimination between importers of the various nationalities and the Provincial Government would be pleased to issue its temporary "huchao" for the importation of American, British, and other, arms, munitions of war, and/or airplanes. The Chinese Maritime Customs would presumably accept such a temporary "huchao" or guarantee. But the Government of Indo-China, while contenting itself with a "laissez passer" from the French Consul at Yunnanfu for the exportation of French items, would, if past experience be any criterion, seriously oppose transit of non-French items without the production of an actual Central Government "huchao".

Since the enclosed observations may be of interest to other Departments of the United States Government, quintuplicate copies are enclosed.

Respectfully yours,

CHARLES S. REED II

893.113/1562

The British Chargé (Osborne) to the Secretary of State

No. 265

WASHINGTON, August 4, 1934.

SIR: As the United States Government are aware the Chinese Government announced in 1930³¹ that the import of arms into China

²⁹ See *Foreign Relations*, 1932, vol. iv, pp. 580-596 *passim*.

³⁰ Not printed.

³¹ See telegram No. 317, May 9, 1930, 4 p. m., from the Minister in China, *Foreign Relations*, 1930, vol. II, p. 619.

would not be considered legitimate unless the Nanking Government had expressly approved, through their diplomatic representative in the exporting country, each particular consignment. His Majesty's Government in the United Kingdom have always cooperated with the Chinese Government in this respect and have effectively prevented exports from Great Britain unless the approval of the Chinese Minister in London had first been obtained.

2. They have recently been urged to abandon this procedure in view of the fact that other Governments were not acting in a similar manner. The result of this lack of cooperation has been that foreign firms have been able to secure orders which were denied to their British competitors. If this situation continues, His Majesty's Government will be driven to relax their own practice which, in the circumstances, can be of no benefit to China while it imposes an unfair handicap on British trade.

3. His Majesty's Government have however just been informed that the Governments of the United States, France, Italy, Germany, Switzerland, Spain, Belgium, Norway, Sweden, Czechoslovakia and (with an unimportant reservation) Japan, are prepared to prevent the export of arms to China, except in cases approved by the central Chinese Government.

4. In accordance with instructions received from His Majesty's Principal Secretary of State for Foreign Affairs, I have the honour to enquire whether the information in the preceding paragraph is correct in so far as the Government of the United States is concerned. His Majesty's Government are further anxious to learn whether the United States Government are either already limiting, or forthwith proposing to limit, exports as has hitherto been done by His Majesty's Government. If such is the case, His Majesty's Government are anxious to learn what categories of armaments are covered, whether they include aircraft in any or all forms and by what methods the United States Government are effectively securing or intend to secure the result aimed at.

5. The object of His Majesty's Government is to ensure that their own practice shall conform to the practice which actually prevails in the case of other foreign sources of supply. They would be glad to maintain their present practice, provided that their foreign competitors follow the same restrictive course and the purpose of the present enquiry to ascertain the actual position in the United States and in other countries before a final decision is taken as to future British policy.

6. I shall be grateful if you will be good enough to furnish me with a reply at an early date as His Majesty's Government regard the matter as one of urgency.

I have [etc.]

D. G. OSBORNE

893.113/1562

The Secretary of State to the British Chargé (Osborne)

WASHINGTON, August 10, 1934.

SIR: The receipt is acknowledged of the British Embassy's note No. 265 of August 4, 1934, inquiring whether information to the effect that the American Government is prepared to prevent the export of arms to China, except in cases approved by the central Chinese Government, is correct, and, if so, what categories of armaments are covered, whether they include aircraft in any or all forms and by what methods the American Government is seeking effectively to attain the desired end.

In reply I may say that since March 4, 1922, the American Government has controlled the export to China from the United States of arms and munitions of war in conformity with the Proclamation of President Harding of that date, issued in pursuance of the Joint Resolution of Congress approved January 31, 1922, and that the limitations prescribed operate to restrict very closely the exportation to China of munitions of war. A copy of the Proclamation of March 4, 1922, is enclosed.³²

The Chinese Minister at Washington addressed a note to the Department, under date April 20, 1934, and the Chinese Minister for Foreign Affairs addressed a similar note under date April 21 to the American Minister at Peiping,³³ stating that the shipment of munitions of war from abroad into China should be covered by permits formally issued by the Central Government and that these permits should be submitted to the Chinese diplomatic mission in the country of export for examination and certification prior to the time of shipment. In reply to these notes, the Department authorized the American Minister at Peiping to inform the Chinese Ministry of Foreign Affairs that the American Government would continue, as heretofore, to exercise strict control over the export to China from the United States of arms and munitions of war; and that the regulations governing the exportation from the United States of arms and munitions of war, as amended, now provide that exportation will be permitted when (a) an application for license to export has been submitted by

³² See *Foreign Relations*, 1922, vol. I, p. 726.

³³ See telegram No. 196, April 28, from the Minister in China, p. 491.

the firm or firms in the United States which desire to make shipment and (b) the Department of State has been informed through appropriate diplomatic channels (ordinarily, the Chinese Legation in Washington) that it is the desire of the Chinese Government that export of the shipment be authorized. The American Minister to China was instructed to state also that the American Government effected this change in procedure upon the understanding that the Chinese Government would enforce its regulations uniformly in respect to all imports of arms and munitions of war irrespective of source and in such manner as to insure that American exporters would not be placed at a disadvantage as compared with exporters of other nationalities.

The present procedure of the American Government and a list of the articles for which licenses are required for exportation to China are set forth in a statement issued by the Department of State under date May 28, 1934, entitled "Revised Regulations in Regard to the Export to China of Arms and Munitions of War". A copy of that statement is enclosed,³⁴ together with a form of application for license to export.³⁵

I may say also that with a view to making as effective as practicable our control of the export to China of arms and munitions of war, we have for a number of years proceeded upon the presumption that under present political conditions in China shipments from the United States to Hong Kong and Macao of arms and munitions of war are destined for China and unless that presumption can be overcome by the exporter in the United States, the exporter has been required to make application for license to export.

The present procedure of the American Government in regard to the export to China of arms and munitions of war is substantially that which has been followed for a number of years. In this connection there are enclosed copies of statements issued on this subject by the Department of State under dates June 2, 1930,³⁶ and June 30, 1933.³⁷ By reference to these statements you will note that the procedure now in effect is practically identical with that set forth in the statement of June 2, 1930. In 1933 the American Government effected a change in the procedure, providing that exportation of arms and munitions of war for the use of Chinese official authorities (including those of subdivisions) would be permitted in all cases with regard to which the firm or firms in the United States desiring to make shipment had submitted to the Department of State an application for

³⁴ *Ante.* p. 497.

³⁵ Not printed.

³⁶ Department of State, *Press Releases*, June 7, 1930, p. 273.

³⁷ *Foreign Relations*, 1933, vol. III, p. 563.

license to export and with regard to which the Chinese Government had not through authorized channels made to the Department of State request that shipment be not permitted. This change was effected primarily to remove the disadvantages under which American exporters to China were placed in comparison with exporters of other nationalities. These disadvantages were apparent particularly in reference to the export trade to South China and resulted largely from the facts (a) that the Hong Kong authorities appeared willing to permit shipments to China on the basis of import permits issued by local Chinese authorities, (b) that the British Government, due to the provisions of the Barcelona Convention, was unable to exercise control over transit shipments through Hong Kong, and (c) that there existed lack of uniformity in interpretation among various exporting nations as to what constituted military aircraft. I may add that before inaugurating the change in procedure set forth in the statement of June 30, 1933, we made a number of inquiries of the British Government in regard to British regulations and procedure applicable to the import into South China via Hong Kong of arms and munitions of war.

With regard to the British Embassy's inquiry as to what methods the American Government proposes to follow to the end that the results aimed at may be attained, it may be said that the Department and American diplomatic and consular officers in China are following with care important developments in the situation in regard to the import into China of arms and munitions of war and are giving special heed to the question whether the Chinese regulations, as enforced, result in placing American exporters at a disadvantage as compared with their principal foreign competitors. The concern of the American Government in this connection is similar to that of the British Government, namely, we desire to prevent the development or the continuance in China of conditions of domestic violence and to cooperate with the Chinese Government in its efforts to maintain an effective control of the import into China of arms and munitions of war. At the same time we would not wish that American exporters of such commodities be placed at a disadvantage as compared with their principal foreign competitors. In this connection I may say that one of our principal difficulties has arisen from what I understand to have been the practice of the British Government to consider all aircraft as commercial, and therefore not subject to restriction, unless actually armed at the moment of importation into China. This Government has regarded and continues to regard as military aircraft (a) all types of aircraft actually fitted with armor, guns, machine guns, gun mounts, bomb dropping or other military devices,

and (b) aircraft presumed to be destined for military use, whether actually fitted with armament or not. The difficulty with which we have been confronted in the past would be removed if the British Government could see its way clear to adopting a substantially similar interpretation in regard to what constitutes military aircraft. I should be glad to be informed in regard to the British Government's decision on this point.

When the British Government has completed its present consideration of the subject of the export to China of arms and munitions of war, I should appreciate being informed in regard to the conclusions reached in the matter.

Accept [etc.]

For the Secretary of State:
R. WALTON MOORE

893.113/1567

*Memorandum by the American Minister in China (Johnson) of a Conversation With the French Chargé in China (Hoppenot)*³⁸

PEIPING, August 11, 1934.

Mr. Hoppenot called and asked me to inform him of what reply we made to the Chinese Government in response to its request of last April regarding control of shipments of munitions of war. I read to Mr. Hoppenot the text of our reply to the Chinese Government dated June 4, 1934.³⁹ Mr. Hoppenot stated that his Government had requested the information, and he would duly inform Paris. He said that our reply apparently was very similar to the British reply, although the British had indicated in their reply that at the expiration of a certain time they proposed to reconsider their attitude should they find that British merchants were suffering in comparison with others.

Mr. Hoppenot stated that French arms dealers had large contracts with Kwangtung and Kwangsi; that in defense of their activities they asserted that if they did not sell, Czechoslovakia would. I understood him to say that French arms manufacturers had recently concluded a contract for \$2,000,000 for machine guns for Kwangsi. He stated that both Kwangsi and Kwangtung refused to obtain import permits from Nanking, and that importation into and through Canton was quite open, being carried on through Hongkong. He said that the Hongkong authorities were estopped from interfering with the traffic because of the Barcelona Convention governing shipments in transit, and stated that the munitions were taken delivery

³⁸ Copy transmitted to the Department by the Minister in China in his despatch No. 2904, August 14, 1934; received September 8.

³⁹ Not printed.

of by the gunboats controlled by the Cantonese authorities who came down to within the limits of Hongkong to take the cargo.

Mr. Hoppenot expressed the opinion that the only way in which the arms trade could be controlled would be for the Governments to get together and reach some understanding with the Chinese Government whereby the latter would apportion its demands [for purchases] among the producing countries.

NELSON TRUSLER JOHNSON

893.113/1563

The Acting Secretary of State to the Minister in China (Johnson)

No. 1440

WASHINGTON, August 27, 1934.

SIR: Reference is made to your despatch No. 2810 dated June 27, 1934, in regard to the importation of supplies for the armed forces of the United States in China with which you enclosed a copy of a note dated April 20, 1934, from the Foreign Office to the Legation on this subject and copies of correspondence and memoranda of conversations setting forth the views with regard to this note of the interested American military and naval authorities, the American Consuls General at Shanghai and Tientsin and the British, French and Japanese Legations.

The Department has noted from the last two paragraphs of the despatch under reference that the Legation believes that a reply should be made to the Foreign Office note in question to the effect that while careful consideration has been given to the regulations, they have been found to be impracticable, and that the appropriate American authorities will continue when necessary to issue certificates to cover importation of supplies through the customs at the several ports and to give attentive consideration to and cause strict investigation to be made of any complaints which may be received from the appropriate Chinese authorities with regard to any improper practices and any misuse of supplies imported for military and naval use.

In view of the definite refusal of the Japanese Legation to comply with the proposed regulations, the Department is inclined to doubt the need for any reply at this time to the Foreign Office note. However, if there should be substantial agreement among your colleagues as to the desirability of a reply substantially along the lines suggested in your despatch, you are authorized to reply in that sense to the Foreign Office note if and when similar action should be taken by your principally interested colleagues. You will, of course, inform the Department if any of your colleagues should take or propose to take any action materially inconsistent with that authorized herein.

Very truly yours,

WILLIAM PHILLIPS

893.113/1573

The Chargé in China (Gauss) to the Secretary of State

No. 3025

PEIPING, October 11, 1934.

[Received November 3.]

SIR: Referring to the Legation's despatch No. 2904, August 14, 1934,⁴⁰ and to the Hongkong Consul General's despatch to the Department No. 942, June 30, 1934, in regard to the exportation of arms and munitions of war to China, I have the honor to enclose a copy of the Canton Consul General's despatch to the Legation No. 327, September 29, 1934,⁴¹ from which it will be seen that National Government permits (*huchaos*) are not required for airplanes entering Canton, local "huchaos" being sufficient.

The evidence now available indicates that the National Government is unable to enforce its regulations with respect to the importation of arms and munitions of war into territory under the control of the Southwest Political Council or into Yunnan province.

There is no evidence, however, that this inability to enforce its regulations in those regions places American exporters at a disadvantage as compared with the exporters of other nationalities.

Respectfully yours,

C. E. GAUSS

846g.113/199

The Consul at Hong Kong (Gourley) to the Secretary of State

No. 1056

HONG KONG, October 24, 1934.

[Received November 20.]

SIR: I have the honor to refer to the Department's telegram of October 9, 1934,⁴¹ stating that during the past four months the Department has granted export licenses for shipments of 465,000 cartridges, 544 revolvers, and a small quantity of rifles, shells, etc., to three Hong Kong firms (Hong Kong Sporting Arms Store, Outdoor Sports Equipment Company and Ying Tak Kee), the exporters stating that this merchandise is sold only in Hong Kong under license from the Hong Kong authorities. The Department states that in view of the amount and frequency of recent shipments it is desirable to ascertain whether such material is actually finding its way into China, and requests this Consulate General informally to obtain a list of the Hong Kong licenses granted to the above-mentioned firms during the last few months for the sale of such articles. The Depart-

⁴⁰ See footnote 38, p. 511.⁴¹ Not printed.

ment also requests information as to the procedure now followed by the Hong Kong Government in granting licenses for the exportation of arms and munitions of war from Hong Kong to China.

In accordance with the instruction, a brief telegraphic reply based on preliminary investigations was transmitted to the Department on October 18th.⁴⁸ In this connection it may be mentioned that the original code telegram was garbled, and that the requested repeat was not received by this office until October 17th.

The Hong Kong market for arms and ammunition is very limited, the demand being chiefly (1) for the Government forces, and (2) for sporting purposes. The former is entirely supplied by England. There are only seven or eight local stores handling such material, each firm being required to take out an annual license to deal in arms from the police, who exercise strict control over the traffic, and who have complete statistics on imports, exports, stocks on hand, etc. Importers are not required to obtain permits for individual shipments of arms and ammunition; only annual licenses, as stated above, are obligatory. In view of this fact, the exporters' statement to the effect that the recent shipments were to be sold only in Hong Kong under license from the Hong Kong authorities, is subject to interpretation as far as the question of license is concerned; the market in Hong Kong for such quantities does not exist.

According to the police, the procedure now followed by the Hong Kong Government in granting licenses for the exportation of arms and munitions of war from Hong Kong is as follows:

(1) Generally speaking, the exportation of arms and munitions of war to China from Hong Kong, as from Great Britain, is prohibited except with a permit from the Nanking Government.

(2) For exports from Hong Kong to Macau the police require an import permit issued by Macau. It is understood that such permits are easily obtained, but they are said to be expensive. Since Macau is Portuguese and not Chinese, it does not come under Chinese restrictions, of course, and the Hong Kong Government sees no reason for refusing these exports. The police have suspected for some time that a large majority of the shipments to Macau, which are considerable, eventually find their way into China. This Consulate General was confidentially informed that the Governor of Hong Kong has requested that police to maintain a close watch on arms shipments to Macau.

(3) In accordance with the Barcelona Convention of 1921, the Hong Kong authorities do not interfere with through shipments of arms and munitions on a through bill of lading.

(4) Transshipments at Hong Kong are allowed regardless of ultimate destination if the consignee can show by producing the sales contract that the merchandise is really destined elsewhere and that

⁴⁸ Not printed.

Hong Kong is merely a port of transshipment (Barcelona Convention). In the case of China the import permit issued either by Nanking or Canton is accepted under these circumstances.

It will be noted, therefore, that while the Hong Kong authorities may be technically correct in stating that no arms or munitions of war may be exported from Hong Kong to China without a permit from the Nanking Government, there are several ways by which such shipments may pass through Hong Kong en route to Canton. A definite distinction is made between exported and transshipped cargo, and it is clear that the Hong Kong authorities accept the permit issued by the Canton Government when it is a question of transshipment at this port. (See confidential despatch No. 942 of June 30, 1934). According to the police, the following procedure is quite feasible in connection with (4) above: an exporter in the United States might obtain a permit from the Secretary of State on the basis of Hong Kong as the destination of the merchandise, the consignee in Hong Kong might, before the shipment arrives, register the sales contract with the Hong Kong police showing that the merchandise is really destined to Canton, and the shipment would be allowed to pass on a Canton import permit as being transshipped cargo.

The frankly-admitted opinion of the police is that there are too many loopholes, as far as Hong Kong is concerned, for the restrictions on arms imports into China to be effective.

The Hong Kong police have furnished confidential statistics⁴⁴ as to the movement of American arms and ammunition purchased by the Outdoor Sports Equipment Company, Ying Tak Kee, and the Hong Kong Sporting Arms Store during the period June 1 to September 30, 1934. It will be noted (Table A) that (1) the total imports of American cartridges by these three firms were 427,600 rounds; exports to Macau and Canton 274,950 rounds. (2) 68,000 shells were imported; 28,450 shipped to Canton and Macau. (3) 260 revolvers imported; 262 exported to the same destinations.

Table B, relating to the Outdoor Sports Equipment Company, shows that (1) 232,900 cartridges were imported from the United States; 161,050 were exported to Canton. (2) 31,500 shells imported; 22,450 exported to Canton. (3) 129 revolvers were imported; 128 were exported to Canton. There is attached the Outdoor Sports Equipment Company's record of exports for this period. It may also be of interest to note that up until two months ago this firm had a branch in Macau.

Table C indicates that Ying Tak Kee imported 33,200 cartridges from the United States. Exports to Macau 28,900; to Canton 2,000.

⁴⁴ Enclosures not printed.

Table D shows the importation of cartridges by the Hong Kong Sporting Arms Store as totalling 161,500; exports (1) to Macau 63,000, (2) to Canton 20,000. The Consulate General has just been informed that this firm is soon expecting 200,000 rounds of ammunition and 330 revolvers shipped during September from the United States. The police state that practically all of this shipment is to go to Canton.

In view of the circumstances surrounding the arms traffic in Hong Kong, therefore, it would appear that a large part of the American arms material consigned to Hong Kong is in fact finding its way into South China.

Respectfully yours,

L. H. GOURLEY

893.113/1574

Memorandum Prepared in the Division of Far Eastern Affairs ⁴⁵

[WASHINGTON,] October 25, 1934.

SHIPMENT FROM THE UNITED STATES TO CHINA, HONG KONG, AND
MACAO OF ARMS AND MUNITIONS OF WAR

According to the records of the Department there were approved during the period January 1, 1932, to and including October 22, 1934, applications for license to export to China, Hong Kong and Macao arms and munitions of war valued as follows:

1932	\$448, 689. 12
1933	3, 017, 947. 35
1934 to October 23	3, 554, 768. 07
Total	\$7, 021, 404. 54

With regard to declared points of destination, the above total of \$7,021,404.54 may be subdivided as follows:

China

1932	\$448, 689. 12	
1933	2, 973, 927. 75	
1934 to October 23	3, 523, 530. 64	
		\$6, 946, 147. 51

Hong Kong

1932	00	
1933	43, 626. 00	
1934 to October 23	31, 237. 43	
		74, 863. 43

⁴⁵ Submitted by the Under Secretary of State to the Secretary of State by letter dated October 27.

Macao

1932	00	
1933	393. 60	
1934 to October 23	00	
		393. 60
		\$7, 021, 404. 54

(detailed statements attached hereto) ⁴⁶

Exports to China, Hong Kong and Macao of arms and munitions of war valued at \$564,763.12 were approved by the Department during the fourteen months' period January 1, 1932, to March 1, 1933. Exports valued at \$5,072,887.25 were approved during the succeeding fourteen months' period ending April 30, 1934. This sharp increase in the value of arms and munitions of war destined for shipment to China was due entirely to improved conditions within the trade and in no way to a relaxation of the rigid control exercised by the American Government over the export to China of the goods under consideration.

In considering the figures stated above, note should be made of the fact that presumably, but not necessarily, delivery has been made of practically all of the goods covered by export licenses issued by the Department. An outstanding exception, however, is found in the item of 25 Northrop airplanes valued at \$1,034,550 and covered by an export license issued by the Department on October 18, 1934, in connection with which no deliveries to China have been effected. (In informing the Department of this large purchase by the Chinese Government, the Consul General at Shanghai made mention of the reported purchase, also by the Chinese Government, of 50 military planes of Italian manufacture, i. e., double the number of planes ordered of Northrop manufacture.)

Note should also be made of the fact that, with a view to avoiding possible delays at the port of exportation, shippers to China occasionally apply to and receive from the Department a license to export to China materials of a non-military nature such as, for example, commercial airplanes. The result of this practice is an increase in the declared value of shipments to China, Hong Kong and Macao of arms and munitions of war. It is believed, however, that to date the total of such items is not of great consequence.

As of possible interest in connection with the foregoing it may be stated that, according to statistics prepared by the Chinese Maritime Customs, total imports into China during 1933 of arms and ammunition (not including aircraft) were valued at US\$9,063,047 (Cus-

⁴⁶ Not printed.

toms Gold Units (C. G. U.) 17,652,994 at average exchange rate of .5134). According to Department of Commerce figures, the value of exports from the United States to China in 1933 of the commodities named amounted to US\$23,953 or approximately one-fourth of one per cent of China's purchases of arms and ammunition. Thus it would appear that, with the exception of aircraft, the United States serves as a source of supply for only a very small portion of China's purchases of arms and munitions of war.

893.113/1577

The Chargé in China (Gauss) to the Secretary of State

No. 3092

PEIPING, November 2, 1934.

[Received December 1.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction No. 1440, August 27, 1934, in regard to the importation of supplies for the foreign armed forces in China, whereby the Legation was authorized, provided the principally interested Legations acted similarly, to reply to the Ministry of Foreign Affairs, as suggested in the Legation's despatch No. 2810, June 27, 1934, to the effect that the new regulations governing the importation of supplies for the foreign armed forces in China had been carefully examined but that they had been found impracticable, and that the American authorities would continue when necessary to issue certificates to cover importation of supplies through the customs at the several ports and to give attentive consideration to and cause strict investigation to be made of any complaints which might be received from the appropriate Chinese authorities with regard to any improper practices and any misuse of supplies imported for military or naval use.

Shortly after the receipt of the Department's instruction under acknowledgement, this Legation, and the other interested Legations in China, received a further note from the Ministry of Foreign Affairs announcing an intention of enforcing these regulations from January 1, 1935.

The matter was accordingly taken up with the representatives in Peiping of the various interested Legations, and, as a result, communications similar to that authorized by the Department have now been addressed to the Ministry of Foreign Affairs by the American, British, and French Legations. The Italian Legation is forwarding a communication of similar purport but different phraseology, while the Japanese Legation is confining its action to informing the Ministry of Foreign Affairs orally, through its Secretary of Legation at Nan-

king, that it will not acquiesce in the enforcement of the new regulations upon supplies imported for the Japanese armed forces in China. Copies of the American, British, French and Italian draft communications, together with a copy of an informal letter from the Japanese Legation, are enclosed ⁴⁷ for the Department's information.

In connection with the Italian draft, it will be noted that the Italian Minister, while stating that the proposed alterations in the present procedure are not warranted, omits any assurance of a willingness to investigate any complaint of abuse of the present system, and contents himself with the statement that he is willing to give consideration to any necessary modification of the existing regulations which the Chinese Government may consider desirable.

The Japanese action likewise gives no assurance of a willingness to investigate any complaints of abuses.

The Legation has been led to believe from casual comments by officers of the Customs that the Italians and Japanese are the two Powers particularly subject to criticism in connection with this matter.

After the Italian draft and the Japanese position were made known to the Legation, it was decided, in consultation with the British Legation, to forward the American and British memorandums as drafted. The French memorandum, of the same tenor, had already been forwarded to the Foreign Office.

Respectfully yours,

C. E. GAUSS

893.113/1580

The Chargé in China (Gauss) to the Secretary of State

No. 3147

PEIPING, November 20, 1934.

[Received December 15.]

SIR: I have the honor to refer to the Legation's despatch No. 3092, November 2, 1934, in regard to the importation of supplies for the foreign armed forces in China.

Under date of November 8, 1934, the Ministry of Foreign Affairs replied to the Legation's memorandum upon this subject and declared that the Chinese Government had absolutely no intention of controlling or limiting the importation of proper articles for the foreign armed forces in China for their own use, but that during recent years large quantities of articles which were obviously not intended for the use of the armed forces have frequently been imported either intentionally or unintentionally by some persons connected with the foreign armed forces, with a consequent loss of revenue to the Chinese

⁴⁷ None printed.

Government. The Ministry states that the new regulations were designed to remedy this situation, that they are not difficult to carry out, and that they are not contrary to the Sino-foreign treaties. For these reasons, it again expresses an intention of enforcing the regulations at an early date.

Upon the receipt of this note from the Ministry of Foreign Affairs, an officer of this Legation called upon an officer of the British Legation and ascertained that, allegedly unknown to that Legation, the British Consul General at Shanghai, together with the commanding officers of the British armed forces at Shanghai, had discussed this question informally with the Officiating Inspector General of Customs, a British subject, with the result that they had been able to reach an agreement which appeared satisfactory to the Customs as well as to the British authorities. This informal agreement, which has still to be approved by the Commander-in-Chief of the British forces in the Far East before the British Legation will acquiesce therein, provides for a slight modification of the present procedure whereby import declarations would henceforth be submitted in triplicate instead of in single copy as at present. By requiring that the original declarations be transmitted to the Customs by the concerned consular officer under official cover, and that the duplicates be transmitted in a similar manner after delivery of the goods and endorsement thereon by the commanding officer concerned that the goods have been received, the Customs anticipates that it will be able to check all importations in a manner which will prevent alterations in the declarations which it has reason to believe have been made in the past by customs brokers or other agents handling such importations. A copy of the memorandum of conversation is enclosed.⁴⁸

In the light of this information, and in view of the fact that the Maritime Customs appears to have been the organ of the National Government at whose instance this question has been raised, the Legation has deemed it desirable to reply to the Ministry of Foreign Affairs reiterating its position in the matter, but at the same time expressing a willingness to give its sympathetic consideration to any reasonable modification of the present procedure which the National Government may feel is needed in order to protect the revenue by preventing irregular practices.

A copy of this memorandum, and a copy of the Legation's instruction to the Counselor of Legation at Nanking, directing that he deliver the memorandum in person to an appropriate official of the Ministry of Foreign Affairs to whom he should emphasize orally the Lega-

⁴⁸ Not printed.

tion's position in the matter, are enclosed⁴⁹ for the Department's information.⁵⁰

Respectfully yours,

C. E. GAUSS

893.113/1579

The British Ambassador (Lindsay) to the Secretary of State

No. 396

WASHINGTON, December 12, 1934.

SIR: I have the honour to refer to the note which you were good enough to address to me on the 10th August in which you explained the procedure in force with regard to the export from this country of arms to China; and, under instructions from His Majesty's Principal Secretary of State for Foreign Affairs, to make the following communication in reply:—

2. On Page 7 of your note you explained what the United States Government regard as military aircraft and you enquired whether His Majesty's Government in the United Kingdom could see their way to adopt a similar interpretation.

3. The position in regard to the export of aircraft from Great Britain to China is that His Majesty's Government do not require specific licenses to be obtained for the export of unarmed aircraft: and, consequently, the procedure of ascertaining whether the Nanking Government approve export is not applied to this material. His Majesty's Government have in the past been content to divide aircraft into two categories only, namely, armed and unarmed. This practice is well established, and arose from the difficulty of obtaining any exact and comprehensive definition of military aircraft. It enables an objective test to be applied; and for that reason it has proved simple and administratively convenient. His Majesty's Government are of the opinion that any definition which applied a subjective test, e. g. in regard to the aircraft being presumed to be destined for military use, would leave too much scope to the diversities of national or local interpretation.

4. His Majesty's Government are glad to note that the practice of the United States Government conform so closely with their own in the matter of controlling the export of arms to China generally.

⁴⁹ Neither printed.

⁵⁰ The Chargé in China reported in his despatch No. 3170, December 3, 1934, that the Consul General at Nanking had been informed at the Chinese Foreign Office that it had "acted in this matter merely as an intermediary between the Ministry of Finance and the Legations," but that the "proposed change in the regulations governing the importation of supplies for the foreign armed forces in China had been immediately due to the actions of the Japanese forces." (893.113/1581)

However, while they sympathise with the aims of the United States Government in connection with the definition of military aircraft, they do not consider that under existing conditions the application of the stricter procedure in force in the United States is practical; and they therefore propose to continue to regulate the export of aircraft to China by their present export procedure under which a licence is not required for unarmed aircraft. They are convinced that it will be best for the present to concentrate on securing the agreement of other governments to the application of a uniform procedure to what is clearly war material.

5. The Chinese Government have not in fact so far addressed to His Majesty's Government any representations with regard to the export of unarmed aircraft; but if, at any time, representations in this sense should be made, His Majesty's Government will be prepared to reconsider the matter, provided that it is clear that a general international agreement for the further restriction of such exports could be obtained under conditions which could not be abused.

6. When on Page 5 of your note you mentioned that American exporters to China were placed at disadvantage in comparison with exporters of other nationalities, you stated that the Hong Kong authorities had appeared willing to permit shipments to China on the basis of import permits issued by local Chinese authorities. In order to remove any misunderstanding which may exist on this particular point, I have been instructed to explain that the Government of Hong Kong have, from the time that the regulations regarding the importation of arms were promulgated by the Chinese Government, most scrupulously discharged their responsibility so far as concerns arms imported into Hong Kong as stock, and subsequently sold to customers in China, i. e. in every case the firms concerned have been, and will be required to produce an authorisation from the Central Government of China. It is only in the case of arms ordered in China from some territory beyond Hong Kong, whether British or foreign, and passing through Hong Kong in transit from that territory to the customer in China, that the Government of Hong Kong have not concerned themselves with the authorisation of the Central Government of China. The reasons for this attitude lie in the Barcelona Convention on Freedom of Transit.

7. With reference to the last paragraph of your note, I have the honour to inform you that His Majesty's Government have not yet completed their consideration of the subject of the export of arms to China, and that they will not fail to inform the United States Government of the conclusions which are finally reached in the matter. In the meanwhile they are continuing to apply the procedure described in Mr. Osborne's note No. 265 of the 4th August.

I have [etc.]

R. C. LINDSAY

PROPOSAL OF THE CHINESE GOVERNMENT THAT A NEW TREATY WITH THE UNITED STATES BE NEGOTIATED TO REPLACE THE COMMERCIAL TREATY OF OCTOBER 8, 1903⁶¹

611.9331/172a : Telegram

The Acting Secretary of State to the Minister in China (Johnson)

WASHINGTON, January 9, 1934—5 p. m.

6. Your 935, December 26, 7 p. m.,⁵² 14, January 6, 11 a. m.⁵³ and Department's 405, December 29, 4 p. m.⁵⁴ in regard to treaty revision.

1. Unless you perceive objection thereto (in which event you should inform the Department immediately of your objection and of your suggestions with regard to changes in text or procedure), the Department authorizes you to communicate on date January 13th a reply to the Chinese note of December 23,⁵⁵ as follows:

"I have the honor to refer to the Chinese Government's note of December 23, 1933, stating that the third 10-year period of the Sino-American Commercial Treaty of October 8, 1903,⁵⁶ with Annexes, dating from the exchange of ratifications on January 13, 1904, will expire on January 13, 1934, and expressing a desire 'independently to negotiate a new treaty . . .⁵⁷ on the basis of the principles of equality and reciprocity.' Under date (blank) I informed you that the contents (or text) of your note under reference had been communicated to my Government.

I am now under instruction to state that the American Government has taken note of the provision contained in the third paragraph of Article 17 of the Treaty of 1903 to the effect that either of the High Contracting Parties may at the end of each 10-year period call for a revision of the articles of that Convention and of the provision contained in the second paragraph of the same Article to the effect that the Treaty shall remain in force until a revision is effected as therein provided.

Continuing to be animated, as it always has been, by the most friendly motives, and desiring in so far as may be practicable to meet the wishes of the Chinese Government in regard to provisions for the regulation of relations between China and the United States, the American Government is prepared to participate in negotiations for revision of the treaty of 1903. As, however, the Chinese Government has suggested the negotiation of a new treaty, the American Government feels that its consideration of this suggestion would be facilitated if the Chinese Government would supply it with further information in regard to the plans and proposals which the Chinese Government

⁶¹ Continued from *Foreign Relations*, 1933, vol. III, pp. 567-569.

⁵² *Ibid.*, p. 567.

⁵³ Not printed; it reported China's request for revision of its treaty with Great Britain.

⁵⁴ *Foreign Relations*, 1933, vol. III, p. 569.

⁵⁵ See telegram No. 935, December 26, 1933, from the Minister in China, *ibid.*, p. 567.

⁵⁶ *Ibid.*, 1903, p. 91.

⁵⁷ Omission indicated in the original telegram.

has in mind both as regards the substance of the negotiations and the time, the place and the manner in which such negotiations might be conducted. Upon receipt of this information the American Government would expect to give careful consideration to the various problems involved."

2. Also, if you perceive no objection, you should inform your British colleague in confidence of the substance of the Chinese note of December 23 and of the above reply, assuring him that you will expect to keep him informed as far as may be practicable and appropriate of developments.

3. Department is informing the British Embassy here of the substance of paragraph 1 above and requesting that Embassy inform British Foreign Office immediately.

PHILLIPS

611.9331/173 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, January 11, 1934—2 p. m.

[Received January 11—6:50 a. m.]

28. Department's 6, January 9, 5 p. m. Note to Acting Minister for Foreign Affairs bearing date January 13 has been mailed to Peck⁵⁸ today for delivery on the 13th. The second sentence of first paragraph was drafted to read as follows:

"Under date of January 3, 1934, I informed Your Excellency that your note under reference had been communicated to my Government."

JOHNSON

611.9331/175

The British Embassy to the Department of State

MEMORANDUM

On January 8th the British Embassy were informed by the State Department that the Chinese Government had asked for the negotiation of an entirely new commercial treaty to replace the Sino-American Treaty of 1903.

A similar request has been made to His Majesty's Government in respect of the Sino-British Treaty of 1902.⁵⁹ No reply is being sent, and further information from Peking is awaited before considering the matter further. His Majesty's Government will probably adopt substantially the same attitude as the United States Government: but

⁵⁸ Willys R. Peck, Counselor of Legation and Consul General at Nanking.

⁵⁹ Signed at Shanghai, September 5, 1902, *British and Foreign State Papers*, vol. xcv, p. 39.

as the Sino-British Treaty, unlike the Sino-American Treaty, provides for revision of tariff only and China now has tariff autonomy, the request to His Majesty's Government may have a merely paper significance.

His Majesty's Minister at Peking will be instructed to keep in touch with his United States colleague.

WASHINGTON, January 11, 1934.

611.9331/176 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, January 23, 1934—5 p. m.
[Received January 23—10:50 a. m.]

56. Reference Department's 6, January 9, 5 p. m.; and my 32, January 13, 4 p. m.,⁶⁰ following is translation of note dated January 18 from Acting Minister for Foreign Affairs:

"I have the honor to acknowledge the receipt of your formal note of January 13th stating that you have received instructions from the American Government expressing concurrence in the proposal of the Chinese Government for the revision of the treaty of 1903. You request further information in regard to the desire and proposal which the Chinese Government has in mind both as regards the substance of the negotiations and the time, the place and the manner in which such negotiations might be conducted in order that the various proposals [*problems*] involved may be given consideration.

I have not failed to note the above. The commercial treaty of 1903 was made 30 years ago. Conditions and circumstances have changed and most of the articles have already become inapplicable. Except for those articles relating to customs tariff which were all abrogated by the Sino-American tariff treaty of 1928⁶¹ the representative [*remaining*] provisions are mostly of a unilateral nature and do not conform to the principles of equality and reciprocity. The provisions regarding extraterritoriality and inland river and coastal navigation are extremely injurious to China's sovereign rights and should be abrogated; this is particularly the long-standing desire of the people of China. The Chinese Government sincerely hopes that a new treaty will be concluded at an early date with different provisions to make it satisfactory.

The time and place for the opening of negotiations can be fixed as soon as I have been informed of the views of the American Government."

JOHNSON

⁶⁰ Letter not printed.

⁶¹ Signed at Peking, July 25, 1928, *Foreign Relations*, 1928, vol. II, p. 475.

611.9331/176 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, March 13, 1934—noon.

64. Your 56, January 23, 5 p. m.

1. The Department does not desire at the present time to make a formal reply to the Chinese Government's note of January 18, 1934, but does desire that Peck, subject to such comment as the Legation may deem desirable to make, and with prior submission thereof to the Department, discuss informally the question of treaty revision with the person in Chinese Government circles whom he considers to be the most responsible individual to approach, possibly Chiang Kai-shek⁶² himself, along the lines indicated below and report with regard to the reactions produced.

In our note of January 13, we expressed our willingness to participate in negotiations for a revision of the treaty of 1903, but, in view of the reference in the Chinese note of December 23 to a "new treaty", we stated a desire for further information in regard to the plans and proposals which the Chinese Government had in mind. The Chinese Government by its note of January 18 clearly indicates that it not only desires a revision of the treaty of 1903 but that it wishes to have the question of American extraterritorial jurisdiction brought into the negotiations.

With regard to this question, we feel that American extraterritorial jurisdiction in China rests on a broader and more comprehensive basis than merely the provisions of the treaty of 1903. Moreover, the American Government's attitude in regard to the problem of extraterritorial jurisdiction has been clearly indicated in its notes of August 10, 1929,⁶³ and November 1, 1929.⁶⁴ Subsequent thereto discussions were entered into between representatives of the two Governments, and, *pari passu* with somewhat similar discussions and results as between representatives of the Chinese and British Governments, tentative accords were reached by the summer of 1931 in regard to various phases of the question.⁶⁵

We had every intention of resuming these discussions in the autumn of 1931, but this was rendered impossible, as is well known, by political developments which substantially affected and continue to affect the general situation and hitherto existing expectations in and with regard to China and the Far East.

⁶² Chairman of the Chinese Military Council and Commander in Chief of the Army, Navy, and Air Forces.

⁶³ See telegram No. 254, August 1, 1929, 11 a. m., *Foreign Relations*, 1929, vol. II, p. 596.

⁶⁴ See telegram No. 958, November 4, 1929, 5 p. m., *ibid.*, p. 616.

⁶⁵ See *ibid.*, 1931, vol. III, pp. 893-908.

These developments have not altered the attitude of the American Government with regard to the problem of extraterritoriality. This Government is animated by a sincere desire to meet the natural desire of the Chinese people for a liquidation of the system of extraterritorial jurisdiction in China. It feels warranted in asking, however, and it does ask, that there shall be an agreement that the process of liquidation shall be gradual, in order that, on the one hand, certain progressive adjustments may be achieved in the Chinese legal and judicial systems and that, on the other hand, American interests which have developed in China during the past 90 years under the system of extraterritoriality may have adequate opportunity to adjust themselves to the new situation which will have evolved while the extraterritorial system is being abolished. However, although there has been no change basically in the position of the American Government with regard to that question, we would be lacking in candor if we failed to point out that in our opinion the chain of events beginning with and flowing from the Manchuria affair warrants a reorientation of the views and efforts of China and the other interested powers in regard to that question.

As is well known, it has been the policy of the National Government of China to take up this and related questions separately with each of the various powers which have a common interest in the extraterritorial system. Whatever may have been the potential advantages to China of that procedure, we would again be lacking in candor if we failed to express our view that recent developments and the present situation in China warrant a suggestion that there is need for a reconsideration of that policy in the light of what has occurred.

Furthermore, the question of extraterritorial jurisdiction in China is one which is not practically susceptible to solution by process of dealing with the powers separately. That system rests on an aggregate of various treaty provisions which, after an existence of 90 years, cannot be liquidated by lopping off here and there, by agreement with individual powers, separate features of that system. The subject is one that should be dealt with as a whole and by all concerned. Nothing useful and lasting would be gained by substituting new patchwork for old. On the other hand, we are not blind to the difficulties attending effort to reach a common accord with regard to the problem of extraterritorial jurisdiction, but we feel that, whatever difficulties may be involved in a course directed toward that end, it would be the course best adapted in the long run toward bringing about the end which all are seeking.

As the Department understands the situation, we all know that the Chinese desire the complete abolition of extraterritoriality; that the bringing about of the abolition of that system involves readjustment or

liquidation of various foreign interests built up in China over a period of 90 years under that system; and that the principally interested powers have gone on record as expressing their willingness that there be a readjustment of their interests to meet the aspiration of the Chinese people provided that the process of readjustment be gradual and be brought about *pari passu* with certain progressive improvements in the Chinese legal and judicial systems. With this in mind we would earnestly urge upon those who now direct the destinies of the Chinese people that they attempt to devise an offer in keeping with known limitations and appropriate for submission to all the principally interested powers.

If the Chinese Government does not desire at this time to give consideration to the above suggestions, we feel on our part that, as our views are so well known both as a result of our express statements on the subject and of the tentative accords which were reached in the course of the discussions in 1929-1931, it is doubtful whether any useful purpose would be served by attempting at this time to inject the question of extraterritorial jurisdiction into discussions in regard to a revision of the treaty of 1903, unless China is prepared to take a practical view of the existing situation and of the difficulties inherent in this problem in the light of that situation. We feel therefore that, if there is to be any hope at the present time of progress toward a solution, as between the United States and China, of the problem of extraterritorial jurisdiction by following the procedure which has been followed in the past, the Chinese should offer specific proposals giving indication of a realization by them of the actualities of the existing situation. We are quite prepared to examine sympathetically any such specific proposals that China may wish to put before us.

Aside from the question of extraterritoriality, we are, of course, prepared, as provided in Article 17 of the treaty of 1903, to enter into discussion of any specific proposals for a revision of that treaty. However, as it is China, not the United States, that has raised the question of revision, we feel that specific proposals in regard to the nature of the revision desired by China should be formulated by the Chinese Government. A mere statement of desire to negotiate a new treaty, such as has so far been communicated to us, is not sufficient, as it does not afford sufficient basis for an adequate consideration of the problem. As a general rule, almost without exception, the party seeking revision of a treaty submits with its request an outline or text of its desiderata.

The above views and suggestions are tendered in a spirit of sincere desire to be helpful, in the hope that some at least of the factors which constitute obstacles in the way of a solution of the problems involved may be removed in advance of negotiations. In all frankness, the

principal obstacle which has impeded negotiations in the past has been China's policy of approaching these questions on lines dictated by nationalistic sentiment without adequate regard for actualities.

2. You may, if and when this discussion takes place, inform your British colleague in confidence of the substance thereof.

HULL

611.9331/183 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, March 22, 1934—noon.

[Received March 22—4:45 a. m.]

132. Your 64, March 13, noon. I assume that Department's proposal covers a suggestion that China offer proposals regarding treaty revision as it would apply to proposal which could be discussed by all of the interested powers including Japan, for Japan of course is one of the powers very much interested. I also assume that Department's proposal is for joint rather than separate negotiation between the powers and China concerning extraterritoriality. I am sure that these questions will be asked in Nanking should the Department's proposals be taken up and before giving consideration to the feasibility of making this approach to the Chinese authorities I would like to have the Department clarify this aspect of the situation. Participation by Japan in any joint discussions with China concerning extraterritoriality at this time would be likely to introduce embarrassing situation.

JOHNSON

611.9331/186 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, March 27, 1934—1 p. m.

[Received March 27—5:12 a. m.]

141. With further reference to Department's 64, March 13, noon, we have been committed to negotiations on the subject of extraterritoriality since 1929 so that Chinese Government's note of January 18th of this year did not in fact introduce any new matter into treaty discussion. The only new factor introduced by its note of December 23, 1933, requesting revision of the treaty of 1903 and the statement in the January 13 [18] note [is?] regarding inland river and coastal navigation. There is very little likelihood that we can persuade the Chinese to offer us a chance for proposal in regard to any of these

questions short of a request for their complete abrogation. It would be my suggestion that we do one of two things at the present time: (a) instruct Peck to see Wang Ching-wei⁶⁶ and make oral acknowledgement of Foreign Office note of January 13 [18] requesting that Foreign Office be more specific and furnish us detailed draft or (b) build up our own draft of what we are prepared to agree to based on extraterritorial draft of July 14, 1931,⁶⁷ and hand that to the Foreign Office.

JOHNSON

611.9331/186 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, April 4, 1934—6 p. m.

95. Your 132, March 22, noon, and 141, March 27, 1 p. m. in regard to treaty revision.

1. Department is conferring with the British Foreign Office through our Embassy in London. You may, therefore, for the time being, hold in abeyance action in regard to the Department's telegram No. 64, March 13, noon.

2. You should, however, acknowledge, as under instruction from the Department, the Chinese Government's note of January 18, 1934, stating that this Government is giving consideration to the matters raised therein.

HULL

611.9331/186a

The Secretary of State to the Ambassador in Great Britain (Bingham)

No. 317

WASHINGTON, April 4, 1934.

SIR: The Department desires that you refer the Foreign Office to information which we conveyed to it on January 9, 1934, through the British Embassy here⁶⁸ and information which we received in reply on January 12, 1934, through the same channel, in regard to the request of the Chinese Government that we negotiate an entirely new treaty to replace the Sino-American Treaty of 1903, and that you discuss this matter informally and orally with the Foreign Office, reporting results promptly, along the following lines.

⁶⁶ President of the Chinese Executive Yuan (Premier) and Acting Minister for Foreign Affairs.

⁶⁷ *Foreign Relations*, 1931, vol. III, p. 893.

⁶⁸ Not printed.

In reply to the American Government's note of January 13, 1934, requesting information in regard to the Chinese Government's idea of substance, time, place, et cetera, for negotiations, the Chinese Government in a note under date January 18, 1934, stated briefly that the Articles of the Treaty of 1903 were no longer applicable; that they did not conform to the principles of equality and reciprocity; and that the "provisions regarding extraterritoriality and inland river and coastal navigation are extremely injurious to China's sovereign rights and should be abrogated."

In so far as the Department is informed with regard to the situation of the British Government in connection with treaty revision, the Chinese Government has requested a revision of the Sino-British Treaty of 1902, and the British Foreign Office has expressed with regard to this request the view that it has "a merely paper significance".

In view of the fact that the Chinese Government has definitely raised with us the issue of including the question of extraterritorial rights in our discussions, the Department recalls that during the years 1929-31, the American and British Governments through their respective Foreign Offices and diplomatic representatives in China collaborated and kept each other informed with regard to discussions with the Chinese authorities on the question of extraterritorial rights, which discussions resulted in the reaching in the summer of 1931 of tentative accords with the Chinese authorities but with regard to which no final action was taken because of political developments in the Far East. In view of the past policy of collaboration and cooperation with the British Foreign Office in regard to this question, the Department feels that it is appropriate and desirable that we again consult with the Foreign Office because, after all, the system of extraterritorial jurisdiction by the foreign powers in China rests on a broader and more comprehensive basis than that merely of provisions of any one treaty of any one power. The problem which the American Government now has under consideration is not, therefore, a problem which is of interest and concern to this country alone but is one of common interest and concern to a number of other powers, especially Great Britain, Japan and France.

The Department has had no indication of the contemplated course of action or the specific objectives of the Chinese Government with regard to the kind of solution which it now desires of the problem of extraterritorial rights. We do not know whether that Government will insist upon complete and immediate abrogation of those rights, whether it will use the tentative accords which were reached in the summer of 1931 as bases of discussion, or whether it has some other proposal in mind. However, the American Government does not feel that its position in relation to the problem warrants the ac-

ceptance by it, in fact or by implication, of an exclusive or isolated responsibility. As we are aware of the nature of the Sino-British tentative accords reached in 1931 and as the Foreign Office is also aware of the nature of our tentative accords reached in the same year, and as the problem is unquestionably of interest and concern to the British as well as to this Government, we should appreciate being informed whether any additional developments have occurred in regard to the question of revising the Sino-British Treaty of 1902 or of negotiating a new Sino-British commercial treaty and whether the Foreign Office has under active consideration the question of resuming negotiations with regard to British extraterritorial rights in China. We should also appreciate being informed of such views as the British Foreign Office may have and may be willing to express with regard to possible lines of action and in regard to any phases of the problem, in order that consideration may be given both here and in London to the possibility of approaching this matter and proceeding with it on parallel lines and with synchronized action.

Very truly yours,

CORDELL HULL

611.9331/193a : Telegram

The Acting Secretary of State to the Minister in China (Johnson)

WASHINGTON, June 2, 1934—3 p. m.

158. Department's 95, April 4, 6 p. m. in regard to treaty revision.

1. Under date April 20, the Embassy at London informed the Department⁶⁹ that this matter had been discussed with an officer of the Foreign Office who stated that "present Government had formulated no opinion of policy as yet as regards Chinese extraterritoriality but that Foreign Office draft note of reply, awaiting approval of Simon,⁷⁰ stated in substance that while Britain was prepared to discuss commercial matters arising under the treaties, British extraterritorial rights could not be considered until the Chinese Government had made further progress on these lines with other nations. . . ."

2. Under date May 17 the Embassy at London further informed the Department⁷¹ "that the British Minister in China has now been instructed regarding the reply he is to send to the Chinese Government in regard to their request for the revision of the Sino-British commercial treaty, and to keep in touch with the American Minister in any discussions regarding extraterritoriality that may arise. The

⁶⁹ Communication not printed.

⁷⁰ Sir John Simon, British Secretary of State for Foreign Affairs.

⁷¹ Communication not printed.

Foreign Office again indicates that this question was not specifically mentioned in the Chinese communication to the British Government."

3. The above is communicated to you for your information in the event that the British Minister approaches you or in the event that you have occasion to approach him on the subject.

PHILLIPS

611.9331/194 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, June 5, 1934—4 p. m.
[Received June 5—3 : 35 p. m.]

229. Department's 158, June 2, 3 p. m.

1. On June 2nd the Second Secretary of the British Legation called upon an officer of this Legation and permitted him to read (1) copy of British reply to Chinese Government's original note requesting treaty revision which reply was of similar tone to ours; and (2) Chinese Government's reply thereto which was similar to the reply to us of January 18 (see Legation's 56, January 23, 5 p. m.) including reference to extraterritoriality and inland navigation and differing only in that British Government was requested to open discussions.

2. Secretary of the British Legation read to officer an instruction from his Foreign Office authorizing his Legation to inform Chinese Government verbally that the British Government would not consider a revision of the extraterritorial clauses of any treaty until discussions of extraterritoriality had reached a mature stage with other powers but that it was willing to meet reasonable desires of the Chinese Government in other matters provided actualities of the situation were given consideration.

3. Secretary said that no action had as yet been taken upon this authorization.

JOHNSON

611.9331/195 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, June 14, 1934—2 p. m.
[Received June 14—8 : 50 a. m.]

248. Your 158, June 2, 3 p. m.

1. British Minister⁷² and I have discussed this matter today. He has shown to me his instructions. I have explained to him the developments in Department's instructions since which time and including

⁷² Sir Alexander Cadogan.

Department's 64, March 13, noon, I have also informed him that it has been my impression that the Chinese Foreign Office all along has been chiefly anxious to put on record its desire for treaty revision under article 17 of the treaty of 1903 and that it is not necessarily anxious or prepared to proceed concretely with that at the present time. Sir Alexander tells me that his advisers in his Legation are of similar opinion.

2. I have stated to Sir Alexander that acting on this assumption it has seemed to me that it was unnecessary to proceed further than formal acknowledgement authorized by Department's 95, April 4, 6 p. m. which we communicated to Chinese Foreign Office on April 10th and that we should leave matter alone awaiting further inquiry by Chinese. I have stated my opinion that when Chinese bring the matter up again we should be prepared to state that point reached in negotiations of 1931 represented maximum concessions we were prepared to make under conditions then or now existing and that while prepared to proceed upon that basis we are not prepared to carry the matter to final conclusion until all countries similarly involved have reached similar agreement.

3. I find my British colleague generally in agreement in regard to this matter. He is however communicating further with his Government. British Minister's instructions authorized him to reply to the Foreign Office note stating British Government was prepared to negotiate provided the question of extraterritoriality is left in abeyance but after our conversation he is recommending to his Government that they make acknowledgement somewhat similar to ours and await events as I have suggested above.

JOHNSON

611.9331/195 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, June 15, 1934—7 p. m.

172. Your 229, June 5, 4 p. m. and 248, June 14, 2 p. m.

1. Department concurs in the view that, as matters now stand, there is no need for us to take further action. However, if British Minister should be instructed by his Government to inform the Chinese authorities orally along the lines set forth in paragraph 2 of your 229, June 5, 4 p. m., you are also authorized to take similar action stressing the point that the system of the exercise in China of extraterritorial jurisdiction by the foreign powers rests on a broader and more comprehensive basis than merely the provisions of any one treaty of any one power.

2. Because of the erroneous and misleading statements alleged to have been made by Mr. Suma of the Japanese Legation in regard to our discussions with the Chinese Government on the subject of extra-territorial jurisdiction (see Nanking's despatch of April 18 to the Legation entitled "Attitude of the Japanese Government Toward Foreign Military Advisers in China"⁷³), the Department desires (unless you perceive some strong reason to the contrary) that, discreetly guarding the source of your information and without mentioning Suma, you or Peck express orally to the Japanese Minister to China surprise at the unfounded statements apparently thus emanating from Japanese official sources and give him, orally and in confidence, a brief outline of the substance of the record of what has occurred as set forth in the notes exchanged with the Minister for Foreign Affairs, beginning with the Chinese note of December 23, 1933.

HULL

611.9331/197: Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, July 6, 1934—11 a. m.
[Received July 6—10:55 a. m.]

291. Reference my 248, June 14, 2 p. m. and the Department's 172, June 15, 7 p. m. Under instructions from the British Foreign Office the British Legation on June 21st addressed note to the Ministry of Foreign Affairs acknowledging receipt of its note of May 24th concerning Sino-British treaty revision and adding that such note had been forwarded to the British Government for its consideration.

2. Counselor Peck has been instructed to take action prescribed in paragraph 2 of the Department's telegram under reference.

JOHNSON

DISINCLINATION OF THE AMERICAN GOVERNMENT TO RAISE ITS
LEGATION IN CHINA TO THE STATUS OF AN EMBASSY⁷⁴

701.9311/561

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*

[WASHINGTON,] March 3, 1934.

The Italian Ambassador called and said that he had been informed from Rome that the Chinese Minister there had stated to the Foreign Office that he "was going to raise" the Chinese Legation there to the rank of Embassy and that the same thing was being said by the Minis-

⁷³ Not printed.

⁷⁴ Continued from *Foreign Relations*, 1933, vol. III, pp. 698-699.

ters of China at Washington, London and Paris. The Ambassador wished to know whether the Department had had any such approach from the Chinese Legation here. In this connection, the Ambassador referred to a somewhat similar inquiry which his Embassy had made here in the spring of 1933.

I replied that we had had nothing whatever from the Chinese Legation on this subject. I went on to remark that the Chinese have raised this question at one capital or another and under various circumstances at intervals during the past twenty or more years.

The Ambassador asked what would be the position of this Government if the Chinese now approach us on the subject. I replied that I had no reason to estimate that it would be different from what it has been in the past.

The Ambassador then inquired whether he might ask an "indiscreet question": He said that it was well known that his Government has in no way deviated from its earlier position with regard to Manchuria, that of "non-recognition"; he would like to know what the American Government thinks about this question in connection with recent developments in the Far East. (See separate memorandum.)⁷⁵

S[TANLEY] K. H[ORNBECK]

701.6593/14a : Telegram

The Secretary of State to the Ambassador in Italy (Long)

WASHINGTON, September 25, 1934—5 p. m.

84. The first secretary of Italian Embassy called this morning and stated that he was under instruction from his Foreign Office to inform us in confidence that the Italian Government has decided to raise its Legation in Peiping to the grade of Embassy. He said that no reasons or explanation were given. To inquiry whether his Government was informing other governments most concerned, the secretary replied that he assumed so. The Chief of the Far Eastern Division made comment to the effect that the Chinese have frequently requested of various governments this move and governments most concerned have conferred *inter se*; Italian Embassy here has several times previously discussed such requests with the Department; there has been an informal working understanding among the various foreign offices that if any government seriously contemplated taking this step it would first consult with the others.

Can you inform Department with regard to conclusiveness of the decision reported and reasons, advanced or real, for it.

HULL

⁷⁵ *Ante*, p. 60.

701.6593/15 : Telegram

The Ambassador in Italy (Long) to the Secretary of State

ROME, September 26, 1934—1 p. m.
[Received September 26—10:25 a. m.]

206. Department's 84, September 25, 5 p. m. The undoubted real reason is the influence of Galeazzo Ciano,⁷⁶ son-in-law of Mussolini, whose career in China was a Vice Consul, Secretary of Legation, Consul General and Minister within a period of a few years and whose pro-Chinese sympathies are outspoken. On his return to Italy in May 1933 there immediately appeared here Marshal Chang Hsueh-liang, son of the old war lord of Manchuria and present [vice] commander of the Southern [*Chinese*] forces. Chang and Ciano were very intimate, spent a great deal of time together and had places during the summer at Vallombrosa. Chang returned to China October 1933 and has continued a written and telegraphic correspondence with Ciano. The attention shown the recent Chinese Aviation Commission, formally reported by despatch No. 645 of August 8, 1934,⁷⁷ was probably at the instigation of Ciano. The Assistant Military Attaché reported recently Italian officers were active in China in the organization and direction of bombardment and pursuit training centers under Chang. All relates to Ciano's attitude and influence here and his intimacy with Chang and the further probability that Ciano would like to return to China as Ambassador.

However, in addition to this personal factor there is the background of Italy's opposition to Japan based on Japanese aggression in the Far East and her economic penetration in markets throughout the world where Italy competes.

While I have been unable as yet to see Suvich⁷⁸ I send these as probable reasons for the movement to create an Embassy in China and will report as soon as I have had a conversation with Suvich.

LONG

701.6593/14 : Telegram

The Ambassador in Italy (Long) to the Secretary of State

ROME, September 26, 1934—2 p. m.
[Received September 26—8:40 a. m.]

208. Following Stefani communiqué just issued to be published this afternoon.

⁷⁶ Count Galeazzo Ciano di Cortellazzo, Italian Under Secretary of Press and Propaganda.

⁷⁷ Not printed.

⁷⁸ Fulvio Suvich, Italian Under Secretary of State for Foreign Affairs.

"In authorized circles it is learned that the Italian Government has decided to raise its diplomatic representation in China to rank of Embassy in order to make it correspond with the importance of China as a great power and with the importance of the political, economic and cultural relations between Italy and China. ["]]

LONG

701.6593/18a : Telegram

*The Secretary of State to the Minister in China (Johnson)*⁷⁹

WASHINGTON, September 27, 1934—4 p. m.

311. 1. On September 25 the First Secretary of the Italian Embassy called at the Department and stated that he was under instruction from his Foreign Office to inform us in confidence that the Italian Government had decided to raise its legation in Peiping to the grade of embassy. He said that no reasons or explanation were given. To inquiry whether his Government was informing other governments most concerned, the First Secretary replied that he assumed so. The Chief of the Far Eastern Division made comment to the effect that the Chinese have frequently requested of various governments this move and governments most concerned have conferred *inter se*; Italian Embassy has several times previously discussed such requests with the Department; and there has been an informal working understanding among the various foreign offices that if any government seriously contemplated taking this step it would first consult with the others.

2. Under date September 26 the Ambassador at Rome telegraphed that the undoubted real reason for the decision of the Italian Government is the influence of Ciano, at present Italian Under Secretary for Press and Propaganda, whose pro-Chinese sympathies are outspoken; that Ciano's attitude and influence and his intimacy with Chang Hsueh-liang probably had a direct bearing upon the friendly reception accorded in Italy to the Chinese Aviation Commission and upon Italian activity in China in aviation matters; and that in addition to this personnel factor there is the background of Italy's opposition to Japan based on Japanese aggression in the Far East and Japan's economic penetration in markets throughout the world where Italy competes.

3. The Department is informed that the press in Italy has carried items in regard to the Italian Government's decision with favorable comment thereon.

4. Repeat to Nanking and Tokyo as Dep[artmen]t's 35 and 167 respectively.

HULL

⁷⁹ See last paragraph for instructions to repeat to Nanking and Tokyo as Department's Nos. 35 and 167, respectively.

701.6593/17 : Telegram

The Ambassador in Italy (Long) to the Secretary of State

ROME, September 27, 1934—6 p. m.
[Received September 27—5:35 p. m.]

211. Your September 25, 5 p. m. I have been informed at the Foreign Office, in the absence of Mr. Suvich, by Prince del Drago, his assistant, that they have definitely decided upon the Embassy to China to be located at Shanghai. To my comment upon the fact that the American Government had only been advised and had not been consulted he replied that it was not necessary to consult with any other governments and that none of them had been consulted; that Italy was a party to a written understanding that they would advise with other governments before raising the Legation in China to an Embassy except that there was no obligation to consult if there existed in China an Embassy from any country; and that there already existed in China an Embassy from Russia and that China sent an Ambassador to Russia; and that interested governments had been advised as a matter of comity.

He also said that China was the greatest nation of the Far East though it was in a very distraught state, but that, in the opinion of the Italian Government, China was of such international importance as to be entitled to receive an Ambassador from Italy.

To my inquiry as to whether there were other political significance and as to whether it was a friendly gesture toward Russia he replied that of course it could not be construed as a move antagonistic to Russia. To my suggestion that it might be considered as an indication of the lack of an entire cordiality toward Japan he replied in Italian "ecco", which in Italian vernacular is translated "that is just it".

This confirms the penultimate paragraph of my No. 206.⁸⁰

Not repeated to other missions.

LONG

701.6593/20

Memorandum by the Secretary of State

[WASHINGTON,] September 28, 1934.

The Chinese Minister called and referred to the fact that Italy had proposed to raise the rank of Minister to China to that of Ambassador, and inquired whether this Government would be likewise disposed. He stated that Secretary Kellogg⁸¹ on a former occasion had sounded

⁸⁰ September 26, 1 p. m., p. 537.

⁸¹ Frank B. Kellogg, Secretary of State, 1925-29.

out other governments⁸² to ascertain whether they would be disposed to raise this rank to that of Ambassador, but that for some reason the matter failed. He indicated genuine interest in favorable action.

I replied that I was surprised to learn about the Italian movement, which I only knew about through the public print.⁸³ I added that I would give attention to his request.

C[ORDELL] H[ULL]

701.6593/19 : Telegram

The Ambassador in France (Straus) to the Secretary of State

PARIS, September 29, 1934—noon.

[Received September 29—9:25 a. m.]

708. Department's telegram No. 393, September 27, 7 p. m.⁸⁴ During the course of a conversation between Rogers⁸⁵ and Decloux of the American section of the Foreign Office on whom Rogers called yesterday afternoon on routine business Decloux of his own accord brought up the question of Italy raising its Legation in Peiping to the grade of Embassy. Decloux said that he thought his Government was very embarrassed and that the British were particularly so. He said that he understood that the British had lodged a formal protest through their Ambassador at Rome. He said further that he believed this to be an Italian gesture to flatter Chinese pride and thus assure for themselves a favored commercial position in China. Rogers made no comment.

STRAUS

701.9493/80 : Telegram

The Chargé in Japan (Neville) to the Secretary of State

TOKYO, October 9, 1934—5 p. m.

[Received October 9—7:35 a. m.]

220. Department's 167, September 27, 4 p. m.⁸⁶ The Vice Minister for Foreign Affairs told me today that the British Ambassador had made inquiries in regard to the Japanese attitude towards the decision of the Italian Government to raise their Legation at China to an Embassy. The Foreign Office, I was told, replied that the Japanese

⁸² See *Foreign Relations, 1928*, vol. II, pp. 201 ff.

⁸³ Notations on the original documents do not indicate that the previous correspondence on this subject had been routed to the Secretary's office. On outgoing telegrams the Secretary's name was initialed by the Under Secretary of State, William Phillips.

⁸⁴ Not printed; it reported information contained in first paragraph of telegram No. 311, September 27, 4 p. m., to the Minister in China, p. 538.

⁸⁵ Alan Stewart Rogers, Third Secretary of Embassy in France.

⁸⁶ See footnote 79, p. 538.

Government had had this proposal under advisement for 10 years; that appropriations to that end had been obtained from the Diet, but the Government had not yet considered the time ripe for such a step; further, the Japanese Government would not be influenced by the Italian decision into any precipitate action, but would appoint an Ambassador only when it felt that the situation warranted it.

Repeated to Peiping.

NEVILLE

124.93/270

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] October 9, 1934.

During his call this afternoon the Chinese Minister referred to the fact that a day or so ago he had asked the Secretary whether the United States Government was prepared to follow the Italian initiative in raising the American Legation in Peking to the rank of Embassy. Mr. Hull at that time had informed the Minister that he was giving the matter consideration.

I informed Minister Sze that we had now decided not to follow the lead of the Italian Government and would not, therefore, take any step in that direction at the present time.

W[ILLIAM] P[HILLIPS]

701.9493/80 : Telegram

The Secretary of State to the Chargé in Japan (Neville)

WASHINGTON, October 9, 1934—6 p. m.

174. Your 220, October 9, 5 p. m. In reply to an inquiry from the British Embassy the Department expressed the opinion that the present is not an opportune time to make a change in the character of diplomatic representation in regard to China and stated that before making a change of this character the Department would expect first to confer with and/or give notice to the interested governments. The Japanese Embassy was also informed orally to this effect.

Repeat to Peiping with request that Nanking be informed.

HULL

701.9493/84

Memorandum by the Under Secretary of State (Phillips) of a Conversation With the British Ambassador (Lindsay)

[WASHINGTON,] October 22, 1934.

The British Ambassador said that he assumed we had had a reply from Japan with respect to the action which they might or might not

take regarding the raising of their legation in Peiping to the rank of embassy; the Ambassador outlined briefly the reply which the Japanese Foreign Office had given the British Ambassador in Tokyo; this reply was in writing and to the effect that Japan was giving the matter consideration; that in 1925 Japan had decided to take this step, but had not done so on account of chaotic conditions in China; that she would advise the powers if she decided to take the step, etc. etc.

The Ambassador added that, so far as he understood the situation, the United States, Great Britain and France stood together in the belief that this was not an opportune time to establish embassies in Peiping and that anyway neither of the three powers would take this action without previous consultation with the other two.

I said that we had received a reply from Japan along similar lines as that expressed to the British Ambassador in Tokyo and that Sir Ronald was correct in his understanding of the situation as between the United States, Great Britain and France.

W[ILLIAM] P[HILLIPS]

701.6593/30 : Telegram

The Chargé in Italy (Kirk) to the Secretary of State

ROME, November 9, 1934—11 a. m.
[Received November 9—6:34 a. m.]

246. Embassy's despatch 748 of October 11th⁸⁷ and previous correspondence. The appointment of Lojacono, Italian Ambassador to Turkey, as Ambassador to China is announced today.⁸⁸

KIRK

EFFORTS FOR THE CONSIDERATION OF AMERICAN CLAIMS OUT-
STANDING AGAINST CHINA⁸⁹

493.11/1824 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, January 20, 1934—9 a. m.
[Received 10:55 a. m.]

47. My despatch No. 2424, December 20.⁹⁰ At my suggestion Peck⁹¹ saw Wang Ching-wei⁹² about Chinese attitude toward American pro-

⁸⁷ Not printed.

⁸⁸ Vincenzo Lojacono presented his credentials at Nanking on January 25, 1935 (893.00 P. R. Nanking/84).

⁸⁹ Continued from *Foreign Relations*, 1933, vol. III, pp. 628-659.

⁹⁰ Despatch not printed; for its enclosure (memorandum of December 12, 1933, by the Minister in China of a conversation with the Chinese Minister of Finance), see *Foreign Relations*, 1933, vol. III, p. 657.

⁹¹ Willys R. Peck, Counselor of Legation and Consul General at Nanking.

⁹² President of the Chinese Executive Yuan (Premier) and Acting Minister for Foreign Affairs.

posal for claims commission. Peck reports Wang as stating that Chinese Government would feel no hesitation in matter if it could be done without creating precedent but feared Chinese acceptance of American proposal would pave the way for similar proposal from Japan. He stated that Doctor Kung⁹³ had suggested setting up a separate department in the commission for the readjustment of domestic and foreign debts without creating a separate organization in the manner outlined by the American proposal. Another suggestion was that representatives of Chinese and American Governments enter into discussions with the nominal object in view of arranging for a new loan to which the adjustment of old debts might be incidental, it being understood by both that in actuality no new loan was contemplated.

He asked that these suggestions be communicated to the American Government for consideration and comment. Wang regretted that until difficulty was surmounted, that is, the devising of some means to avoid setting up a precedent which would be utilized by Japan the Chinese Government would not be able to return a favorable reply to the American Government's proposal.

JOHNSON

493.11/1836

The Secretary of State to the Minister in China (Johnson)

No. 1291

WASHINGTON, February 8, 1934.

SIR: Reference is made to the Legation's despatch No. 2239 of August 10, 1933,⁹⁴ in regard to the prosecution of claims for losses resulting from the looting of goods which are in the hands of Chinese agents but which are claimed to belong to American nationals.

In cases of looting of property the American ownership of which is clear beyond question, the Department is of the opinion that its telegraphic instruction No. 124, April 19, 1933, 5 p. m.⁹⁵ may be regarded as sufficient for the guidance of the Legation and consular officers in China and that, therefore, no further instruction in regard to cases of this kind would seem to be required at the present time. If, therefore, the Legation and the Consul concerned are satisfied in a given case that the American ownership of the property involved is beyond question and that the case falls within one of the categories described in the Department's telegram just referred to, the Legation and the Consul concerned should present the claim to the local authorities regardless of the fact that the Chinese Government persistently denies responsibility for indemnification of losses arising out

⁹³ H. H. Kung, Vice President of the Executive Yuan (Vice Premier) and Minister of Finance.

⁹⁴ Not printed.

⁹⁵ *Foreign Relations*, 1933, vol. III, p. 635.

of looting. Furthermore, failing local settlement, claims of these classes are to be regarded as entitled to such other support on the part of diplomatic and consular officers and of the Department as the circumstances of the individual case may warrant.

In cases which involve property in the hands of Chinese who act as sales agents of American nationals, the question of ownership arises. The Chinese Government appears to have generally contended that, in such cases, ownership vests in the Chinese concerned and that claims for losses of such property should be treated as Chinese claims, while American claimants have contended that ownership vests in them and that the claims should be presented to the Chinese authorities as American claims.

The Department has been studying the question of ownership of the property in the hands of native agents as affecting the status of claims which have arisen as the result of loss of such goods, and still has the matter under consideration. Sometime ago the Department invited the Standard Oil Company to furnish it with a brief setting forth arguments in support of the company's contention that the Chinese Government should be held liable for losses in cases which arise out of the loss of goods in the hands of native agents, but that company has not as yet submitted such a brief. The Department is now affording to the Socony-Vacuum Corporation opportunity to submit a brief on this point, but intends, within a reasonable time, whether such brief is received or not, to draw up instructions in regard to this phase of the question, which will in due course be communicated to the Legation and consular officers in China for their information and guidance. In the interval the Legation and consular officers may continue, where they have been so doing in the past, to lend their support to claims of the class under discussion which fall within any of the categories set forth in the Department's telegram No. 124 of April 19, 1933, 5 p. m.

The Department takes this opportunity to commend Consul Stevens⁹⁶ for the careful study which he has given to the questions involved in the cases under reference.

Very truly yours,

For the Secretary of State:
R. WALTON MOORE

493.11/1824 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, February 16, 1934—5 p. m.

41. Your telegram No. 47, January 20, 9 a. m., and despatch No. 2424, December 20, 1933.⁹⁷ Department requests that you review care-

⁹⁶ Harry E. Stevens, Consul at Tsinan.

⁹⁷ See footnote 90, p. 542.

fully its previous instruction in regard to proposed claims commission, particularly first two paragraphs of its telegram No. 8 of January 11, 1933, 11 a. m.⁹⁸ and that thereafter you make known to the Chinese Government, both orally and in writing, (1) that the reason stated by the Chinese Government for refusing to accede to the request of this Government for the establishment of a Sino-American claims commission, namely, the creation of a precedent, is, in the opinion of the Department, wholly inadequate; (2) that the Commission for Adjustment of Domestic and Foreign Obligations, although ample opportunity has been afforded and much time elapsed has failed to effect even the adjudication of American claims and that the Department does not perceive in what manner the setting up within such commission of a separate department, as suggested by Dr. Kung, would *per se* remedy the situation (the Legation should bear in mind that such a procedure would automatically withhold from American claimants an impartial review of their cases); (3) that the Department considers as inappropriate and impracticable the second alternative suggested by the Chinese Government to the effect that the adjustment of outstanding obligations be discussed under the cloak of a possible American loan to China (the Legation should bear in mind that such a step, even if acceptable to this Government, would in all probability create far greater resentment in Japan than would the creation of a Sino-American claims commission against which, it is believed, no reasonable objection could be raised by other Powers).

You may also point out to the Chinese Government in reply to its contention that the Japanese Government, if accorded the facility of a Sino-Japanese claims commission, would in all probability attempt to bring up doubtful financial transactions, that the constitution of a commission similar to that contemplated by the American proposal would make it possible to render such an attempt ineffective because the Chinese and neutral assessors, who would hold the controlling votes, could decide against or refuse to consider such claims as are without support in law or equity.

As previously indicated the Department considers this matter as one of urgency and of great importance and desires that the Legation promptly and assiduously press the Chinese Government for a favorable reply to the American Government's request for the establishment of a Sino-American claims commission.

HULL

⁹⁸ *Foreign Relations*, 1933, vol. III, p. 628.

893.51/5360 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, February 20, 1934—11 a. m.

[Received February 20—7:20 a. m.]

93. Reference Legation's despatch No. 2431, December 22, 1933⁹⁹—Hukuang loan.

1. National Government *Gazette* January 15 contains regulations governing issuance \$100,000,000 of customs treasury notes of 1934 which provides that this issue shall be secured upon "customs revenue designated by the Ministry of Finance." Interested banks have requested the American and British Legations to file protest.

2. British Legation suggests the following draft for joint memorandum:

"In their memorandum of 20th December 1933 the undersigned representatives of France, Great Britain and the United States of America had the honor to inform His Excellency the Minister for Foreign Affairs that their attention had been drawn to the text of certain regulations governing customs treasury notes of the year 1933 which provided that the treasury notes of this issue to an amount \$100,000,000 should be secured on the receipts from the increased customs revenues.

The attention of the undersigned representatives has now been drawn to the text of certain regulations promulgated on 13th January in connection with the issue of a new loan of \$100,000,000 to be known as the 23rd with regard to [*as the 23rd-year*] customs treasury notes, article 7 of which states that the sinking funds required for the payment of interest and redemption of principal of these notes shall be earmarked by the Ministry of Finance from the customs revenue.

The undersigned representatives are once more constrained to point out, as they did in their memorandum of December 20th, to which no reply has been received, that the continued hypothecation of customs revenues for the service of new internal issues while no attempt is made to give effect to articles 8 and 9 of the Hukuang Railway 5% sterling loan agreement of 1911¹ is not only inflicting a great injustice on the bondholders of the loan but is causing doubt to be cast upon the validity of pledges of the Chinese Government.

The undersigned representatives have accordingly the honor to urge once again that the Chinese Government devise measures as early as possible to implement the undertakings given in the above-cited clauses of the loan agreement, the constant defaults in the serv-

⁹⁹ Not printed; it enclosed joint memorandum dated December 20, 1933, addressed by representatives of France, Great Britain, and the United States to the Chinese Government regarding default in the service of the Hukuang Railway 5% sterling loan agreement of 1911. See telegrams Nos. 867 and 885, November 22 and 29, 1933, from the Minister in China, *Foreign Relations*, 1933, vol. III, pp. 654 and 656, respectively.

¹ Signed at Peking, May 20, 1911, MacMurray, *Treaties*, 1894-1919, vol. I, p. 866.

ice of which formed the subject of the undersigned representatives' memorandum of 28th July last."

3. The Legation requests the Department's authorization to join in the memorandum as drafted.

JOHNSON

893.51/5860 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, February 21, 1934—7 p. m.

49. Your 93, February 20, 11 a. m.—Hukuang loan.

1. You are authorized to sign the joint memorandum.

2. Department would suggest, however, if your colleagues consent, that the word "validity", the seventh word from the end of the third paragraph of the proposed joint memorandum, be changed to "value", and that there be added to the last paragraph of the proposed memorandum the words "and previous memoranda and notes," if in fact there were previous memoranda and notes on the subject.²

HULL

493.11/1851 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, March 21, 1934—10 a. m.

[Received March 21—8:45 a. m.]

127. Legation's 107, March 2, 4 p. m.³ A reply has now been received from Foreign Office pertinent part of which is as follows:

"The Chinese Government expresses its complete concurrence in principle in respect of settlement of debts but as circumstances are complicated and the matter is of very great importance it is necessary thoroughly to examine and discuss the matter. It has now been decided that the Ministries of Foreign Affairs, Finance, Communications and Railways shall each appoint responsible special delegates who will jointly discuss with the responsible United States delegates to be appointed by the American Legation a procedure for handling debts between the two countries.

Aside from waiting until the date and place for the conference have been fixed when I shall have the honor again to communicate with you, I have the honor Mr. Minister to indite this formal note for your information."

On the day note was delivered Peck had occasion to call upon political Vice Minister of Foreign Affairs on another matter and took the

² The text of the joint memorandum, dated March 7, 1934, contained these changes, except that the two words "and notes" were omitted (893.51/5876).

³ Not printed.

opportunity to request precise meaning of what he considered the vague phraseology of the note.

Hsu Mo said that decision regarding joint discussion between special delegates was made by the Central Executive Committee of the Kuomintang. He intimated that the phrasing of the note may have been purposely worded in order to permit the investigation of various methods for the adjustment various debts but stated emphatically that it was most unlikely that the Chinese Government would ever consent to adopt any one method to be applied to all debts. He quibbled on the word "claims" saying he was doubtful whether the authorities of the Chinese Government had an accurate conception of the meaning of the word "claims" and that he had been unable to find a precise Chinese equivalent for this English term. In answer to Peck's arguments in behalf of the Department's proposal he said that a method of adjusting debts which had proved satisfactory for the United States in its international position was not feasible for China, situated in quite a different international position; that it would be extremely dangerous for China to consent to a course of action which would serve as a precedent for a demand by other nations that China proceed to an adjustment of debts.

The Chinese suggestion of discussions between delegates would appear to be a highly complicated and unsatisfactory method of evading the American proposal for the adjudication of claims by means of a commission. The Legation believes that Foreign Office should be told that its proposal is unsatisfactory as calculated unnecessarily to delay a definite solution of the matter; and that if the Ministry of Foreign Affairs desires to discuss the questions involved with the interested Ministries we believe it should do so without injecting those Ministries into the discussions between the Ministry of Foreign Affairs and the Legation.

Despatch follows.⁴

JOHNSON

493.11/1871

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Conversation With the Chinese Minister (Sze)

[WASHINGTON,] March 22, 1934.

The Minister called and said that he had had a very pleasant vacation (he had been on a month's cruise in waters to the South).

He said that one matter had come up during his absence about which he wished to give me information. His Foreign Office had telegraphed

⁴ Not printed.

him with regard to the question of the American Government's position in regard to the outstanding obligations of the Chinese Government to American creditors. He said that they felt that it would be very difficult to deal with their debts to Americans separately from and independently of their debts in general. They were, however, disposed to set up some new bureau to study the question of the debts to Americans. He did not think that the step which they proposed would be very satisfactory. He would like to know about the Department's attitude.

I replied that the American Government had never taken the position that Chinese obligations to American citizens should be dealt with differently from or to the exclusion of their obligations to other creditors; but that, after a long period in which the Chinese Government had talked about the formulating of a general plan for dealing with all creditors and in the course of which nothing definite had been achieved, the American Government had suggested that there be created a commission to deal with the question of "American claims." This did not mean at all that the Chinese might not at the same time create similar commissions to deal with the claims of other nations; nor that they might not formulate and adopt a general plan. It did mean that we desired that adequate attention be given to the "American claims."

I then said that I would like to take advantage of this opportunity to say a word, in all friendliness but with extreme frankness, with regard to our view of the situation. I said that even this suggestion of ours for a commission had now been under discussion for perhaps as much as two years, high officials of the Chinese Government had expressed themselves as favorable in principle, and yet nothing had been accomplished; and now officials at Nanking were talking about creating a bureau to talk further about the matter. I said that during recent months I had been forced to take cognizance of the fact that there is an increasing disposition in many quarters, both in other countries and in this country, to become impatient of a proclivity which seems to be manifested at Nanking merely to "talk about" various matters which are of concern to other countries, of which this matter would serve as an illustration, without proceeding to do something about these matters. I said that evidence of this proclivity was having a tendency to create skepticism with regard to the capacity of China to function effectively in political matters, and thus to create sympathy for and adherence to the view which has long been uttered in various quarters and which is more and more persistently uttered: that other countries must in dealing with China resort to such methods and means as they may find necessary to look after the rights and interests of their nationals. I said that this was a development in polit-

ical psychology which no one seeking to be guided by the principle of the "good neighbor", by which principle we are trying to be guided in this country, could contemplate with other than the opposite of gratification. I said that we had received information with regard to the very matter which the Minister had brought up which indicated that the attitude on the part of some at least of the responsible officials at Nanking, now and in regard to this matter, is one suggestive of indifference to the rights and interests of creditors (in particular, American creditors). I said that we had long hoped for and we still hope for more encouraging signs from China.

The Minister said that he realized that there was a great deal of delay and of tendency to be defensively stubborn. This arose in part from the fact that organization has not been perfected and that the spirit of nationalism is running strong. He inquired what we thought of the proposal for the creation of a new bureau.

I replied that we had not yet formulated any view which I would wish to express but that we were thinking the matter over. It then was agreed that the Minister should call again early next week at which time we could continue the discussion of this matter.

S[TANLEY] K. H[ORNBECK]

493.11/1851 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, March 27, 1934—6 p. m.

78. Your 127, March 21, 10 a. m. Foreign Office reply and comments of Hsu Mo, as reported in your telegram under reference, further strengthen the Department's opinion that there has existed for many years and that there still exists a lamentable lack of effectively earnest desire on the part of the Chinese Government to liquidate or even to consider with appropriate seriousness its debts and obligations to American claimants. Department is also of the opinion that the present attitude of the Chinese Government in regard to this matter is one of studied evasion and procrastination; that Hsu Mo's quibble on the word "claims" is absurd and suggests an attitude of irresponsibility; and that the Legation, in addition to conveying to the Foreign Office the views expressed in the last substantive sentence of its telegram under reference, should also make known the fact that the Department is becoming increasingly impatient over the lack of effective action on the part of the Chinese Government toward payment of its just debts to American nationals and that the Department is of the opinion that no adequate or convincing objections have been offered to date against the American proposal for a joint claims commission, the primary object of which would be a determination

and adjudication of claims against the concerned Governments with a view to ultimate, but not necessarily an immediate, liquidation thereof.

HULL

493.11/1856 : Telegram

The Consul General at Nanking (Peck) to the Secretary of State

NANKING, April 18, 1934—10 a. m.
[Received April 18—6:50 a. m.]

29. Following telegram has been sent to the Legation :

“April 18, 10 a. m. Wang Ching-wei arranged an intimate gathering last night and suddenly informed me [Executive] Yuan yesterday passed a resolution to the effect that if the American Government would submit a list of American debts and claims the list would be carefully scrutinized after which all claims not open to question would be officially acknowledged and if there were sufficient doubtful claims to justify the creation of a tribunal one would be established along the lines proposed by the American Government. Wang also said that the Chinese Government was determined to take immediate steps following official acknowledgment of obligations to arrange for their gradual liquidation. He said that so far as indicated in the Government’s records outstanding obligations to American citizens were comparatively small. He asked that this information be telegraphed to the Department.

Repeated to the Department.”

PECK

493.11/1857 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 18, 1934—8 p. m.
[Received April 18—12:05 p. m.]

181. Following is paraphrase of message received from Peck at Nanking in comment on his April 18, 10 a. m., to the Department concerning claims commission :

The action reported in my April 18, 10 a. m., was apparently not contemplated by the Foreign Office when it drafted *note verbale* of April 16th.⁵ I am inclined to interpret this partial concession as a diplomatic gesture, confirmation of Sino-Japanese crisis reported in my April 18, 9 a. m.⁶

Note verbale of April 16th was an unsatisfactory reply to Legation’s recent note on claims commission. It requested list of debtors.

JOHNSON

⁵ Not printed.

⁶ See telegram No. 180, April 18, 7 p. m., from the Minister in China, p. 113.

493.11/1858 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, April 19, 1934—6 p. m.

119. Nanking's telegram No. 29, April 18, 10 a. m., to Department, and Legation's 181, April 18, 8 p. m. Unless you perceive objection, in which event please telegraph Department at once, instruct Peck to endeavor to obtain as promptly as possible written statement from Chinese Government confirming implied offer outlined in Nanking's telegram under reference. Upon receipt of such statement by Peck, its complete text should be submitted to Department by naval radio together with any suggestions or comments which Peck may wish to offer.

In the meantime Department wishes to receive promptly a statement of the Legation's views in regard to the merits of this latest move of the Chinese Government toward the settlement of its outstanding obligations to American claimants.

HULL

493.11/1859 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 21, 1934—11 a. m.

[Received 2:45 p. m.]

186. Department's 119, April 19, 6 p. m. Although there is an appearance of sincerity in this request of the Chinese Government for a list of the claims—a list which they would have us believe is for the purpose of arranging liquidation of claims of unquestioned validity—the Legation cannot convince itself that this move is other than an additional subterfuge to avoid entering into engagements which that Government is confident will be used as a precedent by other powers who could not be counted on to accept the impartial adjudication contemplated by the American Government's proposal.

However, as the request to be supplied with a list of claims has now been coupled with an indication of intention to liquidate those of unquestioned validity, the Legation is disposed to supply the Ministry of Foreign Affairs with a selected list of claims which it believes to be of unquestionable validity stating to the Ministry that it is such and stated [*stating?*] future lists will be supplied as prepared. Preparation of further lists could then be delayed until it was seen what action if any the Chinese Government was disposed to take towards receipt of requests.

Peck has been instructed as directed by the Department's 119, April 19, 6 p. m.

JOHNSON

493.11/1862 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 24, 1934—3 p. m.
[Received April 24—11:20 a. m.]

192. Legation's 186, April 21, 11 a. m. Following from Counselor of Legation at Nanking:

"April 23, 4 p. m. The Acting Minister for Foreign Affairs personally copied on official stationery and handed to me April 25 [21] 5:00 p. m. a copy of the resolution passed by the Executive Yuan on April 17. This is being mailed to you today. Translation made in this office reads as follows:

'With respect to notes owed to the United States a request shall first be presented to American Government to propose a list of such obligations for our information. In the case of those obligations regarding which no doubt exists the two Governments will jointly decide upon methods of repayment. In the case of those obligations concerning which there may be doubt, if the American Government still insists upon their settlement by arbitration, this Government will assent thereto.[']

I have not inquired whether it is the Government's intention to communicate this information through the Foreign Office. Although the copy handed to me bears neither signature nor seal it was given to me by the President of the Executive Yuan himself and the Foreign Office may think this sufficient. Please inquire whether the Department desires formal transmission by the Foreign Office."

Legation considers that the memorandum received by Peck from Acting Foreign Minister will be sufficient provided Peck is authorized to present a memorandum to the Foreign Office acknowledging its receipt and stating that the proposal has been communicated to the Department.

For the Minister :
GAUSS

493.11/1862 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, April 26, 1934—5 p. m.

128. Your 186, April 21, 11 a. m., and 192, April 24, 3 p. m. Please instruct Peck by telegraph to follow procedure outlined in final paragraph of your 192, April 24, 3 p. m.

With reference to second paragraph, your 186, April 21, 11 a. m., Department concurs in Legation's views as indicated therein and authorizes preparation of and submission to Ministry of Foreign Affairs of selected list of claims of unquestionable validity. Submit to Department by mail as promptly as possible copies of all pertinent cor-

respondence, including list of claims so presented. If list of claims not unduly long please forward same to Department by naval radio.

Keep Department fully informed of all developments.

HULL

893.51/5887

The Minister in China (Johnson) to the Secretary of State

No. 2691

PEIPING, April 26, 1934.

[Received May 19.]

SIR: I have the honor to enclose a copy of the Nanking Counselor of Legation's despatch to the Legation No. 290—Diplomatic, April 23, 1934,⁷ reporting a conversation with Mr. Suma, Secretary of the Japanese Legation, upon the subject of China's foreign debts.

Mr. Suma is reported to have made one most interesting statement to the effect that "the Japanese Government had found that when individual creditors made arrangements with the debtor railways, the endeavor of the railways was always to play one creditor off against another, resulting in great losses to the Japanese creditors. On this account, the Japanese Government had absolutely forbidden Japanese creditors to make individual arrangements with Chinese railways".

It occurs to the Legation that the Japanese Government, in forbidding its individual creditors to make individual arrangements, may not be motivated so much by solicitude for the interests of the creditors as by a desire to retain these unliquidated obligations in a form which will lend itself more readily to use as diplomatic pressure.

Respectfully yours,

For the Minister:

C. E. GAUSS

Counselor of Legation

493.11/1870: Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, May 29, 1934—2 p. m.

[Received May 29—11:40 a. m.]

225. Legation's 186, April 21, 11 a. m. and Department's 128, April 26, 5 p. m.

1. Legation has completed preparation of a list of some 650 claims from data in its files. In going through this list with the idea of preparing a "selected list" for presentation to Chinese Foreign Office the Legation has been more and more persuaded of impracticability of such a method, (a) because presentation of such a selected list

⁷ Not printed.

might cast doubt upon subsequent lists, (b) we want the establishment of a claims commission. Such piecemeal presentation would merely serve to delay decision in this matter.

2. With the Department's approval Legation proposes to make a list of entire 600-odd claims arranged alphabetically showing amount of claims as of date filed or presented and a very general statement as to the nature of claim for presentation to the Foreign Office with a statement that the claims listed have been [taken?] from the records of the Legation but that the list cannot be considered as complete and consequently it is submitted without prejudice to other American claims against the Chinese Government.

3. Legation believes this would be better tactics in that presentation of such a list might be helpful in persuading Foreign Office to accept idea of Claims Commission.

JOHNSON

493.11/1870 : Telegram

The Acting Secretary of State to the Minister in China (Johnson)

WASHINGTON, June 1, 1934—7 p. m.

157. Your 225, May 29, 2 p. m. Department approves of the procedure suggested in paragraph 2 of your telegram under reference and in connection therewith suggests

(a) that looting claims should not be included in the list of American claims now in preparation for submission to the Foreign Office;

(b) that the Legation's comments in regard to each claim should be confined to statements of fact;

(c) that the Legation should make no attempt to state the legal basis for claims so presented;

(d) that, in placing at the disposal of the Foreign Office the list of American claims, the Legation should indicate that such list is by no means complete; that it is submitted without prejudice to other American claims and that its presentation in incomplete form is due to a desire on the part of the Legation to make available as promptly as possible a sufficient number of representative American claims to enable the Chinese Government to give detailed consideration to the subject under discussion and to arrive, it is hoped, at the conclusion long held by the American Government to the effect that the interests of all concerned would be best served by the establishment of a Sino-American claims commission.

Please report developments by naval radio and forward to the Department by mail a copy of such list of American claims as may be submitted to the Foreign Office.

PHILLIPS

493.11/1874 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, June 6, 1934—9 a. m.

[Received 12:50 p. m.]

231. Department's No. 157, June 1, 7 p. m. In proposing to submit to the Chinese Government a list of all claims of which we have received [notice] from claimants the Legation hoped by including claims of uncertain validity as well as those of unquestionable validity to persuade Chinese Government of the desirability of adjudicating claims by means of an impartial claims commission.

Of a total of 636 claims so far found in our records aggregating approximately \$6,000,000 [*\$16,000,000*] United States currency, 413 represent looting claims of approximately \$650,000 United States currency. Of the 413 looting claims, 118 represent looting by soldiers amounting to approximately [\$]150,000 United States currency.

Legation believes that by submitting the list as representing claims of which it has receive[d] notice from claimants, American Government does not in any way commit itself as necessarily supporting all of them but rather as informing Chinese Government that they have been presented to us.

Legation urges that Department approve inclusion of all looting claims as a measure calculated to convince the Chinese of the desirability of the establishment of a claims commission.

JOHNSON

493.11/1874 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, June 8, 1934—7 p. m.

163. Your 231, June 6, 9 a. m. Department is willing to defer to Legation's judgment and therefore authorizes inclusion of looting claims. Department, however, continues of the opinion that Legation should follow suggestions (b), (c) and (d) as indicated in Department's telegram 157 of June 1, 7 p. m.

Department was under the impression that both in number and aggregate amount claims on file in Legation greatly exceed figures indicated in second paragraph of your telegram under reference. Are you including claims covering contractual obligations such as for example those of the Continental Illinois Bank, Pacific Development Corporation, and American International Corporation, which alone aggregate, not including interest, in excess of \$12,000,000? ^s

HULL

^s In despatch No. 2815, June 30, the Minister in China reported: "The total value of the claims of which the Legation has record is approximately U.S. \$18,041,542.34." (493.11/1890)

893.51/5908 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, June 30, 1934—noon.

[Received 7:50 p. m.]

282. Legation's despatch No. 2609, March 22nd⁹ regarding Hukuang loan.

1. British Legation has suggested transmission to Chinese Government of a memorandum acknowledging receipt of Foreign Office memorandum of March 13th and continuing as follows:

"Although more than 3 months have since elapsed no further communication has been received from the Chinese Government by the undersigned representatives whose attention has now been drawn to yet another default in this loan on June 15. These accumulated defaults now amount to nearly 2,800,000 pounds sterling and in these circumstances continued utilization for extraneous purposes of customs revenues pledged under the agreement of 1911 for the service of the Hukuang loan must necessarily create the most deplorable impression abroad.

The undersigned representatives have accordingly the honor once again to call upon the Chinese Government to implement their obligations under articles 8 and 9 of the Hukuang loan agreement and make available the customs revenues hypothecated for the service of this loan."

2. May I sign?

JOHNSON

The Secretary of State to the Minister in China (Johnson)

893.51/5908 : Telegram

WASHINGTON, July 5, 1934—6 p. m.

197. Your 282, June 30, noon. While the Chinese Government is obligated by Article 9 of the Loan Agreement to allocate part of the customs revenues to the service of the loan, the Chinese Government has not yet carried out that obligation and therefore it is incorrect to say, as is said in the draft note, that customs revenues have been "pledged" and "hypothecated" for the service of the loan.

The Department suggests that, in this draft, the last sentence of the first paragraph be amended to read substantially as follows:

"These accumulated defaults now amount to nearly 2,800,000 pounds sterling, and in these circumstances the complete disregard by the Chinese Government of its obligation under the agreement of 1911 to have the service of this loan made a charge, as prescribed and provided in the agreement, upon customs revenue while progressively utilizing

⁹ Not printed; it enclosed copy of the Chinese Foreign Office note dated March 13, 1934, acknowledging the joint memorandum of March 7 (not printed), which had been referred to appropriate authorities for consideration (893.51/5883).

increments of that revenue for other purposes must necessarily create most deplorable impressions abroad”;

and in the second paragraph the word “hypothecated” be replaced by “obligated”.

If these suggested amendments are acceptable to your British colleague, you are authorized to join with him in submitting a memorandum thus phrased.¹⁰

HULL

893.51/5927

The Minister in China (Johnson) to the Secretary of State

No. 2940

PEIPING, August 27, 1934.
[Received September 24.]

Sir: I have the honor to refer to the Department's telegraphic instruction No. 197, July 5, 5 [6] p. m. regarding the Hukuang Loan Agreement, and to enclose for the Department's files a copy of the joint memorandum¹¹ which I signed in accordance with the Department's authorization, and which was transmitted to the Ministry of Foreign Affairs by H. B. M. Minister under date of August 10, 1934.

There is also enclosed a copy of the Ministry of Foreign Affairs' memorandum in reply dated August 21, 1934,¹¹ pleading the insufficiency of the Customs revenues, and expressing the anticipation that with the completion of the Canton-Hankow Railway, the revenues from the Hunan-Hupeh section thereof will be sufficient to pay both principal and interest on this loan.

Respectfully yours,

NELSON TRUSLER JOHNSON

493.11/1902

Memorandum of Conversation, by the Counselor of Legation in China (Peck)¹²

[NANKING,] October 6, 1934.

[Present:]

His Excellency Dr. Wang Ching-wei, President of the Executive Yuan and Concurrently Acting Minister for Foreign Affairs.
Honorable Nelson Trusler Johnson, American Minister.
Dr. Tan Shao-hwa, of the Foreign Office, interpreter.
Mr. Peck.

Mr. Johnson told Dr. Wang that he should like to have the latest decision of the Chinese Government in regard to the proposal made

¹⁰ The suggested changes were incorporated in the joint memorandum dated August 10, 1934 (893.51/5927).

¹¹ Not printed.

¹² Copy transmitted to the Department by the Chargé in China in his despatch No. 3032, October 12; received November 3.

by the Department of State some time ago in regard to the creation of a Claims Commission, in order that he, Mr. Johnson, might be able to reply to the inquiries which would certainly be made of him immediately on his arrival in Washington.

Dr. Wang's reply added very little to the numerous statements hitherto made by the Chinese Government which have been reported to the Department. He said, for example, that the Chinese Government believed that American claims against the Chinese Government could be segregated into two classes, that is, claims concerning which there could be little doubt as to their propriety and claims concerning which there was ground for doubt. He said that in regard to the first class the Chinese Government would be glad to make arrangements for settlement and in regard to the second, it would probably be possible for the Chinese Government to agree upon some method of adjustment, possibly along the lines suggested by the American Government.

Dr. Wang said that the Ministry of Foreign Affairs had been conducting investigations into the various claims enumerated in the list supplied by the American Legation. It had encountered considerable difficulty, however, in ascertaining the facts regarding great numbers of these claims, either because they were extremely old (some of them dating from before the Revolution) and some of them relating to incidents in outlying provinces. In connection with the last category, the Ministry of Foreign Affairs had addressed inquiries to the provincial authorities concerned, but had not yet received replies.

Dr. Wang alluded, also, to the international complications with which China would be at once confronted if it should begin actively adjusting its obligations to American citizens. He said the Chinese Government would much prefer to take uniform and simultaneous steps to settle all of its foreign obligations.

Mr. Johnson made no special demur to the arguments advanced by Dr. Wang, but urged very strongly that the suggestion made by the Department of State, or something similar to it, be carried out by the Chinese Government. He said that the American Government did not insist upon any particular mode of settling these financial matters, nor was it pressing for immediate payment of outstanding accounts, but the Department felt very strongly that international relations between the United States and China would be greatly improved if these problems could be submitted to some form of impartial and equitable settlement, and thus be eliminated from the ordinary course of diplomatic intercourse. He pointed out that the tribunal suggested by the Department of State had been modeled upon other similar tribunals set up by the United States with other countries and that it was designed to be both simple in action and inexpensive, as well as scrupulously impartial as between the two countries. He

said that he was not prepared to discuss the merits of the various outstanding claims: he knew they were of all degrees of merit, although the American Legation had endeavored to eliminate claims which appeared to have no basis whatsoever. The important thing was, he urged, that some step be taken to provide for a decision in regard to these claims before evidence and witnesses had completely disappeared.

It seemed clear from the tone of Dr. Wang's remarks that the Chinese Government is no nearer accepting *in toto* the proposal for the creation of a Claims Commission than it was at the time that the Executive Yuan adopted a resolution providing for immediate acknowledgment of obligations concerning which there is no doubt and for the settlement of doubtful claims in accordance with the suggestion made by the American Government (see telegram from the Nanking office of the Legation to the Legation at Peiping April 23, 4 p. m., 1934¹⁴).

893.51/5928

*The Chief of the Division of Far Eastern Affairs (Hornbeck) to
Mr. Thomas W. Lamont of J. P. Morgan & Co.*

WASHINGTON, October 12, 1934.

DEAR MR. LAMONT: In my informal letter to you under date October 3, 1934,¹⁵ I expressed the hope that the Department would, within the near future, make available to you the texts of memoranda exchanged under dates August 10 and August 21 between the representatives of the French, the British and the American Governments in China and the Ministry of Foreign Affairs on the subject of the Hukuang Loan.

In this connection, I assume that you have already noted the Department's letter to J. P. Morgan and Company under date October 11,¹⁵ to which were attached copies of the texts of the memoranda under reference.

With reference to the obligation of the Chinese Government under the Hukuang loan agreement, it may be remarked, for your information and such use as you may care to make of the point, that the obligation under discussion is one with regard to which the Department, although it has declined to subscribe to various formulae of interpretation drafted and offered by some of the other interested governments and/or their respective banking groups, has at the same time refrained from offering and contending for any particular for-

¹⁴ See telegram No. 192, April 24, 3 p. m., from the Minister in China, p. 553.

¹⁵ Not printed.

mula of interpretation of its own. It may also be stated that it seems to us here that when approaches are made to the Chinese Government in regard to its outstanding obligations in this connection, especially when these approaches involve written and multipartite communications, it would in general be expedient to make references in broad terms to the provisions of the loan agreement which relate to the obligations in question and to rely upon such reference rather than to attempt to construe the provisions and to insist upon some particular formula of interpretation in relation thereto.

Yours sincerely,

S. K. HORNBECK

893.51/5934

*The American Group of the China Consortium to the Secretary
of State*

NEW YORK, October 25, 1934.

SIR: We beg to acknowledge receipt of your letter of October 11th¹⁶ (FE 893.51/5928) enclosing a copy of the text of the joint memorandum, under date of August 10, 1934, which was transmitted to the Chinese Minister of Foreign Affairs by the representatives in China of the United States, Great Britain and France, together with a copy of the Minister of Foreign Affairs' memorandum in reply, under date of August 21, 1934.

In the latter memorandum, the Minister of Foreign Affairs quotes certain authorities concerned with respect to the alleged insufficiency of the present customs revenue to meet demands, while at the same time recognizing the government's obligation to secure the Hukuang Loan upon the customs as a substitute for the likin abolished.

At the time of the abolition of likin in 1931, there was a substantial surplus of customs revenues above the service of all loans charged thereon. As you are aware, large amounts of money were borrowed in China by the Chinese Government on the strength of surrendered or remitted portions of the Boxer Indemnity annuities, the government ignoring completely the obligation to secure the Hukuang Loan. Other indebtedness has also been incurred, secured on the surplus of the customs.

In Sir Arthur Salter's paper "China and Silver" published in the spring number of *Economic Forum*, he states on page 71 that after all charges were met out of customs there remained for that year a surplus of \$70,000,000 Chinese. It is exceedingly difficult for us to understand how the Chinese Government can steadily maintain, in its replies to the various protests made by the American, British and

¹⁶ Not printed.

French Governments, as well as by the three Groups, that there are no customs revenues available to implement the obligations of Articles VIII and IX of the Hukuang Loan Agreement when such revenues, as stated by Sir Arthur Salter, do produce a surplus of this amount. Allowing for the annual remittance which China has made in recent years of an amount equal to one coupon per annum, the loan requirements laid down in the contract for the remainder of the interest and for sinking fund annually aggregate only \$3,800,000 Chinese; and if the entire loan service were transferred to customs and no salt funds used, the annual requirements would be increased only to \$6,000,000 Chinese. (These figures, of course, take no account of existing arrears.)

It must be the conviction of the Department as it is of the group banks, that China, while using surplus customs revenues for her general needs, is deliberately avoiding the clearly defined obligation to substitute a charge upon customs for the abolished likin pledged under the Hukuang Loan. May we hope that the Department will see fit to request the other interested governments to make even stronger representations than before, in the light of the figures obtained by Sir Arthur Salter from what we understand to be official sources, so that China should use some part of the customs revenues which appear to be available for the purpose of carrying out the obligations which the Chinese Minister of Foreign Affairs in his memorandum recognizes, before such surplus customs revenues are subjected to any further pledges.

Yours very truly,

J. P. MORGAN & Co.
For the American Group

RESTRICTIONS BY CHINA UPON THE IMPORTATION OF CERTAIN INDUSTRIAL CHEMICALS

893.113 Explosives/8

The Minister in China (Johnson) to the Secretary of State

No. 2928

PEIPING, August 22, 1934.
[Received September 24.]

SIR: I have the honor to refer to the Legation's despatch No. 2767, June 7, 1934,¹⁷ in regard to the restrictions being placed upon the importation into China of certain industrial chemicals, and to enclose for the Department's consideration copies of subsequent pertinent correspondence upon this matter.¹⁷

In his despatch No. 7968, June 8, 1934, the Consul General at Shanghai announced an intention of making application in behalf of an American firm to the Saltpetrer and Sulphur Bureau of Kiangsu

¹⁷ Not printed.

for a permit to import a monopolized chemical, and in his despatch No. 8048, August 16, 1934, he reports the refusal of the Bureau to issue the permit requested.

From the letter of the Director of the Kiangsu Provincial Salt-peter and Sulphur Bureau which was enclosed with the latter despatch it appears that, while the Bureau is prepared to permit the importation of restricted chemicals where intended for consumption by the importer, it will not permit their importation where the importer intends to resell them to consumers in the ordinary course of trade.

In the absence of discrimination, and in view of the provisions of Item 5 of Rule V of the Rules of Trade of the Sino-American Treaty of 1858¹⁸ specifically classifying certain chemicals as munitions of war and prohibiting their importation into China by citizens of the United States except at the requisition of the Chinese Government, or for sale to Chinese duly authorized to purchase them, the Legation is not inclined to believe that it could appropriately insist that American merchants be permitted to import such chemicals for purposes of further sale. The Chinese Government would appear to have chosen to consider these chemicals as munitions of war, and, exercising its sovereign right to control the traffic in such commodities, has restricted the right to import them to merchants selected by the Government and to those importers who intend actually to consume the commodities imported. So long as there is no discrimination against American merchants in this matter, the Legation does not believe that those merchants have a valid complaint against the policy of the National Government, and it does not believe that any useful purpose would be served by pursuing the general question further with the Ministry of Foreign Affairs.

A copy of the Legation's instruction to the Consul General to the above effect is enclosed¹⁹ for the Department's consideration and possible comment.

Respectfully yours,

NELSON TRUSLER JOHNSON

893.113 Explosives/8

The Acting Secretary of State to the Chargé in China (Gauss)

No. 1493

WASHINGTON, October 22, 1934.

SIR: Reference is made to the Legation's despatch No. 2928 of August 22, 1934, and to previous correspondence, in regard to the importation into China of certain industrial chemicals.

¹⁸ William M. Malloy (ed.), *Treaties, Conventions, etc., Between the United States of America and Other Powers, 1776-1909* (Washington, Government Printing Office, 1910), vol. I, pp. 222, 230.

¹⁹ Not printed.

It is noted that in view of the action of the Chinese Government in choosing to exercise its sovereign right to control the traffic in munitions of war and pursuant thereto, as provided in Item 5 of Rule V of the Rules of Trade of the Sino-American Treaty of 1858, to prohibit, except under certain conditions, the free sale of "saltpeter, sulphur, brimstone and spelter", the Legation is of the opinion that, in the absence of discrimination against American merchants, such merchants are without valid complaint and that no useful purpose would be served in further discussing the matter with the Chinese Government.

In this connection it may be stated that, although not in position to agree that, due to the aforementioned treaty provision, the American Government is necessarily estopped from registering protest when unreasonable and unwarranted restrictions are placed upon the import into China of the industrial chemicals under reference, the Department is, nevertheless, inclined to agree with the Legation that, so long as there is lacking evidence of discrimination against American interests, no useful purpose would be served in pursuing the matter further with the Chinese Government.

Very truly yours,

WILLIAM PHILLIPS

REPRESENTATIONS AGAINST RESTRICTIONS IMPOSED BY THE CANTONESE AUTHORITIES UPON THE SALE OF LIQUID FUEL BY FOREIGN COMPANIES²⁰

693.116/122: Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, January 16, 1934—noon.
[Received January 16—7:42 a. m.]

39. Legation's 5, January 3, 3 p. m.²¹ Following from American Consul General at Canton to the Legation and Nanking:

"January 15, 5 p. m. Inspector General of Foreign Affairs informed British Consul General and myself today that foreign oil companies are on the same basis as native companies in respect to deferred payment tax plan, but that native distillers are now granted subsidy from the provincial treasury. Inspector General said that he had been promised a letter on these points from the Commissioner of Finance and upon its receipt he would confirm these statements to us in writing and also set forth the channel on which the subsidy is granted."

The Legation is taking no action in the matter pending receipt of information as to the nature of subsidy proposed.

JOHNSON

²⁰ Continued from *Foreign Relations*, 1933, vol. III, pp. 569-593.

²¹ *Ibid.*, p. 593.

693.116/126

The Minister in China (Johnson) to the Secretary of State

No. 2495

PEIPING, January 31, 1934.

[Received February 24.]

SIR: I have the honor to refer to the Legation's despatch No. 2451, January 5, 1934,²² upon the subject of the restrictions placed upon the business of American oil companies by the Chinese authorities at Canton, and to enclose a copy of despatch No. 245, January 12, 1934, from the Consul General at Canton.²²

From the Consul General's despatch it appears that while a pretense is being made that this taxation is being applied uniformly and without discrimination, the provincial government is in fact granting to Chinese refiners of kerosene produced locally from liquid fuel a rebate of two-thirds of the tax under the guise of a subsidy to native industry.

As this rebate appeared to the Legation to be in fact discriminative tax treatment, the British Legation was consulted. As a result, we have both instructed our consuls general at Canton to protest the collection of this tax in the discriminative manner now evident. A copy of my instruction to the American Consul General at Canton is enclosed.²³

Although we did not believe that the Ministry of Foreign Affairs was in a position to take any effective action in the premises, in order that our views upon this latest move of the Canton authorities towards the elimination of the oil companies from that region might be known to the National Government, we have addressed similar notes of protest to that Ministry. A copy of the Legation's note, together with a copy of that sent by the British Legation is enclosed for the Department's information.²³

Respectfully yours,

NELSON TRUSLER JOHNSON

793.94/6625 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, May 7, 1934—6 p. m.

139. Please inform Canton in reference to its telegram of April 29, noon,²⁴ as follows:

In your discretion, you are authorized, on some opportune occasion when you are discussing with members of the Southwest Political Council and other officials at Canton the oil discrimination matter or

²² Not printed.²³ Neither printed.²⁴ *Ante*, p. 147.

other cases of discriminatory treatment of Americans at Canton, to refer to the declaration made by the Southwest Political Council on April 27 and to remind them of their obligation to observe treaties between China and the foreign powers.

HULL

693.116/132

The Minister in China (Johnson) to the Secretary of State

No. 2782

PEIPING, June 14, 1934.

[Received July 23.]

SIR: I have the honor to refer to the Legation's despatch No. 2745, May 28, 1934,²⁵ concerning the restrictions being placed upon the business of the American oil companies at Canton, and to enclose for the Department's information a copy of the Canton Consul General's despatch to the Legation No. 290, May 31, 1934.²⁶

This despatch narrates the further efforts of the Consul General in this matter, and indicates that, in spite of the rebate enjoyed by the government-projected [-protected?] native refiners, those refiners have not been prospering because of the competition of certain independent refiners, and because the foreign oil companies have succeeded in supplying about 30% of the kerosene sold during the past four months.

As, because of this situation, the government-projected refiners were reported to have begun agitation for the establishment of a quota system, the Consuls General (American and British) deemed it advisable to endeavor to forestall the enactment of any such scheme by prior representations to the Inspector General for Foreign Affairs. Mr. Ballantine²⁶ reports having received verbal assurances that no quota project is being considered.

Respectfully yours,

NELSON TRUSLER JOHNSON

EFFORTS OF THE UNITED STATES TO MEET SITUATION CREATED BY IMPOSITION IN CHINA OF TAXES CONSIDERED UNFAIR TO AMERICAN TRADE²⁷

693.113 Tobacco Products/43 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, October 2, 1934—1 p. m.

316. Your 430, September 27, noon.²⁵ Although appreciating the unfortunate effects which the proposed tax schedule may have on the

²⁵ Not printed.

²⁶ Joseph W. Ballantine, Consul General at Canton.

²⁷ Continued from *Foreign Relations*, 1933, vol. III, pp. 598-603.

consumption in China of American leaf tobacco, the Department, based on such information as is now available, fails to perceive legal grounds upon which protest to the Chinese Government may appropriately be made.

You are authorized, however, to discuss the situation orally and informally with the appropriate Chinese authorities during the course of which conversation you may wish to emphasize the fact that, as recently as last July, China revised its import tariff in such manner as to place upon American trade in particular a severe handicap; that apparently legislation is now proposed which, if made operative, would create an additional handicap which would again fall most heavily upon an important item of American trade, namely, the leaf tobacco trade; that the cumulative effects of such acts, coupled with the collection in various parts of China of illegal and discriminatory taxes, are matters of concern to the Department and to the American interests affected thereby; and that in consequence it is hoped that the Chinese Government will not further complicate the situation by the imposition of additional taxation upon cigarettes, which action would not only seriously affect American interests but might also, in the long run, decrease rather than increase Chinese Government revenues.

Please keep the Department fully informed.

HULL

893.60/31

The Secretary of State to the Minister in China (Johnson)

No. 1466

WASHINGTON, October 3, 1934.

SIR: Reference is made to the Legation's despatch No. 2801 of June 26, 1934,²⁸ in regard to "The Industrial Encouragement Act" which, by mandate under date April 20, 1934, was promulgated by the Chinese Government.

In this connection, the Department has given special consideration to the methods, as stated in article 2 of the Act under reference, by which encouragement may be given to the development of domestic industry. With the possible exception of the proposed granting of "encouragement" funds, the other means by which assistance may be rendered, namely, reductions in or exemptions from export duties and raw material taxes, reduction in freight rates charged by government-owned communication systems, and exclusive rights of manufacture in specific areas for specific periods of time, would appear to be of such a nature as to contravene the letter or the spirit or both of treaty commitments of the Chinese Government. It would thus appear that detailed representations in the premises might appropriately be made

²⁸ Not printed.

to the Chinese Government. The Department, however, is inclined, in the absence of protests by other interested powers and, in particular, of specific instances in which American interests are adversely affected by implementation of the Act under reference, to the opinion that the Legation should, in addressing the Foreign Office, refrain from citing the specific treaty rights which the provisions of the Act would appear to infringe. It is therefore suggested that the Legation confine its note to a brief statement to the effect that, although the Legation readily understands the natural desire of the Chinese Government to assist domestic industry, certain of the means, as outlined in "The Industrial Encouragement Act", by which it is hoped to attain the desired end, would appear to contravene various treaty commitments of the Chinese Government and that, in consequence, the Legation reserves such rights of American nationals as may be adversely affected by the operation of the Act under reference.

The Legation will of course wish to give further study to the subject and, possibly, to consult with the representatives of the other principally interested powers with a view to ascertaining and, if advisable, to reporting to the Department any further developments of consequence.

Very truly yours,

For the Secretary of State:
WILLIAM PHILLIPS

893.60/33

The Chargé in China (Gauss) to the Secretary of State

No. 3129

PEIPING, November 9, 1934.
[Received December 15.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction No. 1466, of October 3, 1934, in regard to the "Industrial Encouragement Act" which was promulgated by mandate of the National Government of China on April 20, 1934, and to enclose a copy of the formal note³⁰ which the Legation has addressed to the Acting Minister for Foreign Affairs under the authorization given in that instruction.

The matter of the Industrial Encouragement Act was discussed with the British Legation and it was ascertained that the British Minister intends to address a formal communication on the subject to the National Government, citing various specific causes of complaint which the British Legation has in recent months made the subject of representations to the National Government and inviting attention to the fact that while it is stated to be the policy of the Chinese Govern-

³⁰ Not printed.

ment to encourage the investment of foreign capital in China, the action of the Government and of various provincial governments tends not only to discourage the investment of new British capital but also to place British capital already invested at a disadvantage as compared with Chinese capital. It was stated at the British Legation that it is the intention of the British Minister, who is now absent on a tour to South China, also to address an informal communication to Dr. Wang Ching-wei, the Acting Foreign Minister, directing his personal attention to the formal communication from the Legation and expressing the hope that the Chinese Government will take measures to conform its acts to its pronouncements in this matter, which he feels mean so much to British capital in China and which should also be vital to the improvement of the economic situation in this country.

Amongst the causes of complaint which the British note will cite are matters such as the kerosene taxes imposed in Fukien Province, and restrictions amounting substantially to a monopoly in the importation of sulphuric acid. But none of these complaints arise out of the Industrial Encouragement Act, and, so far as this Legation is aware, there has not yet arisen any case affecting foreign interests where that Act may be cited as the cause of unfair treatment or discrimination.

The outstanding instance of unfair treatment of foreign interests in China during the past few years has been the kerosene case at Canton,³¹ but that matter seems now to be in a fair way toward adjustment.

With reference to the matter of encouragement of foreign capital investment in China, I offer the comment that while from time to time officials of the National Government have been reported as encouraging such investments, the general attitude has been one of desiring foreign capital for Chinese enterprises, under Chinese control, and not for investments under foreign extraterritorial jurisdiction.

Having given consideration to the question as to whether it might be desirable to approach the National Government in connection with the Industrial Encouragement Act along the lines of the British plan, I concluded that the course originally proposed by the Legation and approved by the Department seemed the more desirable and I have followed that course in addressing my note to the Acting Foreign Minister.³²

The Legation is circulating to the consular officers a translation of the Industrial Encouragement Act and informing them of the Lega-

³¹ See pp. 564 ff.

³² The Minister in China in his despatch No. 3422, March 7, 1935, reported that the Chinese Foreign Office had replied to the effect that the Minister of Industry stated "there will be no discrimination" and "utilization of foreign capital and technical cooperation will in no way be affected by the operation of the Industrial Encouragement Act." (893.60/39)

tion's note to the Minister of Foreign Affairs. The consuls are being instructed to inform the Legation of any developments in their district in the application of the Industrial Encouragement Act which may affect American interests.

Respectfully yours,

C. E. GAUSS

893.5034 Business Tax/93 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, November 28, 1934—10 a. m.

[Received 11 a. m.³³]

543. In its despatch 3154, November 21st³⁴ regarding business tax law the Legation reported receipt of a further note from the Foreign Office making unsatisfactory effort to overcome objections previously voiced by the American Government and requesting that American merchants be instructed to comply with the regulations and pay the tax. Other interested Legations received similar notes.

As for the most part the objections previously raised still existed, the Legation replied to the Ministry of Foreign Affairs to that effect and reaffirmed its previous position. French Legation has replied refusing to permit imposition of this tax upon French nationals for the reason that it is in contravention of the treaties particularly article 40 of the French treaty of 1858.³⁵ British Minister was in South China and Japanese Legation did not know what reply would be made.

I am now informed by the British Legation that the British Minister is proposing to his Government that he be authorized to go to the Chinese Foreign Office and verbally and informally explain that the British Government is prepared without prejudice to treaty rights to discuss an arrangement for the payment by British subjects of a legal and reasonable business tax on a nondiscriminatory basis; that is to say, subject to there being no discrimination whatever either in theory or practice, such tax to be paid not only by the Chinese but also by all foreigners alike, and subject also to certain safeguards, the chief of which would be that such legal taxation would not be enforced against British subjects by any other process than that of action in the British courts, and that in cases of disputed assessment the party concerned should be entitled to have the amount of his liability fixed by the British courts. British Legation states that it is not informing

³³ Telegram in two sections.

³⁴ Not printed.

³⁵ Signed at Tientsin, June 27, 1858, *British and Foreign State Papers*, vol. LI, p. 636.

other interested Legations of this proposed action at the present moment but that it desired to obtain our views and agreement to a similar line of action.

By making this counterproposal to the Chinese the British Minister hopes to shelve the entire question as would appear to have been done with the commercial treaty negotiations³⁶ and thereby possibly prevent further provincial efforts to collect a tax under the present objectionable law or at least restore relations by exhibiting to the Chinese the willingness of the British Government to permit imposition of a business tax upon British subjects under certain safeguards.

Provided there is insistence upon nondiscrimination as between foreigners of various nationalities as well as between foreigners and Chinese the suggested action would appear harmless and I would recommend that I be authorized to take similar action through the Counselor at Nanking provided British Minister is authorized to act as he has suggested. Our action might be confined to informing Chinese verbally that we endorse the British proposal. The Department's instructions are requested.

GAUSS

893.5034 Business Tax/93 : Telegram

The Secretary of State to the Chargé in China (Gauss)

WASHINGTON, December 6, 1934—5 p. m.

377. Your 543, November 28, 10 a. m. in regard to business tax law.

1. Noting that the French Legation refuses to permit the imposition of this tax on French nationals and that the attitude of the Japanese Legation is unknown, the Department, in view of the fact that enforcement by action in American courts in China of such taxation against American citizens or reference to such American courts of disputes in regard to the tax would require legislation by Congress, is not in position to endorse the British proposal.

2. For your information but not for communication to Chinese authorities. In the event of a willingness on the part of all other treaty powers to acquiesce in the imposition of the proposed tax on their respective nationals, the Department would be prepared to give consideration to advising American nationals to pay the tax as a voluntary contribution provided the tax were national in scope and the amount and the methods of collection were reasonable and non-discriminatory.

³⁶ See pp. 523 ff.

3. You are authorized to inform your British colleague informally and confidentially of the foregoing.

HULL

693.113 Tobacco Products/49 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, December 31, 1934—2 p. m.

401. Your 605, December 30, 10 a. m.,³⁷ in regard to proposed increase in the import duties applicable to leaf tobacco.

If on further investigation the report outlined in your telegram under reference proves to be correct, it is assumed that Legation will bear in mind and act in accordance with the views and suggestions of the Department as indicated in its telegram No. 316 of October 2, 1 p. m.

HULL

693.113 Tobacco Products/50 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, January 9, 1935—noon.

[Received January 9—2:47 a. m.]

10. The Counselor of Legation at Nanking³⁸ was directed to take action in compliance with the Department's 401, December 30 [31], 2 p. m. He has replied as follows:

[“]January 8, 9 a. m. I am confidentially but reliably informed that the Executive Yuan has sanctioned an increase of 100 percent in the import tariff on leaf tobacco and that the date of enforcement will be determined by the Ministry of Finance. Reason for increase is the falling price of imported leaf tobacco and consequent necessity of protecting similar type tobacco raised in Shantung and elsewhere. My informal protest to an appropriate official has met with the reply that the increase has already been officially sanctioned although not yet enforced.”³⁹

Peck is being instructed to see the Minister of Finance and orally and informally advise him of the Department's views as set forth in its 316, October 2, 1 p. m.

GAUSS

³⁷ Not printed.

³⁸ Willys R. Peck.

³⁹ In telegram No. 17, January 28, 1935, 10 a. m., Mr. Peck reported that the Chinese Government had abandoned its intention to double the import duty on leaf tobacco (893.6581/6).

DENIAL TO AMERICAN FIRMS OF RIGHT TO FORMAL HEARING
UNDER THE CHINESE CUSTOMS RULES OF 1868⁴⁰

693.11245/29

The Minister in China (Johnson) to the Secretary of State

No. 2459

PEIPING, January 9, 1934.

[Received February 10.]

SIR: I have the honor to refer to the Department's instruction to the Legation No. 1112, June 19, 1933,⁴¹ in regard to the enforcement of Chinese Maritime Customs Regulations and the Rules of 1868 for joint investigation in cases of confiscation and fine by the Customs House authorities.⁴²

In compliance with the Department's directions, I have taken advantage of every opportune occasion to press for a more satisfactory handling of such cases.

I have been informed by the Inspectorate General of Customs that it had nothing to do with the ruling of the Chinese Government to the effect that the Sino-American Tariff Treaty of 1928⁴³ removed any necessity for investigations under the provisions of the Rules of 1868. It maintains that that ruling was made by the Customs Administration of the Ministry of Finance.

In a conversation, Sir Frederick W. Maze, the Inspector General of Customs, requested that he be supplied with a list of the cases in which we consider that the Customs have acted arbitrarily toward American firms. Although I did not deem it advisable to supply him with a complete list of all cases which have come to the attention of the Legation within recent years, upon my return to Peiping, I sent him a list of the principal cases and endeavored to point out to him wherein I felt the Customs had acted arbitrarily. A copy of this letter is enclosed⁴¹ for the Department's information.

Also as of interest to the Department, there is enclosed a copy of a letter from the Counselor of Legation at Nanking⁴¹ reporting a conversation had by him with Mr. L. K. Little, an American citizen who occupies a position of trust on the staff of the Inspector General. Mr. Little expressed the opinion "That the Maritime Customs deserves, as an institution, the support of the American Legation; he feels that the continued existence and operation of the Customs is a positive benefit to foreign trade in general, including American." He gave to the Counselor of Legation the impression that the Maritime Customs has many enemies among the Chinese, and that if its present

⁴⁰ Continued from *Foreign Relations*, 1933, vol. III, pp. 626-628.

⁴¹ Not printed.

⁴² *Foreign Relations*, 1868, pt. 1, p. 527.

⁴³ Signed at Peking, July 25, 1928, *ibid.*, 1928, vol. II, p. 475.

organization is to be continued, it must be supported by the Legations. He suggested that it would be beneficial to all concerned if the Legation and the Inspectorate General were to talk over causes of complaint unofficially before the Legation takes them up with the Ministry of Foreign Affairs.

There is also enclosed a copy of my reply to the Counselor of Legation ⁴⁵ reminding him that in each of the recent cases of complaint against the action of the Customs House authorities the Legation first endeavored to get satisfactory action by the Inspectorate General before recourse was had to the Foreign Office, but that apparently there had been no disposition on the part of the Inspectorate General to meet us in a very reasonable spirit.

In setting forth the Legation's views upon this matter, I assured the Counselor of Legation that we have no desire to quarrel with the Customs, and that we have always been mindful of the advantage to American and foreign trade of a cordial and sustained support of the Customs administration as now organized. At the same time, however, I explained to him that there are certain fundamental principles to which we must adhere, and while I was ready to concede the difficulties confronting a customs administration having to function alongside foreign extraterritorial regimes in China, and while I was disposed to go along patiently in working out our problems, I felt that we must have an eye to the future and look consistently to the acknowledgement and acceptance of the principle that in disputes between merchants and Customs there must always be an orderly process for fair and open hearing and just and equitable settlement. I expressed the opinion that if we concede to the present administration of the Customs arbitrary powers of confiscation, seizure, fines and penalties, without reserving to the merchant the right of fair and open hearing in review of the action of local Commissioners of Customs, we are laying up much trouble for the future.

The Department will be kept currently informed of further developments in regard to this matter.

Respectfully yours,

NELSON TRUSLER JOHNSON

693.11245/31

The Inspector General of Chinese Customs (Maze) to the American Minister in China (Johnson) ⁴⁶

SHANGHAI, January 18, 1934.

MY DEAR MR. JOHNSON: I have received your letter of 30th December, 1933,⁴⁵ forwarding a list of three cases in which you consider

⁴⁵ Not printed.

⁴⁶ Copy transmitted to the Department by the Minister in China in his despatch No. 2523, February 7; received March 12.

that the Customs have acted arbitrarily towards American firms, together with an outline of the grounds on which your opinion has been formed. The three cases dealt with in your letter are as follows:—

Socony Vacuum Lungkow confiscation case;
Frazar, Tsingtao case; and
International Truck & Storage Company case, Shanghai.

The facts in these cases have been exposed in official correspondence, and I do not propose to refer to them in this letter except where necessary to assist in the consideration of the arguments contained in your letter under reply.

With regard to the Socony-Vacuum case, I am glad that a re-consideration of all the circumstances disclosed grounds upon which the penalties imposed could be revised, and an equitable adjustment made. For the sake of record, and to avoid possible future misunderstanding, I should like to point out that the reason I was able to recommend the settlement of the case to the Government was—not the fact that the cargo was owned by an American firm or the action of the Deputy Commissioner at Lungkow in confiscating and selling the oil, but—the discovery that Customs stations on the Shantung Coast had, albeit unauthorisedly, on several occasions permitted the entry of junks from Dairen whose cargo was covered by documents forwarded by post to local agents and not carried on the vessel itself. In view of this new evidence, it was clear that the absence of covering documents in the junk seized at Lungkow did not, necessarily, indicate intention to smuggle, and I was therefore in a position to suggest a mitigation of the penalty.

With regard to the Frazar case at Tsingtao, I notice that you state that two issues are involved:—(1) the responsibility of the Frazar Company for the duty which did not reach the Customs receiving bank; and (2) the arbitrary measures adopted by the Commissioner at Tsingtao in an attempt to force the American Company to assume the responsibility for such payment.

With regard to the first point, Article XXII of the Treaty of Tientsin (United States)⁴⁷ states that “the duties shall be paid to the shroffs authorized by the Chinese Government to receive the same”. It is admitted that Messrs. Frazar did not pay the duty to the “authorized shroff” (i. e., the Customs Bank) and it is, therefore, not understood how they can refuse to accept responsibility.

You state that you are of the opinion that, if the Customs feel their claim is just, action against the Company should be taken in the

⁴⁷ Signed June 18, 1858, Hunter Miller (ed.), *Treaties and Other International Acts of the United States of America*, vol. 7, p. 793.

American Court. But you may possibly concur with me that it is unnecessary for the Customs to secure through the American Court satisfaction of a claim to which they are clearly entitled by treaty. It is obvious, of course, that American citizens have the right by treaty to engage in legitimate trade at the ports but I hold that to enjoy that right they must abide by the terms of the treaties. In other words the treaty right of merchants to trade in China is conditioned by the treaty obligation to pay duty to the office appointed to receive it.

Incidentally, in view of your suggestion that the Customs should take action against the Frazar Company in an American Court, I have been given to understand, since our recent conversation in Shanghai, that the United States Court for China holds the view that the Chinese Government cannot take legal proceedings in any Consular Court of the United States in China against United States citizens. If this view is correct, it would render it impossible, even if desirable, for the Customs to follow the course which you now recommend.

Turning to the Company's claim, with which you state that you concur, that if there was fraud on the revenue in this case it involved the Customs organization as seriously as it involved the employees of the Company, the view of the Chinese Government is that under the Treaties duty is a debt to the Government which the foreign merchant is obliged to liquidate, and that neglect on the part of the Customs does not release him from this obligation.

Recent developments in the Frazar case, however, indicate that it is not complicated by any question of the complicity of Customs employees. I have received a report from the Tsingtao Commissioner, stating that Frazar's clerk, Wang Feng-to, has been tried in the local Court, found guilty of unauthorized use of seals and embezzlement of moneys entrusted to him by Frazar Fed., Inc., and sentenced to a term of 18 months imprisonment. The Customs *ex* T'ingch'ai, Hsü Ting-sheng, whom Frazar's clerk named as his accomplice, was also tried in the Chinese Court and acquitted. It follows, therefore, that there are no grounds for suspecting that any Customs employee was involved in this fraud on the revenue.

In passing, I should like to draw attention to the consequences of the acknowledgment of the principle that complicity of a Customs employee in fraud relieves the merchant from his obligation to pay duty evaded, and to express the opinion that the acceptance of such a doctrine would invite attempts at evasion of duty by dishonest merchants acting in collusion with their own employees, with or without the connivance of subordinate Customs employees.

With regard to the second point, a review of the action taken by the Tsingtao Commissioner in an effort to induce Messrs. Frazar to pay

the duties due from them to the Chinese Government does not show that it was arbitrary. After the discovery of the fraud, the Company asked for time to make investigations, and the Commissioner acceded to their request. It was only after the lapse of a month that the Commissioner, as a result of the refusal of the Company to pay the duty or to give security therefor, informed them that he could not pass any more cargo for them until the sum owing to the Government had been paid. The motorcar and tyres which the Customs subsequently declined to release were detained—not confiscated—in consequence.

With reference to your criticism of the Commissioner's action in thus refusing to pass cargo for the Frazar Company until they had paid the duties owed to the Chinese Government, I may state that this method of procedure is sanctioned by custom and precedent, by instructions of the Chinese Government in specific instances, and by treaty. *Vide* article XLVI of the Treaty of Tientsin (1858) (Great Britain) ⁴⁹ which reads:—

“The Chinese Authorities at each port shall adopt the means they may judge most proper to prevent the revenue suffering from fraud or smuggling”.

I note your opinion, referred to above, that if it is claimed that there was a fraud on the revenue our remedy was to have recourse to proper proceedings in the competent court and that any attachment of property must be made under the order of the Court and not by the Customs. As a statement of broad principle divorced entirely from post-treaty developments and from the practical requirements of commerce, no exception can be taken to this view provided the Customs were permitted to act in this way. But I request you to consider the effects which such an interpretation would have upon trade if it were generally acted upon. I have no hesitation in asserting that traders in general would prefer to submit to what I may term the summary jurisdiction of the Customs rather than find themselves obliged to answer to Customs charges in their national Courts. Moreover, it must not be overlooked that if the Customs have taken upon themselves certain powers which you conceive they have no right to exercise under the treaties, they have also secured for commerce very valuable privileges which those treaties do not confer. The circumstances in which the Customs function in China are not comparable with those obtaining in other countries and I suggest that it is wiser to attempt to adjust differences in a spirit of mutual accommodation rather than by invoking the treaties. If a merchant considers he has a grievance against the Customs he can at any time appeal to his national authorities and I think you will concede that the Inspectorate is always ready

⁴⁹ Signed June 26, 1858, *British and Foreign State Papers*, vol. XLVIII, p. 47.

to give the fullest hearing to any representations made in this way—at any rate I claim that this is the case.

The report which, you state, your Legation has on record that the Customs applied to the Kiao-Tsi⁵⁰ Railway Authorities to detain any cargo shipped on the railway to the Frazar Company, is without foundation. It is possible that you may have in mind the peculiar action of the American Consul at Tsingtao, who is reported to have requested the Wharf Administration to refuse delivery to the Customs of certain imports consigned to the Frazar Company should the Customs decide to confiscate them,—a step which, I may add, was not contemplated but which the Consul evidently feared. The Wharf Administration, I understand, properly refused to accede to the Consul's extraordinary request.

The report that the Customs applied to the Kiao-Tsi Railway to detain cargo consigned by rail to the Frazar Company, as well as other statements and innuendoes made in your despatch of 24th February, 1933, addressed to His Excellency the Minister for Foreign Affairs,⁵¹ force me to the conclusion that, throughout the whole course of the Frazar case, you have been misled and misinformed. The despatch to which I refer contains grave implications against the administration of the Tsingtao Customs, and the integrity of its staff. In particular, two Customs Assistants are mentioned by name, and of them you have categorically stated that "It is further very difficult to believe that one or both of the Customs assistants in the general office did not have knowledge of the fraud. If, however, they did not possess such knowledge it would appear that they were guilty of gross and inexcusable negligence in not previously discovering the irregularity". I cannot permit such implications to pass unchallenged, and there is no evidence that either Assistant had knowledge of the fraud or was guilty of negligence.

In view of the verdict of the Court in the Frazar case, which removes suspicion of participation of Customs employees in the fraud, I feel confident that, in the interests of justice, you will wish to modify the criticism and innuendoes embodied in the despatch quoted above, which now forms part of the official files of the Ministry of Foreign Affairs.

With reference to the third case mentioned in your letter—that of the International Truck and Storage Co., Shanghai (in liquidation)—the record shows that the applications to ship the cargo concerned, which was proved to have been substituted, were signed by the Company acting as Customs Brokers and, therefore, assuming responsibility in the first instance for the duty evaded. There is the strongest

⁵⁰ Kiaochow-Tsinan (Shantung).

⁵¹ Not printed.

evidence to show that one, at least, of the Company's employees was involved in the fraud, but I have nevertheless given instructions that the case is not to be finally closed until the Company has had every opportunity of proving that the fraud was committed by a second party, and that neither they, nor any of their employees, were implicated.

In conclusion, I should like to reiterate that arbitrary action by the Customs against merchants is neither tolerated nor condoned by me. The policy of the Inspectorate is to extend all possible facilities to merchants and encouragement to trade consistent with the primary duty of protecting the Government's revenue, and to treat all with fairness, courtesy and consideration.

Yours sincerely,

F. W. MAZE

693.11245/31

*The American Minister in China (Johnson) to the Inspector General of Chinese Customs (Maze)*⁵²

PEIPING, February 1, 1934.

MY DEAR SIR FREDERICK: I have received your letter of January 18, 1934, in reference to the American cases in which the Legation feels that the Customs authorities have acted arbitrarily. I have again gone into this matter with care, and regret that I cannot accept the position of the Customs on a number of the issues involved in these cases.

As to the Socony-Vacuum case at Lungkow, I have noted your comments and have also examined a despatch from the Foreign Office enclosing copy of a lengthy communication from your Inspectorate General to the Ministry of Finance. I am interposing no objection to the acceptance by the American company of the proposed arrangement for the settlement of this case, but for the sake of the record and to avoid any future misunderstanding as to our position, I am noting my exception (1) to the deduction of the \$500 penalty, (2) to the confiscation of the American cargo on the grounds of purely technical violations of Customs rules by the transporting junk when there was no evidence or even reasonable suspicion of an intention to smuggle or to engage in clandestine trade or to defraud the Customs revenue, and (3) to the denial of the right of joint investigation under the Rules of 1868.

In the Frazar case at Tsingtao, I can find nothing to justify the action of the Commissioner of Customs in denying Customs facilities to the American firm and in detaining cargo destined to them. The

⁵² Copy transmitted to the Department by the Minister in China in his despatch No. 2523, February 7; received March 12.

provisions of Article XLVI of the British Treaty of 1858, quoted by you, can not in any way be construed to authorize the measures taken by the Commissioner at Tsingtao in derogation of the treaty rights of the American Company and of the extraterritorial jurisdiction of the United States.

To put it quite frankly, the Commissioner is seeking by the measures he has taken, to coerce the American Company into submission to the "summary jurisdiction" of the Customs in the duty dispute, and I can not acquiesce in any such coercive measures. I have no doubt that in many cases traders may in general prefer to submit to the "summary jurisdiction" of the Customs rather than find themselves obliged to answer to Customs charges in their national courts; but when an American merchant challenges such "summary jurisdiction" of the Customs it certainly is not competent for your Commissioners to apply coercive measures to enforce it. On the contrary, I contend that the remedy of the Customs against the American company must be sought in proper proceedings in the American court of competent jurisdiction.

I note the statement of your understanding "that the United States Court for China holds the view that the Chinese Government cannot take legal proceedings in any Consular Court of the United States in China against United States citizens." I fail to find any decision or dictum to that effect in any of the published cases of the United States Court for China. I am aware that an "opinion" to that effect was rendered by the Attorney General of the United States in 1855,⁵³ based upon the treaties and statutes then in force, but such an opinion is in no sense binding on our courts and the question is one which can only be determined by the Court on proper pleadings.

My attention has been directed to a case in the British Supreme Court in 1917, in which the Commissioner of the Chinese Maritime Customs at Shanghai brought an action against the Shanghai Dock and Engineering Company, Ltd., for certain short-paid Customs duties. The procedure of the Customs in that case, in bringing action against the Company in the court of competent jurisdiction, appears to have been entirely correct. I fail to understand why in a similar dispute with the Frazar Company resort should be had to the measures adopted by the Commissioner at Tsingtao rather than to the orderly processes of the courts.

Although the case in the British Supreme Court referred to above involves questions similar to those raised in the present duty dispute, I am not prepared to express to the American Company any opinion on the question of the legal responsibility of the Company in the present case, which, unfortunately, has been so seriously complicated by

⁵³ 7 Op. Atty. Gen. 495.

the action of the Tsingtao Commissioner in withdrawing Customs facilities and detaining cargo in no way involved in the dispute.

You state in your letter that recent developments in the Frazar case indicate that “. . . it is not complicated by any question of the complicity of Customs employees”, and “. . . that there are no grounds for suspecting that any Customs employee was involved in this fraud on the revenue.”⁵⁴ While the Commissioner of Customs at Tsingtao apparently has not interested himself in facilitating the prosecution of the Customs t'ing-chai in the Tsingtao court, I am informed that the judgment of acquittal in that court has been appealed by the Procurator and that the appeal is now before the High Court at Tsinan. I may add for your confidential information that the investigations continued by the Frazar Company have developed new evidence in reference to the alleged forged seal which I am led to believe will satisfactorily establish complicity of a Customs employee in the case.

I have noted your suggestion that it is wiser to attempt to adjust differences in a spirit of mutual accommodation rather than by invoking the treaties, and that you are always ready to give the fullest hearing to any representations made in this way. I am glad to have this assurance, but in connection with the Socony-Vacuum case and the Frazar case I regret that the Legation's communications to your Inspectorate General apparently received only *pro forma* consideration and the Legation was therefore under the very unpleasant necessity of addressing its protests to the Ministry of Foreign Affairs.

I regret that in the Frazar case there appears to be no disposition on the part of the Customs to restore to the American Company the Customs facilities to which it is entitled under the treaties, nor to arrange the matter of the cargo detained by the Commissioner at Tsingtao, and I am, therefore, again under the necessity of addressing a further note of protest to the Ministry of Foreign Affairs in this case in a continued effort to obtain just consideration for the American firm.

Yours sincerely,

NELSON TRUSLER JOHNSON

693.11245/34

*The American Minister in China (Johnson) to the Chinese Acting Minister for Foreign Affairs (Wang Ch'ing-wei)*⁵⁵

No. 706

PEIPING, February 10, 1934.

EXCELLENCY: I have the honor to refer to the correspondence with Your Excellency's Ministry relative to the Rules of 1868, providing for joint investigation in cases of confiscation and fine by the Customs

⁵⁴ Omissions indicated in the original.

⁵⁵ Copy transmitted to the Department by the Minister in China in his despatch No. 2598, March 19; received April 21.

House authorities, and, particularly, to Your Excellency's note of December 20, 1933,⁵⁶ concerning the Lungkow case of the Socony-Vacuum Corporation, in which it is stated:

"With regard to the Rules of 1868, . . .⁵⁷ the said Rules have been repeatedly declared null and void, and reasons were given you on November 11th. The Chinese Government certainly has legal basis for what it insists on in this matter, and is positively unable to yield."

In a conversation had by me on November 11, 1933, with the Political Vice Minister of Foreign Affairs,⁵⁸ the latter stated that the Chinese Government consider the Rules of 1868 no longer in force as the Sino-American Tariff Treaty of 1928 provides for complete national tariff autonomy in relation to rates of duty, drawbacks, transit dues and tonnage dues and "any related matters", it being asserted that the expression "any related matters" extends to the Rules of 1868.

In this connection I am impelled to invite Your Excellency's attention to the fact that the Sino-American Treaty of 1928 removed the limitations established by prior treaties in regard to "rates of duty on imports and exports of merchandise, drawbacks, transit dues and tonnage dues in China", and recognized the principle of national tariff autonomy subject to the condition that each of the High Contracting Parties shall enjoy in the territories of the other "with respect to the above specified and any related matters" treatment in no way discriminatory as compared with the treatment accorded to any other country.

Applying the generally accepted rules of treaty interpretation, the Treaty of 1928 cannot be interpreted in any way as implying the relinquishment by the United States of its rights under the treaties and related agreements with respect to jurisdiction over the property of American nationals in China nor does the Treaty confer on the Maritime Customs Administration any greater authority over American nationals and their property than was exercised by that Administration before the Treaty became effective.

I am unable, therefore, to accept the interpretation of the 1928 Treaty advanced by Your Excellency's Ministry and, having been instructed by my Government to insist that cases of confiscation involving the property of American citizens seized by the Custom House authorities shall be adjudicated under the Rules of 1868, as agreed upon and accepted between the competent American and Chinese representatives, I must again protest the refusal of the Chinese Government to respect the Rules of 1868, and must reserve the rights

⁵⁶ Not printed.

⁵⁷ Omission indicated in the original.

⁵⁸ For memorandum of conversation, see *Foreign Relations*, 1933, vol. III, p. 626.

of my Government and of American nationals with respect to all acts by the Customs and other authorities of the Chinese Government in contravention of those Rules.

I avail myself [etc.]

NELSON TRUSLER JOHNSON

693.11245/34

*The Chinese Acting Minister for Foreign Affairs (Wang Ching-wei)
to the American Minister in China (Johnson)*⁵⁹

[Translation]

SIR: I have the honor to acknowledge the receipt of your formal note of February 10th, concerning the Rules of 1868 which provide for joint investigation in cases of confiscation and fine by the Customs authorities. You stated that you are unable to accept the interpretation of the 1928 Treaty advanced by this Ministry and must again file a protest.

I have the honor to refer to this Ministry's formal notes dated January 13 and September 26, 1933,⁶⁰ in which you were informed of the position of the Chinese Government in this regard. I now have the honor again to make clear to you that the Chinese Government considers that the abolition of the Rules of 1868 is the a priori consequence of its interpretation of the Sino-American Treaty of 1928.

The spirit of the Sino-American Treaty of 1928 was mainly to extend to China the right of complete tariff autonomy. Such right of complete autonomy decidedly covers not only the fixing of tariff rates and collection of revenue, but, of course, also includes confiscations and fines which constitute one of administrative rights of the Maritime Customs for the purpose of stopping secret traffic and smuggling. Otherwise, if joint action with foreign countries in cases of confiscation and fine were still necessary, how could it be called complete autonomy?

The term "related matters" mentioned in Article 1 of the said Treaty, as mentioned in your formal note, refers to the condition that each of the High Contracting Parties shall enjoy in the territories of the other treatment in no way discriminatory as compared with the treatment accorded to any other country. The Chinese Government, in regard to prevention of smuggling, fines, confiscation and other matters concerning Customs revenue, has no other obligations but to accord the several Treaty Powers equal treatment. After tariff autonomy became effective the Chinese Government, in dealing with

⁵⁹ Copy transmitted to the Department by the Minister in China in his despatch No. 2598, March 19; received April 21.

⁶⁰ Neither printed.

confiscations and fines and particularly in the fixing of tariff rates, has in all cases accorded the several countries equal treatment. Thus China has performed its treaty obligation, and there is really no ground for unfavorable criticism.

Furthermore, your note states: "the Treaty of 1928 cannot be interpreted as implying the relinquishment by the United States of its rights under the treaties and related agreements with respect to jurisdiction over the property of American nationals".

I have the honor to state that confiscations and fines are administrative rights of the Maritime Customs and have no relation at all to extraterritorial rights. Before the Sino-American Treaty of 1928 was concluded, the Chinese Government itself indeed had long ago had a right to take action in regard to activities of foreign merchants engaged in secret traffic or smuggling. Even in the treaties concluded between China and the several countries, there are provisions explicitly recognizing such right. For example, in Articles 3, 10, 14, 20, and 33 of the Sino-American Treaty of Wang-Hea of 1844,⁶¹ Articles 14, 19, 21, and 23 of the Sino-American Treaty of Tientsin of 1858, and Articles 37, 38, 39, 40, 45, 46, 47, 48 and 49 of the Sino-British Treaty of Tientsin of the same year, all clearly provide that the Chinese Government itself has the right to take action in regard to secret traffic or smuggling and any other activities violating the Customs regulations. It is thus clear that at the time when there was no complete autonomy in respect of Customs tariff, the Chinese Government, so far as administrative rights of the Maritime Customs were concerned, already had the right under the treaties to dispose of the property of foreign merchants. Now since complete autonomy has been restored to Chinese Customs tariff, all rules which conflict with the principle of autonomy naturally come under the category of those which of course ought to be abrogated, and certainly need not wait until after the United States has relinquished its rights with respect to jurisdiction over the property of American nationals.

Your note also states: "nor does the Treaty confer on the Maritime Customs Administration any greater authority over American nationals and their property than was exercised by that Administration before the Treaty became effective."

Since the Chinese Government has now acquired complete tariff autonomy in accordance with the Sino-American Treaty of 1928, it is of course usual in fact and in principle that the administrative right of the Maritime Customs should be greater than it was before this Treaty was concluded, and there is no need to argue about it.

⁶¹ Miller, *Treaties*, vol. 4, p. 559.

On the basis of the above-mentioned reasons, the Chinese Government is unable to recognize the protest and reservations made by you.

I have the honor to make this reply for your information.

WANG CHAO-MING⁶²

Concurrently Acting Minister for Foreign Affairs of the Republic of China

—Seal of the Ministry of Foreign Affairs—

[NANKING,] March 7, 1934.

693.11245/34

The Acting Secretary of State to the Chargé in China (Gauss)

No. 1503

WASHINGTON, November 5, 1934.

SIR: Reference is made to the Legation's despatch No. 2598 of March 19, 1934,⁶³ in regard to the contention of the Chinese Government that the Rules of 1868 for the joint investigation by Chinese and foreign consular authorities in cases of confiscation and fine by the customs authorities are no longer in force.

The Legation sets forth certain arguments adduced by the Chinese authorities in support of their contention that they have the right to abrogate these Rules without consultation with the interested powers and states that, although the Legation believes that it would be futile to attempt to obtain a modification of this position of the Chinese authorities, the Legation will, pending the receipt of instructions from the Department, continue as heretofore to maintain that the Rules of 1868 remain in force until revised by mutual agreement and to reserve the right of the United States and of American nationals with respect to all acts by the customs and other authorities of the Chinese Government in contravention of those Rules.

The Department is in accord with the Legation's view that it would probably be ineffective to make any further attempt at this time to obtain a modification of the position of the Chinese authorities. The Department is still of the opinion, however, that the Rules cannot be legally abrogated or modified without the consent of the interested governments, and it therefore approves the Legation's decision to continue, whenever necessary, to maintain that the Rules remain in force until revised by mutual agreement, and to reserve the rights of the United States and its nationals with respect to all acts by the

⁶² Usually known by his courtesy name of Wang Ching-wei.

⁶³ Not printed; for enclosures, see pp. 581 and 583.

customs and other authorities of the Chinese Government in contravention of those Rules.

Although it is not deemed desirable at this time to continue the controversial discussion of the status of the Rules of 1868, the Department desires to emphasize the view previously communicated to the Legation that the Sino-American Tariff Treaty of 1928 did not accord to the Chinese Government any right to assume jurisdiction over the persons or property of American nationals. It strongly dissents, therefore, from the contention in the Foreign Office note of March 7, 1934, "that confiscation and fines are administrative rights of the Maritime Customs and have no relation at all to extraterritorial rights."

Although certain provisions of treaties between the United States and China might seem to constitute a waiver of American jurisdiction over American citizens and their property in China, in certain cases involving violation of the customs laws, the Department has, at least for many years past, insisted that the determination of the alleged fact of violation of any of the treaty provisions mentioned is the exclusive right of the appropriate American officials, and it has refused to permit Chinese authorities to fine American citizens or to confiscate their property under the treaty provisions in question. The Department is accordingly unable to admit the contention of the Foreign Office that the Chinese authorities were empowered by the treaty provisions mentioned in the Foreign Office note of March 7, "to dispose of the property of foreign (American) merchants" without the intervention of the appropriate American representatives.

Although the record of the negotiations leading to the adoption of the Rules of 1868 indicates some recognition of the alleged right of the Chinese authorities to confiscate goods of extraterritorial nationals because of customs violations, it apparently was never admitted that the Chinese authorities were competent to impose fines on extraterritorial nations for alleged customs violations, and whatever authority the Chinese Government may have claimed with respect to confiscation of the goods of foreigners was definitely waived by the adoption of the Rules of 1868, and no provision of the Sino-American Tariff Treaty of 1928 can reasonably be held to affect the status of the Rules in any way.

As of possible assistance to the Legation in any further consideration of the subject under reference, there is transmitted herewith a summary of treaty provisions which appear to warrant examination in connection with the question of the establishment and present status of the Rules of 1868, together with a brief discussion of the negotiations

leading to the adoption of the Rules, including pertinent excerpts from official correspondence on the subject.⁶⁴

The Department would be glad to learn the attitude of other interested governments in regard to the Chinese Government's disregard of the Rules of 1868, and whether other foreign nationals have been adversely affected by that action.

An extra copy of this instruction and enclosures therewith is enclosed for the information of the Counselor of Legation at Nanking.

Very truly yours,

WILLIAM PHILLIPS

[Enclosure]

Summary of treaty provisions: Rules of 1868 Adopted by Agreement Between the Chinese Government and Representatives of Foreign Powers Providing for Joint Investigation by Chinese Authorities and Foreign Representatives in Cases of Confiscation and Fines in Customs Matters

The provisions of treaties between the United States and China which are summarized hereinafter would appear to be of interest in connection with the question of the adoption and present status of the Rules of 1868.

The Chinese authorities apparently interpreted some of these treaty provisions and similar provisions in treaties with other governments as authorizing them independently to fine foreign nationals and to confiscate their goods in cases of alleged customs violations. This interpretation was contested by interested foreigners and resulted in frequent disputes between foreigners and Chinese authorities. Discussions between representatives of the foreign powers and the Chinese Government were undertaken with a view to reaching a mutually satisfactory agreement and these discussions finally resulted in the adoption of the Rules of 1868, which were, in effect, a compromise of conflicting views.

The Sino-American treaties of 1844 and 1858 imposed upon American nationals with respect to trade certain obligations and restrictions, as follows:

1. American nationals were not permitted to sell, purchase and export merchandise, the importation or exportation of which was prohibited by treaty (Article V of the 1844 treaty) or by Chinese law (Article XV of the 1858 treaty).

⁶⁴ Correspondence consisted of despatches from the Legation in China, dated June 18, 1864, and July 2, 1868, together with certain enclosures, *Foreign Relations*, 1864, pt. 3, p. 426; *ibid.*, 1868, pt. I, p. 521.

2. American nationals were required to pay import and export tariff duties (Article II of the 1844 treaty and Article XV of the 1858 treaty).

3. American nationals were required to pay tonnage dues (Article VI of the 1844 treaty and Article XVI of the 1858 treaty).

4. American nationals were not permitted to repair to public marts for the purpose of disposing of goods unlawfully and in fraud of revenue (Article XVII of the 1844 treaty and Article XII of the 1858 treaty).

5. American nationals engaged in clandestine trade or in the opium or other contraband traffic were to be dealt with by the Chinese authorities without protection of the American Government (Article XXXIII of the 1844 treaty and Article XIV of the 1858 treaty).

6. American vessels engaged in clandestine and fraudulent trade were subject to confiscation, together with their cargo (Article III of the 1844 treaty and Article XIV of the 1858 treaty).

7. American goods discharged without customs permit were subject to forfeiture and the supercargo, master or consignee were to incur a fine of \$500 (Article X of the 1844 treaty and Article XIX of the 1858 treaty).

8. American goods transshipped without customs permit were subject to forfeiture (Article XIV of the 1844 treaty and Article XXI of the 1858 treaty).

9. American vessels transporting in time of war officers, soldiers or cargo of an enemy to China were subject to confiscation (Article XXII of the 1844 treaty and Article XXVI of the 1858 treaty).

In subsequent treaties other pertinent provisions of similar character were added, as follows:

1. American vessels were prohibited from importing opium into China or transporting it from one Chinese port to another (Article II of the 1880 treaty⁶⁵).

2. American nationals were prohibited, with certain exceptions, from importing morphine or instruments for its injection (Article XVI of the 1903 treaty⁶⁶).

3. Chinese subjects and American citizens engaged in opium traffic were to be dealt with in accordance with appropriate legislation on the part of China and the United States (Article II of the 1880 treaty).

In addition to the aforementioned obligations and restrictions, there are certain provisions of the earlier treaties which have a bearing on the question of what authorities had jurisdiction in cases of failure to observe these obligations and restrictions, as follows:

1. Merchant vessels at the treaty ports were to be entirely under the jurisdiction of the American authorities (Article XXVI of the 1844 treaty).

⁶⁵ Signed at Peking, November 17, 1880, Malloy, *Treaties, 1776-1909*, vol. 1, p. 239.

⁶⁶ Signed at Shanghai, October 8, 1903, *Foreign Relations, 1903*, p. 91.

2. Merchants, seamen and other citizens of the United States were to be under the superintendence of the appropriate officers of their Government (Article XXIX of the 1844 treaty and Article XVIII of the 1858 treaty).

3. The regulation of such privileges and immunities in respect of trade and navigation as are not provided for in the treaties were not relinquished by China although the regulation of such must be exercised in a manner or spirit not incompatible with treaty stipulations (Article II of the Additional Articles of 1868⁶⁷).

In connection with the above, it is interesting to note certain observations of Minister Burlingame, as contained in an instruction to Consul General Seward at Shanghai, under date June 15, 1864 (copy of entire despatch attached as of possible interest⁶⁸), as follows:

“That the Chinese Government having, by treaty yielded jurisdiction over the persons of our citizens, so that it cannot punish them even by fine, it is obligatory upon us to punish them for infractions of the treaty and regulations. . . .

“The Chinese Government cannot be compelled to plead in the consular courts at the suit of any one; hence controversies between the consulates and the customs, if they cannot be arranged, become diplomatic questions to be referred to Peking. . . .

“The Chinese Government may confiscate goods landed in breach of port regulations; but only those in respect to which the infringement of the regulation was committed;—that is to say, those landed and not those still on board. . . .

“In cases of fine, where the words ‘not exceeding’ are attached to the penalty, the consul may fix a smaller sum; but where the sum is fixed there is no option, and the consul upon proof must inflict the fine; and all efforts to mitigate such fine must proceed upon equitable grounds, and not as matter of legal right. . . .

“If the Chinese authorities confiscate without sufficient proof of breach of regulations, then the aggrieved party may, through the consul, appeal against such action to the minister at Peking, whose duty it will be to reclaim against the Chinese Government; but in no case is the citizen, or the consul for him, to take the law into his own hands. This would relieve the Chinese Government from that responsibility which should attach to it, and render all friendly relations impossible. . . .

“To secure an honest application of the confiscation power, I have, in conjunction with my colleagues, urged the establishment of a joint tribunal or mixed commission to sit in confiscation cases. The Chinese authorities have yielded this in principle, leaving the details to be arranged by the consuls and local authorities, first at Shanghai provisionally, and afterwards at the other treaty ports if found to work well. This will satisfy both sides and facilitate settlements at the ports; or if the cases shall come to Peking by classification and arrangement of the evidence make decisions practicable. . . .”

⁶⁷ Signed at Washington, July 28, 1868, Malloy, *Treaties, 1776-1909*, vol. I, p. 234.

⁶⁸ *Foreign Relations, 1864*, pt. 3, p. 426.

The rules for joint investigation in such cases were first agreed to in principle between China and the representatives of the foreign powers about June 1864, as evidenced by despatch No. 82, under date June 6, 1864, from Minister Burlingame (copy attached ⁷⁰). In 1868, these rules were finally agreed upon and put into effect at all the treaty ports. Chargé S. Wells Williams communicated pertinent information in regard thereto to the Department in his despatch No. 17, under date July 2, 1868, and enclosures (copies attached ⁷¹). In connection with that despatch and its enclosures, it is important to note certain excerpts (underlining by the Department ⁷²) as follows:

"I have the honor to forward to you the eight rules agreed on *between Prince Kung and the foreign ministers* for the conduct of the joint tribunal in cases of confiscation and fines for breach of revenue laws . . ." (First paragraph of despatch No. 17).

"These eight rules are the result of several years' efforts to adjust the workings of a very difficult part of our international obligations *with due regard to the entire independence of each party*. The experience of three years at Shanghai had shown the Chinese authorities how advantageously the three Rules . . . *relating to confiscation had worked, and they were thus prepared with more confidence to add similar ones relating to fines and disputed duties*. . ." (Second paragraph of despatch No. 17).

". . . These rules, for example, contain principles whose equitable adjustment would have baffled them (the Chinese) completely, even if they had been disposed to adopt them; but guided by experience acquired elsewhere, *the rights of each nation have been easily guarded, and the Chinese themselves admit that no infringement of their rights has been urged upon them*. . ." (Fifth paragraph of despatch No. 17).

Mr. Williams in the seventh [*fourth*] paragraph of his note of February 17, 1868,⁷³ to Prince Kung stated:

". . . It must constantly be borne in mind that the power to levy fines upon American citizens belongs alone to the United States' Consuls; and that when the case has been tried, and the money paid to him, he then will pay it to the Collector of the Customs."

In communicating the final draft of the Rules to Mr. Williams, Prince Kung in the last paragraph of his note of May 29, 1868,⁷⁴ stated as follows:

"Exact copies of these eight Rules thus amended are now, therefore, sent to the Foreign Ministers in Peking; and orders have likewise been transmitted to the two Superintendents of Trade for the northern and southern ports, and to the Inspector-General of Customs, enjoining

⁷⁰ *Foreign Relations*, 1864, pt. 3, p. 425.

⁷¹ *Ibid.*, 1868, pt. I, p. 521.

⁷² The underlined portions are printed in italics.

⁷³ *Foreign Relations*, 1868, pt. I, p. 524.

⁷⁴ *Ibid.*, p. 525.

their observance of them. With the enclosed copy now sent to your Excellency, *I have to request that you will direct them to be observed by the various consuls of the United States in China.*"

In his instruction of June 8, 1868, communicating the text of the Rules to the American Consuls in China, Mr. Williams in the fourth [*third*] paragraph of that instruction stated views which the foreign ministers entertained at that time, namely, that the Chinese authorities had under the treaties been given the right to confiscate while the right to fine had been retained by the foreign authorities, as follows:

"Growing out of this is the indication of the equality of the native and foreign authorities when brought together on the same tribunal. It has been arranged by requiring that cases of confiscation (the power of doing which has been by treaty yielded to the Chinese) shall be investigated and decided at the customhouse; while cases of fining an American citizen for breaches of revenue laws shall be tried at the Consulate—in both cases the officers of both nationalities sitting together on the bench."

The foregoing establishes that the Rules of 1868 were agreed upon between the foreign ministers and representatives of the Chinese Government and they cannot therefore properly be abrogated or amended except by consent of the interested governments. In the opinion of the Department, therefore, the Rules continue in force and it cannot admit the contention of the Chinese Government that they were terminated or affected in any way by the Sino-American Tariff Treaty of 1928.

RESERVATION OF AMERICAN RIGHTS IN PROPOSED CHANGES FOR CONTROL OF PILOTAGE AT SHANGHAI

893.825/18

The Minister in China (Johnson) to the Secretary of State

No. 1082

PEIPING, July 8, 1931.
[Received August 21.]

SIR: Referring to despatch No. 6937 of June 24, 1931, from the Consul General at Shanghai to this Legation, copies of which were forwarded direct to the Department,⁷⁵ transmitting a copy, in translation, of the regulations recently promulgated governing the examination of pilots,⁷⁵ and the Legation's telegram No. 390 of July 5, 6 p. m.,⁷⁵ quoting a Reuter despatch of July 4th to the effect that the Minister of the Navy has stated that, with the beginning of the new year, only Chinese pilots will be allowed on vessels in Chinese terri-

⁷⁵ Not printed.

torial waters, I have the honor to enclose a copy of Consul General Cunningham's ⁷⁸ despatch No. 6948 of July 3, 1931,⁷⁹ informing the Legation that the Inspectorate General of Customs is prepared immediately to take over the control of the Shanghai Licensed Pilots' Association.

The Department will observe that Mr. Cunningham reports that American shipping interests at Shanghai are divided on the question of Government control of pilotage at Shanghai, the most important American shipping firm being of the opinion that such control will result in the compulsory pilotage of all vessels entering Shanghai, and, possibly, in higher pilotage fees.

In view of Article II of the new Regulations referred to above, which requires that only citizens of the Republic of China may present themselves for examination as pilots, and in view of the declaration of the Minister of the Navy that only Chinese pilots may be permitted to function in this country, the Legation is of the opinion that the Chinese Government seriously contemplates eliminating foreign pilots from Chinese waters, and, accordingly, has the honor to request the Department's instructions as to the attitude the Legation and the Consul General at Shanghai should assume should an attempt be made to take over the Pilots' Association by the Chinese Maritime Customs.

Respectfully yours,

For the Minister:

C. VAN H. ENGERT

First Secretary of Legation

893.825/18 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, September 29, 1931—noon.

352. Legation's despatch No. 1082, July 8.

1. In view of treaty agreements and, in particular, of the existing arrangements regarding control of pilotage at Shanghai as provided in Annex 17 of the Protocol of 1901⁸⁰ and subsequent agreements in regard to Conservancy of Whangpoo River,⁸¹ the Department is of the opinion that the present system of control of the Shanghai pilot service may not legally be changed without the consent of the interested Powers.

2. The practical aspects of the question can best be studied at Shanghai, and the Department desires to have the Consul General's

⁷⁸ Edwin S. Cunningham, who was also Senior Consul at Shanghai.

⁷⁹ Not printed.

⁸⁰ *Foreign Relations*, 1901, Appendix (Affairs in China), pp. 312, 333.

⁸¹ For text of agreement of September 27, 1905, see *ibid.*, 1905, p. 122; for text of agreement of April 9, 1912, see MacMurray, *Treaties, 1894-1919*, vol. II, p. 954.

recommendations, accompanied by such comment as the Legation may be in a position to make, as to the attitude to be adopted in the event the Chinese should attempt unilaterally to put the new regulations into effect.

3. In view of the relative importance of other foreign shipping interests at Shanghai, it is suggested that the Legation and the Consulate General ascertain the views of the other principally interested foreign representatives as to the attitude to be taken in such a contingency.

STIMSON

893.825/19 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, October 15, 1931—11 a. m.

[Received October 15—5:20 a. m.]

776. Department's 352, September 29, noon. The Consulate General at Shanghai replies as follows:

"October 14, 1 p. m. It would be appreciated and of considerable assistance to have Department's views now with specific citations in regard to paragraph 1 since it is learned from informal conversation that there is by no means unanimity of opinion among my colleagues regarding the applicability of annex 17 of Protocol of 1901 and subsequent agreements in regard to Whangpoo Conservancy.

Second paragraph instruction is being studied jointly with shipping concerns and when concluded will be combined with paragraph 3 of instruction and report submitted."

For the Minister:

ENGERT

893.825/19 : Telegram

The Acting Secretary of State to the Minister in China (Johnson)

WASHINGTON, November 2, 1931—noon.

403. Your 776, October 15, 11 a. m., in regard to regulations governing pilots at Shanghai. With regard to specific treaty citations see:

1. Sino-American Treaties of 1844,⁸² Article 8 and of 1858,⁸³ Article 17;

2. Sino-British Treaty of 1858,⁸⁴ Article 35;

3. Sino-Italian Treaty of 1866,⁸⁵ Article 34 (a new treaty has now been concluded between Italy and China,⁸⁶ but this provision is perti-

⁸² Miller, *Treaties*, vol. 4, p. 559.

⁸³ *Ibid.*, vol. 7, p. 793.

⁸⁴ *British and Foreign State Papers*, vol. XLVIII, p. 47.

⁸⁵ *Ibid.*, vol. LXI, p. 144.

⁸⁶ Signed at Nanking, November 27, 1928, League of Nations Treaty Series, vol. XCIII, p. 173.

ment as it describes the method by which pilotage dues and questions have been determined in China) ;

4. The Sino-French Treaties of 1844,⁸⁷ Article 11, and of 1858,⁸⁸ Article 15 ;

5. The Boxer Protocol of 1901, Annex 17, Articles 1, 4 and 22 ;

6. The Whangpoo Conservancy Agreement of 1905, Article 1. (Although the Whangpoo Conservancy Agreement of 1912 does not make specific mention of the appointment and supervision of pilots, it would appear that the provisions of the Boxer Protocol and the Whangpoo Conservancy Agreement of 1905 were continued and are still in effect.)

CASTLE

893.825/20 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, November 25, 1931—9 p. m.

[Received November 25—4:53 p. m.⁸⁹]

1006. Department's 403, November 2, noon. Following from American Consul General at Shanghai.

"[1.] November 24, 2 p. m. Referring to the Legation's telegram November 3, 5 p. m., regarding pilotage. The special report of investigation into the conditions of the Shanghai pilotage service has been completed and was delivered to the Pilotage Board on October 23rd. To give an opportunity to study the report the meeting was adjourned until November 10th. Upon reassembling, instead of considering the report, a new proposal emanating from the pilots was made which received the endorsement of the shipping committee, the harbor master and the pilots. In substance the proposal was that the existing tariff should continue arrangement for the compulsory pilotage between Woosung and Shanghai of all vessels of 450 feet. The consular body's representative stated that he was not authorized to approve this new proposal. The Pilotage Board being unable to reach a unanimous decision the question is to be referred to the pilotage authority on December 1.

2. The shipping committee of the local Chamber of Commerce which considered compulsory pilotage decided by a majority vote to support the pilots' request.

The Dollar Steamship Company which paid slightly over 10 percent of the total pilotage fees for the year ending June 30, 1931 was not at this meeting. This American company realizes that compulsory pilotage and also the complete taking over of the pilotage by the Customs are only a matter of time, but it desires to defer them as long as possible.

3. To introduce compulsory pilotage will require, in my opinion, amendment of the harbor regulations which cannot become a *fait*

⁸⁷ *British and Foreign State Papers*, vol. xxxiv, p. 1298.

⁸⁸ *Ibid.*, vol. LI, p. 636.

⁸⁹ Telegram in three sections.

accompli without the concurrence of the powers concerned nor can compulsory pilotage be enforced except by mutual consent. It is true that it might become expedient to comply with the request for compulsory pilotage because the Chinese are past masters in finding devious ways to enforce any regulations they may have.

4. From informal conversations it is learned that consular representatives of the powers principally concerned are by no means unanimous in the opinion that the pilotage cannot be taken over by the customs "legally" without the consent of the powers concerned. The British Consul General is not averse to the immediate taking over by the customs of the pilotage. As a matter of interest it may be stated that the pilotage association is composed of 20 British, 2 Danes, 5 Frenchmen, 4 Japanese, 3 Americans, and 1 each of Dutch, German, Norwegian and Chinese nationalities.

5. I should deeply regret the abandonment of legal rights without mutual agreement and venture to express the hope that legal rights will be insisted upon. My own views are that Shanghai as a port is not peculiar in any particular from other large ports of the world when pilotage is being considered. Other ports I believe find compulsory pilotage for the best interest of shipping and therefore one must necessarily conclude that this would be true in Shanghai. I do not see any well-founded reason why pilotage should not be placed under the Customs at a very early date provided a guarantee may be secured from the National Government that tariffs will not be changed without the consent of the powers concerned and provided further that adequate and efficient pilots will be procured.

6. The Legation's instructions as to the attitude I should take at the meeting on December 1 will be greatly appreciated."

For the Minister:
ENGERT

893.825/20 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, November 28, 1931—2 p. m.

441. Your No. 1006, November 25, 9 p. m. in regard to pilotage at Shanghai.

1. Unless the Legation perceives some objection the Consul General at Shanghai should, at the meeting scheduled for December 1, be guided by the views of the Department outlined in the next paragraph.

2. The Department is still of the opinion that the present system of control of the Shanghai pilotage service may not legally be changed without the consent of the interested powers. As it appears, however, that representatives of other powers, particularly the British, more interested in this question than is the American Government, are willing to allow the Chinese authorities to take over the control of the pilotage service without an agreement, the Department does not desire that the Consul General stand out against the representatives of those

powers whose interests are much greater than ours. He should state that, while the American Government makes a reservation in regard to the rights of American nationals under the existing system, it will interpose no objection to the proposed changes as long as no attempt is made to impose discriminatory or unreasonable measures. The Consul General should, however, cooperate with the representatives of the other interested powers in attempting to obtain as many safeguards as may be desirable and possible.

STIMSON

893.825/21 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, December 8, 1931—4 a. m.

[Received 7:08 a. m.]

1058. Department's 441, November 28, 2 p. m.

1. Following from the Consul General at Shanghai:

"[(1)] December 5, noon. In order that any misapprehension the Department may have in regard to the importance of American shipping at Shanghai may be corrected, the following statement by nationality of ships piloted during the first 6 months of 1931 is given: British 590, Japanese 393, American 362, out of a total of 1905 vessels.

(2) The Japanese Consul General has intimated that he will resist compulsory pilotage as he feels that the safety of the port does not require it. Increased revenue for the pilots now may be obtained by revising present tariff schedules as recommended by official of Chinese Customs after recent investigation.

(3) Compulsory pilotage of vessels over 450 feet is intended by British Pilots' Association, the British harbor master and British shipping through General Chamber of Commerce to be discriminatory against American vessels. I shall probably propose at the consular body meeting on the 8th and the [pilotage?] authority on the 15th that if compulsory pilotage is desirable it should apply to all ocean-going vessels. It will be my hope to make apparent the attempted discrimination."

2. Legation agrees with Cunningham that if compulsory pilotage is desirable it should be made applicable to all ocean-going shipping which would include Japanese and British coast-wise vessels. Otherwise discrimination would be against American ships which are largely trans-Pacific liners. Legation is informing Cunningham that Department's telegram above mentioned would appear to give him ample authority to take the position which he has in mind at the meeting scheduled for December 15th.

For the Minister:

PERKINS

893.825/22 : Telegram

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

SHANGHAI, December 11, 1931—5 p. m.
[Received December 11—9:20 a. m.]

I am informed by Japanese colleague compulsory pilotage not in existence in Japan. Possibly an error made in paragraph 5 of my November 24, 2 p. m.,⁹⁰ therefore request that I be informed at earliest possible date whether compulsory pilotage exists by law in principal United States ports for merchant vessels.

Repeated to the Legation.

CUNNINGHAM

893.825/22 : Telegram

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

WASHINGTON, December 14, 1931—1 p. m.

Your December 11, 5 p. m. Congress has left to the several States the general power to regulate pilotage. See revised statutes Section 4235.

Under respective State laws pilotage required in principal United States ports for all vessels engaged in foreign trade.

STIMSON

893.825/38

The Secretary of State to the Minister in China (Johnson)

No. 1338

WASHINGTON, April 10, 1934.

SIR: Reference is made to the Legation's despatches No. 2530 of February 8, 1934, and No. 2531 of February 12, 1934,⁹¹ in regard to the efforts of the Chinese Government to establish a new pilotage authority in China.

After further study of this question in the light of the information contained in your despatches under reference, the Department finds that its previous instructions, telegrams Nos. 352, September 29, 1931, noon, 403, November 2, 1931, noon, and 441, November 28, 1931, 2 p. m. are substantially in accord with the instructions which the British Foreign Office has given the British Minister. It would ap-

⁹⁰ See telegram No. 1006, November 25, 1931, from the Minister in China, p. 594.

⁹¹ Neither printed.

pear, therefore, that the American and British Ministers are in position to coordinate their representations to the Chinese authorities in regard to this matter if and when it is decided that further representations should be made. In this connection the Department concurs in the view of the British Legation that, before further representations are made, the Chinese authorities be accorded every opportunity either to drop the matter or to modify their attitude on their own initiative.

With regard to the data desired by the Legation (referred to in the last paragraph of its despatch No. 2530 of February 8, 1934) for use as the basis of a reply to a statement of the Ministry of the Navy to the effect that the General Pilotage Regulations of 1868 are not in the nature of an agreement, as they were promulgated by Mandate of the Chinese Government, and that, therefore, there is no need for awaiting the approval of any other party, a search of the Department's files reveals substantially the same information as that furnished by the British Legation at Peiping, as quoted in the last paragraph of the Legation's despatch No. 2531 of February 12, 1934.

In the above connection, there are enclosed copies⁹² of two despatches to the Department from the American Minister, J. Ross Browne, one dated November 18, 1868 and the other January 29, 1869, together with copies of the enclosures therewith except the text of the General Pilotage Regulations of 1868, which is the same as that printed on pages 658-662 of Volume 2 of "Hertslet's *China Treaties*". You will note that Prince Kung in his note of October 31, 1868, to the American Minister, quoted the Inspector General of Customs as follows:

"I now inclose a copy of the ten revised rules, made out in accordance with the directions sent to me; and have to request that they may be made known to the Foreign Ministers in Peking for their examination and subsequent promulgation. They are to be regarded, in this revised form, as experimental, and can be published in that sense."

In concluding his note, Prince Kung stated as follows:

"In accordance with this request, I have now the honor to inclose a copy of the ten revised regulations for the examination of your Excellency. If experience should prove some of their provisions not to be practicable, they can be discussed and amended at a future day; but at present it will be agreeable to regard the whole set as experimental, deserving of a fair trial."

In acknowledging Prince Kung's note, Minister Browne under date November 9, 1868, stated as follows:

⁹² Not printed.

“. . .⁹³ yet this revised set, prepared under the direction of Mr. Hart⁹⁴ seems to be so well fitted for the purpose that I have given directions to the United States' consuls at the several ports to carry them in operation. If they are found to require any alteration after a year's trial, it can be done upon mutual consultation.”

In view of the above exchange of notes and in view of the specific treaty citations given in the Department's telegram No. 403 of November 2, 1931, noon, the Department is of the opinion that the General Pilotage Regulations of 1868 cannot be revised by the Chinese Government without the consent of the powers still possessing extra-territorial rights in China.

Very truly yours,

For the Secretary of State:
WILLIAM PHILLIPS

893.825/43

*The American Minister in China (Johnson) to the Chinese Acting Minister for Foreign Affairs (Wang Ching-wei)*⁹⁵

No. 745

PEIPING, April 19, 1934.

EXCELLENCY: I understand that the Chinese Government contemplates the establishment of new pilotage regulations which are intended to supersede the existing General Pilotage Regulations of 1868 which were introduced by the Chinese Government, after consultation with and with the concurrence of the interested foreign governments, for the purpose of establishing a satisfactory procedure for implementing the various treaty provisions in respect to pilotage. Since the Regulations were first promulgated, representatives of the several foreign governments concerned have been consulted and their approval has been sought by the Chinese authorities on those occasions when it has been found desirable that rules concerning pilotage at the several ports should be amended. The bilateral nature of these Regulations is clearly established and this Legation is accordingly unable to acquiesce in the unilateral abrogation or modification of these Regulations by the Chinese Government. However, in view of the belief of your Government that the present pilotage system is not a satisfactory one and that a change therein is desirable, I am entirely willing to give careful and sympathetic consideration to any reasonable proposals which you may care to make in regard to changes in the Regulations, provided that such changes insure, first, the con-

⁹³ Omission indicated in the original.

⁹⁴ Robert Hart, British Inspector General of the Chinese Customs Administration.

⁹⁵ Copy transmitted to the Department by the Minister in China in his despatch No. 2674, April 21, 1934; received May 19.

tinued employment of an adequate number of experienced and fully qualified pilots at all ports in China, and, second, the adequate safeguarding of the rights and interests, financial and otherwise, of any pilots' associations whose interests would be affected by a modification of the long-established procedure.

I am of the considered belief that these two objectives can best be attained if control of the Pilotage Service is placed in the experienced hands of the Chinese Maritime Customs, and I venture to suggest that the Customs be instructed to discuss the question with the Chinese and foreign shipping interests at Shanghai and elsewhere, and, in consultation with them, to prepare a scheme which will insure the fulfillment of the two provisions mentioned above, namely, the continuation of an adequate and efficient pilotage service at the several ports, and the protection of the interests, financial and otherwise, of the pilots now employed. Any scheme evolved as a result of such consultation should then, in accordance with the established procedure, be referred by your Government to the several interested Legations for their approval.

In this matter, I shall be pleased to cooperate with Your Excellency in every way consonant with American interests, but since I am not in a position to recognize as applicable to American citizens any regulations which have not been approved by my Government, and since, at the present time, the Harbor Master at Shanghai is declining to act under the approved regulations in respect to the examination of apprentice pilots, one of them an American citizen, I request that you will cause immediate instructions to be issued to the Customs to continue to handle all pilotage matters in accordance with established procedure until such time as any alteration in that procedure is approved by my Government.

I avail myself [etc.]

NELSON TRUSLER JOHNSON

893.825/44

The Minister in China (Johnson) to the Secretary of State

No. 2702

PEIPING, May 3, 1934.

[Received June 4.]

Subject: Efforts of the Chinese Government to Establish New Pilotage Authority in China; Examination of C. F. Erbe as Pilot

SIR: With reference to the legation's despatch No. 2674 of April 21, 1934,⁹⁵ in regard to the above subject, I have the honor to enclose for the Department's information a copy of despatch No. 7902 of April 18, 1934, from the American Consul General at Shanghai to the Legation, transmitting copy of the translation of a letter addressed to the

⁹⁵ See footnote 95, p. 599.

Senior Consul at Shanghai by the Mayor of that city under date of April 10, 1934.⁹⁷ This letter quotes a lengthy communication received by the Mayor from the Ministry of Navy, which appears to have devised the whole scheme with a view to acquiring control of pilotage and other shipping matters to the exclusion of the Chinese Maritime Customs. In this communication the Ministry named seeks to establish the right of the Chinese Government unilaterally to abrogate or alter the General Pilotage Regulations which have long been enforced with the approval of the interested foreign Powers.

It is to be noted that this further effort of the Ministry of the Navy to negotiate this matter through the unusual medium of the Mayor of Shanghai and the Consular Body in that city has been made while the matter is being negotiated by the interested Legations with the Ministry of Foreign Affairs in consultation with the Ministry of Finance, which is recognized by the Foreign Office as the Chinese Government organ controlling the whole matter of pilotage.

In reference to the second paragraph of the Legation's despatch No. 2674 of April 21, 1934, to the Department, there is enclosed for the Department's information a copy of Counselor Peck's⁹⁸ despatch No. 283 of April 20, 1934,⁹⁹ reporting the action taken by him in carrying out the Legation's telegraphic instruction of April 18, 9 a. m., in regard to the examination under the approved rules of Apprentice Pilot C. F. Erbe, an American citizen, whom the Chinese authorities propose to examine for the position of pilot under the new rules unilaterally established by the Government, with resultant protests from and non-recognition by the interested foreign Powers.

Counselor Peck and the American Consul General at Shanghai have been supplied with a copy of this despatch for their information and guidance.

Respectfully yours,

For the Minister:
C. E. GAUSS
Counselor of Legation

893.825/47: Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, June 21, 1934—11 a. m.
[Received June 21—5:26 a. m.]

258. Reference Shanghai Senior Consul's circular No. 170-3-11 on May 10, 1934,⁹⁹ and Legation's despatches No. 2702 of May 3rd and No. 2770 of June 8th¹ concerning pilots. As stated therein licenses

⁹⁷ Neither printed.

⁹⁸ Willys R. Peck, Counselor of Legation and Consul General at Nanking.

⁹⁹ Not printed.

¹ Latter despatch not printed.

of pilots have heretofore been renewed annually on July 1st by the Chinese Government through the Commissioner of Customs at Shanghai. Consular body there apprehensive that the Chinese high authorities, with a view to forcing interested powers to accept new pilot regulations may instruct Commissioner of Customs to refuse renewal of licenses on July 1st. With a view to avoiding dislocation of shipping interests of the port consular body has as precautionary measures suggested an emergency measure which may be resorted to in the event that Commissioner of Customs refuses renewal of licenses. This measure is the renewal of licenses jointly by the Consuls concerned under their several signatures, under the provisions of article 15 of the Sino-French Treaty of 1858 and inferentially under article 7 of the general pilots regulations, paragraph 17. Chinese authorities have taken certain steps to meet objections of interested powers to new pilotage regulations unilaterally established by the Chinese Government and they may eventually be altered satisfactorily to meet other objections of interested powers. However, owing to imminence of time for renewal of licenses of pilots at Shanghai the interested heads of Legation (other than German Minister who considers that under Germany's present treaty with China³ he cannot join in such consular licensing) have deemed it advisable to acquiesce in the precautionary plan suggested by the Shanghai consular body and have replied to the Senior Consul in part as follows:

“Should, however, the Commissioner of Customs refuse to renew the licenses of the pilots on the 1st of July next or should he offer to renew them under unacceptable conditions the interested heads of Legation (with the exception of the German Minister) authorize the joint renewal of the pilots' licenses by the Consuls concerned under their several signatures”.

It is hoped that the action taken to meet the emergency described meets with the approval of the Department.

JOHNSON

893.825/48: Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, June 21, 1934—4 p. m.
[Received June 21—10:40 a. m.]

260. Reference Legation's 258, June 21, 11 a. m., following just received from American Consul General at Shanghai:

“June 21, 11 a. m. Acting Harbor Master informs me orally he has been authorized to extend licenses of pilots who are members of

³ Signed at Peking, May 20, 1921, League of Nations Treaty Series, vol. IX, p. 271.

Shanghai Pilots Association for 90 days from July 1st, also that he will present a draft proposal regarding pilotage to the consular body within a short time. He said he had received no instructions regarding Erbe. Repeated to Nanking."

Legation is at once renewing representations at Nanking looking to examination without further delay of apprentice pilot Erbe, American citizen, whose case was described in the Legation's despatch No. 2702, May 3, 1934, and previous correspondence.

JOHNSON

893.825/49 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, June 23, 1934—noon.
[Received June 23—10:25 a. m.]

263. Reference the Legation's 260, June 21, 4 p. m. Following from Counselor Peck:

"June 21, 8 p. m. Representative of the Foreign Office has informally handed me the Chinese text and an English version of the 'Revised Provisional Pilotage Regulations June 1934'. Representative stated that this revision was made on the basis of representations from the interested powers and it was hoped that it would meet with the approval of the Legation. Chinese text and English version mailed to the Legation today or tomorrow. Copy by mail to Shanghai."

JOHNSON

893.825/48 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, June 25, 1934—5 p. m.

185. Your 258, June 21, 11 a. m. and 260, June 21, 4 p. m. in regard to pilotage. The Legation's action, taken in conjunction with the interested heads of Legation (other than the German Minister), in acquiescing in the precautionary plan suggested by the Shanghai Consular Body has the Department's approval.

HULL

893.825/50 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, June 29, 1934—5 p. m.
[Received June 29—8:50 a. m.]

279. Reference the Department's 185, June 25, 5 p. m. Cunningham reports Erbe successfully took examination for pilot on June 27th under special arrangement. Details will be reported by mail.

JOHNSON

893.825/60 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, September 18, 1934—8 p. m.

298. Your despatch No. 2884 of August 3⁵ in regard to pilotage at Shanghai. The Department is in substantial accord with the comments and suggestions of the Legation but does not desire to issue more specific instructions at this time. The Minister and the Consul General at Shanghai, in the light of the Department's general approval of the Legation's suggestions and in consultation with their interested colleagues, should continue to endeavor to work out a satisfactory arrangement which will provide adequate safeguards for the American interests involved and at the same time be acceptable to the Chinese authorities.

HULL

893.825/64 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, October 22, 1934—3 p. m.

[Received October 22—9:15 a. m.]

480. Department's 298, September 18, 8 p. m. In conversation French Chargé said that from talks with Japanese Minister and information from Chinese Government sources he has received the intimation that the Japanese will not agree to any substantial modification of the present regulations, and that the Chinese, as a result of Japanese and French representations, will drop the matter of revision. He did not disclose French position, but expressed the belief that Japanese would establish their own pilotage authority if present procedure was substantially modified.

GAUSS

893.825/67 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, December 20, 1934—3 p. m.

[Received 3 p. m.⁶]

588. Reference Department's 298, September 19 [18], 8 p. m., concerning pilotage regulations.

1. Informed negotiations principally by the British with the officiating Inspector General of Customs have resulted in that official

⁵ Not printed.⁶ Telegram in four sections.

agreeing to recommend to the National Government revised pilotage regulations embodying amendments which had been sought by principally interested powers other than Japan and France.

2. [Here follows report on amendments to the pilotage regulations.]

3. British Minister obtained the authorization of his Foreign Office, and, after informing this Legation of his contemplated action and requesting that we act similarly, he has recently supplied Chinese Foreign Office informally with a draft of the regulations in their amended form as set forth above and informed Hsu Mo, Vice Minister for Foreign Affairs, that the British Government is prepared to accept them as applicable to British nationals provided they are communicated to the British Minister officially for approval together with assurances (1) that in future the number of British pilots in relation to the total number of foreign pilots should be determined by the proportion pilotage fees paid by British shipping bears to those paid by other foreign shipping, (2) that the regulations will not be enforced until the Chinese have made an effort to obtain their acceptance by other interested powers, and that present pilots' licenses will be renewed for a reasonable period to permit obtaining such acceptance; (I am informed that this last assurance is desired because the Japanese have expressed the belief that they can arrive at agreements with Chinese within a few months and requested British not to act precipitately[]) and (3) that a satisfactory arrangement be reached for taking over Shanghai Pilots' Association and pilots' boat company. (Informal negotiations have been going on to this end and the officiating Inspector General has agreed to recommend to the Chinese Government the taking over of these interests and equipment on terms extremely favorable to the pilots). British propose informally accepting the regulations to make an appropriate reservation of treaty rights concerning penalties and compulsory pilotage.

4. While Hsu Mo is reported not to have committed himself there is every indication that amended regulations will be acceptable to Chinese. French and Japanese are understood still to desire solemn formal agreement upon revision and mandatory provisions requiring employment of foreign pilots, Japanese demanding that there shall be no diminution in number of Japanese pilots.

5. Notwithstanding Japanese and French attitude, the British Legation has expressed the willingness to go ahead in this matter and accept the amended regulations with the assurances referred to above and hope that we will do likewise. They feel that such action on the part of the American and British authorities will bring the other interested nations into line and possibly also, in view of the favorable terms offered to pilots at Shanghai, may induce the French if not also the

Japanese to accept the regulations. British intimate that they are greatly concerned that failure to reach an early agreement may adversely affect interests of Shanghai British pilots and the pilot company both of which are now being offered extremely favorable terms.

6. In view of the above, and as the regulations would with certain reservations and assurances appear to provide adequate safeguards for the American interests involved, the Legation recommends that it be authorized to instruct the Counselor at Nanking to call upon an appropriate official of the Foreign Office and, leaving with him a copy of the amended regulations, inform him that we are prepared to accept them as applicable to American nationals provided they are communicated to us officially for approval under cover of a note containing assurances (1) that all American pilots at present employed whether at Shanghai or elsewhere (there are three on the Woosung-Hankow run and one at Swatow) will have the option of continuing in service, and that satisfactory arrangements will be made for taking over their boats and equipment and that in future the number of American pilots in relation to the total number of foreign pilots shall be determined by the proportion pilotage fees paid by American shipping bears to those paid by the shipping of other foreign powers, (2) that the regulations will not be enforced until an effort has been made to obtain their acceptance by the other interested powers, and (3) that should the pilots or shipping of any other nationality be licensed or permitted to operate under terms more favorable than those embodied in the amended regulations, then American pilots and shipping will be entitled to equal treatment. Peck might also leave with the Foreign Office an *aide-mémoire* embodying these stipulations, and I believe that he should say frankly to the Foreign Office that in accepting these regulations the Legation will make an appropriate reservation of treaty rights regarding jurisdiction over American nationals and refusing to recognize any right of the Chinese to enforce compulsory pilotage without the consent of the American Government.

GAUSS

893.825/67 : Telegram

The Secretary of State to the Chargé in China (Gauss)

WASHINGTON, December 26, 1934—4 p. m.

395. Your 588, December 20, 3 p. m. in regard to pilotage regulations. The Department concurs in the recommendations contained in paragraph 6 of the above-mentioned telegram and authorizes the Legation to take action accordingly. The procedure suggested in the last sentence of your telegram is approved.

HULL

AMERICAN INTEREST IN PROBLEMS AFFECTING THE INTERNATIONAL SETTLEMENT AT SHANGHAI⁷

893.102S/1313 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, March 17, 1934—noon.

[Received 9:30 p. m.]

125. Reference Cunningham's despatch No. 9325, February 8, 1934,⁸ Cunningham now reports that as the result of negotiations between Japanese Consul General and the Chinese authorities at Shanghai the latter have forwarded to Nanking with recommendation for favorable consideration a proposal that extra-Settlement Roads police force shall have a Chinese Commissioner, one British Deputy Commissioner, one Japanese Assistant Commissioner and one Chinese Assistant Commissioner. British Consul General has supported such proposal and Secretary General Shanghai Municipal Council has expressed belief that proposal will be satisfactory to Council. Cunningham in conversation with Japanese Consul General expressed personal opinion that proposal would be satisfactory from American point of view and requests Legation's confirmation. He adds, "while in principle I am opposed to any understanding either oral or written which seems to discriminate against the employment of Americans yet in consideration of all the circumstances it would seem very unwise to oppose this proposal provided it receives the sanction of the Chinese Government."

2. I consider that proposal is as acceptable a one as is obtainable in this difficult and long-standing problem and am of the opinion that we should take a passive attitude, that is, accept the arrangement generally and in the event that the proposal is accepted by Nanking authorities but refrain from actively supporting the proposal for the reason that it seeks to fix the nationality of the foreign police officers rather than to provide for selection of them on the basis of availability and efficiency and the requirements of the positions (which would naturally take into consideration the preponderant Japanese or other foreign national interests in certain areas).

3. Cunningham in interview with Japanese Consul General on March 8 took the opportunity again to express the hope that American public utilities would have support of Japanese Consul General "in adjusting arrangements on the extra-Settlement Roads area." Japanese Consul General replied that he would support any proposition

⁷ Continued from *Foreign Relations*, 1933, vol. III, pp. 610-616.

⁸ Not printed. Edwin S. Cunningham was Consul General and Senior Consul at Shanghai.

made by American Consul General provided that the Japanese consumer is placed on an equal basis with other consumer[s] and without any discrimination against him.

JOHNSON

893.102S/1313 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, March 21, 1934—5 p. m.

71. Your 125, March 17, noon, paragraph 2.

1. Department approves your view in regard to what our attitude should be and authorizes you to instruct Shanghai accordingly.

2. Whatever agreement with regard to the problem of the extra-Settlement roads at Shanghai may be in contemplation, the Department desires that the Legation and the Consulate General at Shanghai do not lose sight of the fact that the Department has on several occasions (see Department's 359, October 31, 1932, noon,⁹ last paragraph, Department's 104, April 1, 1933, 11 a. m.,¹⁰ and Department's 353, October 26, 1933, 5 p. m.,¹¹) stated that, in so far as we are concerned, the agreement should be a strictly local agreement which does not require the signatures of representatives of the American Government. If therefore it should appear that the Japanese and/or any other foreign authority represented at Shanghai are seeking to have the agreement approved in writing by the diplomatic and consular representatives in China of the interested powers, the Department desires that the Minister and the Consul General vigorously endeavor to dissuade the sponsors of that proposal from such a course of action.

HULL

893.102S/1322

*The Consul General at Shanghai (Cunningham) to the Minister in China (Johnson)*¹²

No. 7933

SHANGHAI, May 10, 1934.

SIR: I have the honor to acknowledge the receipt of the Legation's instruction of April 26, 1934, transmitting a copy of its despatch No. 2681 of the same date to the Department¹³ regarding extra-Settlement

⁹ *Foreign Relations*, 1932, vol. IV, p. 649.

¹⁰ *Ibid.*, 1933, vol. III, p. 610.

¹¹ See *ibid.*, p. 613, footnote 49.

¹² Copy transmitted to the Department by the Minister in China in his despatch No. 2724, May 15, 1934; received June 18.

¹³ Neither printed.

roads. The Legation requests my comment in regard to certain items in the Japanese Consul General's proposal, with particular reference to the attitude of the British Consul General and the Shanghai Municipal Council thereanent.

In reply I have to state that the British Consul General has stated to me that he informed the Japanese Consul General that he could not accept on behalf of British interests the paragraph under Article 1 (b), reading as follows:

"The Deputy Commissioner and the Assistant Commissioner shall be foreigners whose nationals constitute the largest in number of foreign residents of different nationalities residing in the Extra Settlement Roads or whose nationals' property constitutes the largest in value of foreign properties of different nationalities existing in the said Roads."

Sir John ¹⁴ said that he told Mr. Ishii ¹⁵ there were other factors in the situation which should be considered in addition to the number of residents and amount of property interests. For example, the police force of the International Settlement is predominantly British and he believed that was also a reason for having a British subject as the senior foreign officer of the extra-Settlement Roads force. He said he had submitted to the Japanese Consul General a revision of Article 1 which the latter had taken with him to Tokyo but that he had not yet had a talk with Mr. Ishii since the latter returned about the beginning of May, and he did not know what instructions Mr. Ishii had received while in Japan.

With reference to the statement in Note 1, that in carrying out his duties the Deputy Commissioner is to consult with the foreign Assistant Commissioner but not with the Chinese Assistant, Sir John said he was certain such a distinction would not be acceptable to the Chinese and might result in wrecking the whole agreement, and he had suggested that it might be obviated by leaving it out of the agreement itself but having an understanding between the Shanghai Municipal Council and the Japanese Consul General that the Deputy Commissioner was to exercise the authority vested in him by the agreement after consultation with the foreign Assistant Commissioner.

The Shanghai Municipal Council, as I understand, take a view similar to that stated above with regard to the two items in question, although they believe the question of nationality of the police officers is primarily one to be adjusted between the British and the Japanese authorities.

Respectfully yours,

EDWIN S. CUNNINGHAM

¹⁴ Sir John Brenan, British Consul General at Shanghai.

¹⁵ Itaro Ishii, Japanese Consul General at Shanghai.

893.05/381 : Telegram

*The Minister in China (Johnson) to the Secretary of State*PEIPING, October 5, 1934—10 a. m.
[Received October 5—9:55 a. m.¹⁶]

450. Reference Shanghai Senior Consular circular number 213-L-1 June 2, 1934, and Legation's despatch number 2982 of September 13th now en route to Department¹⁷ concerning Chinese courts in International Settlement at Shanghai. The Legation's despatch encloses translations of individual formal notes addressed by the Foreign Office on August 18th and 29th to the Legations of the several powers signatory to the Shanghai court agreement¹⁸ protesting action of the Municipal Council in returning to the special District Court certain summonses issued by that court or by the procurator against Chinese detectives of the International Settlement police on complaints charging them with false accusations, et cetera, and in one case of bodily harm as a result of third-degree police measures. Foreign Office note of August 18th alleged that the Police Department intercepted the summonses and that the Council returned them to the court without any explanation. Chinese court and Foreign Office on basis of article 6 of court agreement protest this action and insist the summonses be served by judicial police or the process servers. Foreign Office note of August 29th states that on August 17th and 22nd the Police Department of the Council addressed communications to officers of the judicial police of the court stating that in view of the fact that there was no preliminary inquiry prior to the issuance of the summonses and as the question of private criminal prosecutions against members of the Municipal Police was under discussion by the consular authorities, the police could not permit the accused detectives to attend the Chinese court in response to the summonses. The Foreign Office insists that Municipal Council has no right to question issuance of summonses whether or not there has been preliminary inquiry and that criminal prosecution against members of International Settlement police in no way differs from other private criminal prosecution.

2. At special consular body meeting on September 12th, Senior Consul Cunningham pointed out desirability of Shanghai Municipal Council informing District Court of legal basis for Council's position in the matter.

3. On September 19th, the secretary of the Council addressed the president of the District Court referring to the failure of conversations to reconcile the differences of opinion and setting out the principles

¹⁶ Telegram in five sections.

¹⁷ Not printed.

¹⁸ Signed February 17, 1930, *Foreign Relations*, 1930, vol. II, p. 333.

upon which the Council bases its attitude in the matter. He pointed out that in the last few months a serious situation has arisen from the issue by the court of summonses without prior investigation against members of the police alleged to have committed offense in the course of arrest and trial of persons accused of serious crime and that the charges have generally been brought at the instance of persons accused and their associates on whose evidence in several cases police officers have been convicted in the court without being allowed to cross-examine the witnesses against them, to bring witnesses in their defense or to obtain independent testimony. Letter further pointed out that the court has held that members of Municipal Police are not public officers and has thus deprived them of the protection provided by article 26 of Land Regulations and by article 17 and 35 of Chinese Criminal Law. The letter contends that article 15 [24?] of Land Regulations authorizes the establishment of a police force and that under article 26 the members of that police force as agents and officials of the Council were granted immunity from personal action in respect of acts done in the execution of their duty under the Land Regulations. The letter of the Council then states as follows :

“The Council as a corporate body can act only through its executive officers or agents and their acts, whatever their nationality may be, are specifically brought within the sole jurisdiction of the Court of Consuls and no action can therefore be brought against any officer of the Council in his personal capacity until it has been decided that he was not acting under the direction of the Council and that the act complained [of] was not done bona fide for the purpose of executing Land Regulations. Subject to the over-riding jurisdiction of the Court of Consuls it is for the Council to investigate to find whether the act complained of was in fact committed and whether it contravened or exceeded or was done without the instruction of the Council.

If the act complained of was so committed then the Council will itself prosecute the offender before the court; if, however, the Council is satisfied to the contrary that officer personally is not subject to any action and any aggrieved party has the remedy provided by the Land Regulations of proceedings against the Council in the Court of Consuls.

In the event of any doubt arising as to the construction of or powers conferred by the Land Regulations it is provided by regulation 28 that the same must be consulted upon and settled by the foreign consuls and local Chinese authorities and not by any unilateral interpretation by either the court or the Council neither of which is a party to the Land Regulations or to the court agreement.

The Council cannot accept the contention contained in your despatch that it has committed a breach of any of the stipulations of the court agreement. There is nothing in that agreement that affects the protection granted to public officers of the Council acting within the scope of their instructions. On the contrary article 2 stipulates that due account should be taken of the Land Regulations and bylaws of the International Settlement. In further statements I would refer

you to the note of February 17, 1930,¹⁹ supplemental to the agreement from which it must be inferred that the termination of the agreement were not to affect or in any way invalidate the land regulations or by-laws or be considered prejudicial to the maintenance of peace and order within this area.

The Council has no desire to shield any member of the police force who is guilty of any improper conduct and follows the practice of prosecuting members of its own police in cases where investigation discloses that an offense has been committed. The Council's investigation is neither final nor arbitrary as any aggrieved party has the right to invoke jurisdiction of the Court of Consuls."

4. In his despatch of September 17th to Legation, copies of which have been mailed direct to Department,²⁰ the Consul General at Shanghai states that an admission that the Chinese court may summon employees of the Council to answer charges for alleged offenses committed in the discharge of their duties strikes at the very foundation of the municipal organization; that if Chinese contention is admitted it is doubtful whether the Municipal Council administration can continue; and that recent protests from the Chinese Court constitute a definite, possibly premeditated attempt to undermine the administration of the International Settlement.

5. Consular body has referred matter to Senior Minister and the several Consuls have reported to their Legations with the request that the Legations take action to support the Municipal Council in its position as enunciated in its letter of September 19th to the president of District Court.

6. British Legation has consulted with this Legation and proposes to suggest through Senior Minister that the several Legations concerned reply to the two formal notes from the Foreign Office refraining from any discussion of the detailed legal aspects of the case but briefly summarizing the position of the Shanghai Municipal Council and expressing general agreement with the considerations advanced therein. Reply would further point out that the Legations can find no provision with [of?] court agreement which withdraws from Chinese police and other servants of the Council the immunity conferred on them as "public police officers" under article[s] 17 and 35 of the Chinese Criminal Code and under the criminal action regulations; and that as regards the maintenance of justice the Legation is confident that the Municipal Council will at all times institute the fullest inquiry into any allegations that may be made against the Council's employees and if found necessary will bring the matter before the court. Failing such action by the Council any aggrieved party may sue the Council before the Court of Consuls.

¹⁹ *Foreign Relations*, 1930, vol. II, p. 339.

²⁰ Not printed.

7. After careful study this Legation is of the opinion that it is necessary that the Shanghai Municipal Council be supported in its stand and I therefore request authorization to make reply to the Foreign Office's formal protests along the general lines indicated above provided the other Legations are prepared to do likewise.²¹

For the Minister:
GAUSS

893.1028/1333

The Chargé in China (Gauss) to the Secretary of State

No. 3176

PEIPING, December 6, 1934.
[Received December 28.]

SIR: I have the honor to refer to the Legation's despatch No. 3165, November 30, 1934,²² in regard to the Extra-Settlement road question at Shanghai, and to enclose for the Department's information a copy of the Shanghai Consul General's despatch to the Legation No. 8169, December 1, 1934.²²

With the Consul General's despatch were enclosed a memorandum of a conversation he had had with the Japanese Consul General and a copy of a letter which the Japanese Consul General has addressed to the Chairman of the Shanghai Municipal Council which contains the "fundamental views" of the Japanese Government on the scope of the proposed Extra-Settlement roads area agreement.

The Japanese proposal, which the Japanese Consul General announced an intention of presenting to the Mayor of Greater Shanghai on November 29, contemplates a new delimitation and simplification of the boundaries of the Extra-Settlement area which will provide "one administrative region circumscribed by distinctly clear boundary lines," and thus avoid possible conflicts of authority which would likely arise were the present boundaries maintained without modification.

The Japanese Consul General requested that Mr. Cunningham urge upon the Mayor of Greater Shanghai the desirability of hastening agreement upon this matter, but Mr. Cunningham was loath to do so without the Legation's prior instructions for the reason that he felt it would be difficult to confine his remarks to the subject of the Extra-Settlement roads question without appearing to associate himself completely with the Japanese demands.

There is also enclosed a copy of the Legation's instruction in reply to Mr. Cunningham²² from which the Department will note that the

²¹ The Department in its telegram No. 325, October 10, 8 p.m., replied: "Department approves and authorizes you to reply as proposed in paragraph 7."

²² Not printed.

Legation has agreed with him that the "fundamental views" of the Japanese, if accepted by the Chinese, would be beneficial to the administration of the area, but has expressed the belief that he should not associate himself with the Japanese demands by calling upon the Mayor for the purpose of urging their acceptance.

The Legation has, however, expressed the opinion that, should Mr. Cunningham have an opportunity of broaching the subject informally to the Mayor, he might appropriately inquire whether progress is being made in the efforts for a settlement and express the hope that an agreement mutually acceptable to both Chinese and foreign interests may be reached. He has been cautioned, on the other hand, that in any conversation he may have with the Mayor, he should avoid discussion of the Japanese demands and abstain from endorsing the "fundamental views" of the Japanese Government.

Respectfully yours,

C. E. GAUSS

**CONCURRENCE IN PROPOSED ALTERATION OF THE STATUS OF THE
KULING ESTATE IN KIANGSI, CHINA**

893.102 Ku/18 : Telegram

The Acting Secretary of State to the Minister in China (Johnson)

WASHINGTON, December 1, 1933—6 p. m.

385. Your despatch No. 2338, October 21,²⁴ penultimate paragraph. If all or a decided majority of the lot owners should desire to submit to the Chinese authorities the question of altering the status of the Kuling Estate, the Department does not wish to interpose any objection to such action. In view, however, of the somewhat uncertain status of the administration of the area mentioned, the Department questions whether the decision of the Kuling Council may safely be taken as representing the interests of the majority of the lot owners and whether objection to the proposed negotiations by a considerable minority of the lot owners would not be effective toward preventing the proposed negotiations.

In view of the large number of American lot owners²⁵ and the danger that the submission of the question to the Chinese authorities might result not only in the refusal of those authorities to acquiesce in a number of the proposals but also in undesirable controversy and possible impairment of the present status of the rights of the American citizens concerned, the Department believes that serious consideration should be given to the question whether it is desirable to raise at this time the issues involved in the proposal under reference.

PHILLIPS

²⁴ Not printed.

²⁵ An enclosure to despatch No. 2338, October 21, gave the number of American residents as 974, holding 247 lots and 217 homes.

893.102 Ku/20 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, December 28, 1933—9 a. m.
[Received December 28—6:40 a. m.]

938. Reference Department's number 385, December 1, 6 p. m., concerning status of Kuling Estate, paraphrase of which message was supplied to Consul General Adams²⁶ at Hankow. Consul General has replied in part as follows:

According to American members of Kuling Council, decision to request opening of negotiations with Chinese authorities was unanimously arrived at by Kuling lot holders during their annual meeting in summer of this year and was based in part upon suggestion of British Consulate General that time appeared favorable for settlement of various problems confronting Council. Council members report there was no suggestion of opposition by lot holders including some Chinese lot holders. Chinese lot holders however have shown very lukewarm interest in conduct of affairs of the mediation.

2. In reply to last paragraph of Department's telegram of December 1, 6 p. m., Adams observes that Kuling lot holders have thus far been source of authority of Kuling Council which is elected to represent collective interest of lot holders and that action of the Council described above should estop any lot holder from criticising action of the Council if proposed negotiations prove unfortunate in their outcome; that Council's desire to have negotiations open is based on the following considerations: Council now paying nearly one-third of its revenues to Chinese provisional police and receiving small returns for such outlay. Council believes a Chinese administration could handle policing problem much more efficiently, also the problem of coolie and motorcar transportation between Kuling and Kiukiang; that in time of tense and antiforeign feeling an administration with nominal Chinese head should lessen difficulties of the Kuling Estate and finally that land values at Kuling are rapidly resulting in steady increase in land holdings by wealthy Chinese with whom average purchaser cannot compete and that if negotiations are opened at this juncture when Chinese hold approximately one-fourth lots the bargaining power of the Council is much better than it will be at later date.

3. Consul General Adams believes that certain risk involved in opening of negotiations but that there will be no better time than present for undertaking regularization of affairs of the Estate; that the only body capable of representing lot holders has requested opening of negotiations and that he believes that we would be ill advised not to accede to such request.

²⁶ Walter A. Adams.

4. In view of the above the Legation if the Department approves contemplates inquiring of Adams if change in political situation since meeting of lot holders materially alters the relations [*situation?*] and if not Legation would interpose no objection to opening of negotiations provided the several consular authorities of the majority of the lot holders agree to such negotiations.²⁷

JOHNSON

893.102 Ku/26 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, November 15, 1934—5 p. m.

[Received November 15—8:35 a. m.]

525. Reference Legation's despatches 2979, September 14th and 3034, October 12th²⁸ regarding status Kuling Estate. British Legation has received authorizations to instruct its Consul General at Hankow that he may conclude the agreement in accordance with the terms of the draft provided he is able to secure the concurrence of his interested colleagues and the approval of the Council the Kuling Estate acting on behalf of foreign lot holders concerned. British Foreign Office has suggested, however, that in order to make clear that British Consul General is not acting on behalf of the British Government the preamble be changed to read "the Council of the Kuling Estate being desirous, et cetera, His Majesty's Consul General hereby enters, et cetera," subject to suitable modification if the other interested Consuls wish to be included.

The Legation is disposed to authorize Stanton²⁹ to concur in the conclusion of the agreement, but in view of the original British ownership of the head-deeds, and consequent willingness of the British to make the agreement a purely Sino-British one, the Legation does not believe that reference in the preamble to the American company is essential, and would be inclined to authorize its omission. The Department's instructions are however requested.

GAUSS

893.102 Ku/26 : Telegram

The Secretary of State to the Chargé in China (Gauss)

WASHINGTON, November 20, 1934—4 p. m.

365. Reference Legation's telegram 525, November 15, 5 p. m. and despatch 3034, October 12,³⁰ in regard to the proposed change in the

²⁷ The Department, in its telegram No. 404, December 29, 1933, 3 p. m., replied: "You are authorized to instruct Hankow as proposed in paragraph 4 of your telegram."

²⁸ Neither printed.

²⁹ Edwin F. Stanton, Consul at Hankow.

³⁰ Despatch not printed.

status of Kuling. The Department in mail instruction 1508, November 16,³¹ approved the Legation's instruction under date October 12 to Hankow which was enclosed with Legation's despatch to the Department of that date. The Department desires that the Legation authorize the Consul at Hankow to concur in the conclusion of the agreement and perceives no objection, subject to the concurrence of other interested consular representatives, to making the agreement a purely Sino-British one.³²

HULL

**RE-REGISTRATION OF TITLE DEEDS TO REAL PROPERTY OF
AMERICANS IN CHINA**³³

893.52/309

The Secretary of State to the Minister in China (Johnson)

No. 1327

WASHINGTON, March 26, 1934.

SIR: Reference is made to your despatches No. 2380 of November 15, 1933, No. 2487 of January 24, 1934, and No. 2493 of January 29, 1934,³⁴ in regard to Chinese regulations governing the registration and taxation of land in China.

In view of the fact that the question of the applicability of these regulations to American nationals has arisen at a number of ports and probably will arise at others, the Department approves the Legation's proposal mentioned in the last paragraph of the Legation's despatch No. 2487 of January 24, 1934, to circularize consulates in China along the lines of the Legation's instruction of November 15, 1933, to Swatow, and instruction of January 24, 1934, to Hankow, substantially to the effect that, although the Chinese authorities cannot properly insist upon reregistration of existing deeds as a condition precedent to the continued validity of title conferred by such deeds, there is no adequate reason why American nationals should not be permitted to avail themselves of the opportunity to have their deeds reregistered under the new regulations.

The Legation's circular instruction also should invite attention to the Legation's previous circular instructions No. 393 of December 13, 1929, and No. 5 of February 14, 1930,³⁵ in regard to the reexami-

³¹ Not printed.

³² Rendition of the Kuling Estate to China took place on January 1, 1936.

³³ For previous correspondence on this subject, see *Foreign Relations*, 1931, vol. III, pp. 1028 ff.

³⁴ None printed.

³⁵ Neither printed; they were based upon Department's telegram No. 363, November 6, 1929, 1 p. m., *Foreign Relations*, 1930, vol. II, p. 567.

nation of title deeds to property owned or leased in perpetuity by American citizens.

Very truly yours,

For the Secretary of State:
WILLIAM PHILLIPS

**REGISTRATION OF AMERICAN AND OTHER FOREIGN PUBLICATIONS
UNDER THE CHINESE PRESS LAW³⁷**

893.711/117: Telegram

The Acting Secretary of State to the Minister in China (Johnson)

WASHINGTON, January 18, 1934—2 p. m.

13. Your despatch No. 2413, December 7, 1933.³⁸

1. In the light of the information contained in your despatch under reference, you are authorized, in your discretion, either with or without similar action by your British colleague to acknowledge receipt of the note of November 17, 1933, from the Ministry of Foreign Affairs³⁹ and to state that the American Government has no objection to the voluntary *pro forma* registration of American periodicals and publications with the Ministry of Interior but that it can not compel such American periodicals and publications to register, and that it can not accept as applicable to them, whether registered or not, the penal provisions or administrative control provided in the press law of China.

2. If the British Government assents to the application of the law to its nationals, Department suggests the desirability of communicating decision of both governments simultaneously.⁴⁰

PHILLIPS

893.711/119

The Chargé in China (Gauss) to the Secretary of State

No. 3152

PEIPING, November 20, 1934.

[Received December 15.]

SIR: I have the honor to refer to the Legation's despatch No. 2548, February 17, 1934,⁴¹ upon the question of the registration of American publications under the provisions of the Chinese Law of Publications.

Under date of October 26, 1934, the Legation received a further note upon this subject from the Ministry of Foreign Affairs which ac-

³⁷ Continued from *Foreign Relations*, 1933, vol. III, pp. 683-694.

³⁸ *Ibid.*, p. 691.

³⁹ Not printed.

⁴⁰ The American and British Legations replied to the Chinese Foreign Office on February 14, 1934 (893.711/118).

⁴¹ Not printed; it reported compliance with Department's instructions *supra*.

knowledges the receipt of the Legation's memorandum of February 14, and, saying that it has not failed to note the contents thereof, continues to the effect that the Chinese Government has now decided that all Chinese or foreign newspapers or periodicals published in China should apply to the Ministry of the Interior for registration before the end of February 1935, in order that they may enjoy the special rights of registering at the Post Office and special postal privileges. It, therefore, requests that appropriate instructions be issued to the Americans concerned.

As the phraseology of the Ministry's note was not as clear as might be desired, the Legation directed the Counselor at Nanking to call informally upon an appropriate official of the Foreign Office and request a clarification of the intention of the Chinese Government in this matter. A copy of this instruction, dated November 8, 1934, together with copies of a subsequent exchange of telegrams, and copies of Mr. Peck's⁴² telegraphic reply of November 15, 5 p. m. and mail despatch No. 506—Diplomatic, November 16, 1934, are enclosed.⁴³

From Mr. Peck's despatch the Department will note that he called upon Dr. Kan Nai-kwan, Vice Minister of the Interior, instead of upon an official of the Ministry of Foreign Affairs, and that, among other things, Dr. Kan remarked that by the elimination of the necessity of registration with the Central Party Headquarters the process of registration had become a mere formality, and that, in fact, the real object of the Ministry of the Interior in seeking to bring about the registration of foreign newspapers was to gain "face" for the Government and to get statistical information. He expressed the belief that the actual control exercised over the newspapers by the Government would not be increased after registration, but he said that, if necessary to attain the desired end, the registration at the Chinese Post Office of unregistered publications would be cancelled and special postal rates now enjoyed by such publications would be withdrawn.

As no new elements have been injected into this matter, the Legation perceives no reason for recommending to the Department an alteration of its previous attitude. It has, therefore, replied to the Ministry of Foreign Affairs, reiterating its previous position, and is circulating a copy of the translation of the Ministry's note to consular officers in China for their further information.

In its circular to consular officers, the Legation is suggesting that, should any American publishers in their respective districts find it expedient to register under the provisions of the Law of Publications in order to enjoy the special postal privileges, or for any other reason, it should be suggested that they delete from the application form

⁴² Willys R. Peck, Counselor of Legation and Consul General at Nanking.

⁴³ Enclosures not printed.

all reference to the Central Kuomintang Publicity Department and the Party Headquarters.

The British Legation is taking a similar attitude, though it is not for the present replying to the Ministry of Foreign Affairs.

Respectfully yours,

C. E. GAUSS

CHINESE CENSORSHIP RESTRICTIONS UPON AMERICAN MOTION PICTURES IN CHINA⁴⁴

893.4061 Motion Pictures/119

The Counselor of Legation in China (Peck) to the Secretary of State

NANKING, April 9, 1934.

[Received May 7.]

SIR: I have the honor in the present despatch to conclude the account of the negotiations by the Metro-Goldwyn-Mayer Studios to obtain permission to take motion pictures in China for use in connection with a film production of the novel "The Good Earth", a beginning of which account was given in my despatch to the Department of February 26, 1934.⁴⁵

The discussions between the representatives of the Studios and the representatives of the appropriate Department of the Chinese Government, or rather, of the Kuomintang,⁴⁶ continued for a month longer until on March 26 the M-G-M representatives addressed two letters to the "Commission on the Direction of the Motion Picture Industry" agreeing to the much disputed "principles" and reserving the right of the Studios to withdraw from the project of taking motion pictures in China "if the difficulties encountered in taking the films or in working with the Commission show that the undertaking is impracticable or too expensive . . .⁴⁷ the sole condition being that all motion picture films taken by the party in China, for use in 'The Good Earth' shall be destroyed".

In these discussions it seemed unavoidable that I continue my unofficial mediation, principally because, on the Chinese side, the negotiations remained in the hands of Dr. Chia-luen Lo, Chancellor of the National Central University. Dr. Lo insisted that he, also, was interesting himself only as a matter of good will and unofficially, and my withdrawal would probably have caused his.

It would uselessly encumber the files of the Department to submit a full account of all the discussions and copies of all memoranda of conversations. Full records have, however, been kept in this office.

⁴⁴ For previous correspondence on the subject of film censorship, see *Foreign Relations*, 1933, vol. III, pp. 694 ff.

⁴⁵ Not printed.

⁴⁶ Nationalist Party.

⁴⁷ Omission indicated in the original.

As illustrative of the nature of the conversations which proceeded during the second month of the negotiations, there is submitted a "memoranda of conversations", dated March 3, 1934,⁴⁸ in which are recorded an unsolicited expression of interest by Vice Minister for Foreign Affairs Tang Yu-jen in the taking of these motion pictures and his offer to intervene on behalf of the Studios. It will be noted, also, that at this juncture Dr. Chia-luen Lo expressed extreme discouragement and intimated that if the attempt then made to reconcile the views of the Studios and the Chinese authorities should fail, he probably would cease his efforts in that direction.

As of interest in showing that I warned the M-G-M representatives that the success of their venture would depend less on the exact nature of the written agreement between the Studios and the Chinese authorities than on the spirit in which the enterprise was carried on, I enclose a memorandum of conversation dated March 5.⁴⁸ There is enclosed, also, a memorandum of conversation dated March 9.⁴⁸ On page 2 of this memorandum there is a report of an explanation given by me to the M-G-M representatives of why the Chinese authorities were so exacting in the arrangements for the filming of "The Good Earth". Briefly, it was because previous requests for permission to film this work had been refused, owing to the unpopularity of the novel among the so-called "intelligentsia". On page 4 it will be noted that I informed the M-G-M representatives that I felt that I had done unofficially everything that I could do to bring about an agreement between Mr. Hill⁴⁹ and the Chinese authorities. The discussions promised to drag along indefinitely and I believe this warning served to bring them to a close, since the M-G-M representatives undoubtedly regarded with apprehension their being left to continue the discussions without informal assistance from the Legation's representative in Nanking.

There is enclosed a memorandum of a conversation, dated March 15,⁴⁸ held by me with Dr. Lo and Mr. Chen Li-fu, Chairman of the Organization Department of the National Party Headquarters, who appeared to have the final decision in these negotiations. This conversation was important in that it resulted in consent by Mr. Chen Li-fu that the Studios reserve their right to withdraw from the enterprise in China if it were found impracticable. The Studios were very apprehensive that they might fail in their desire to get suitable motion picture films in China, but might, nevertheless, be held to their promise to permit the supervision of the making of the picture in the

⁴⁸ Not printed.

⁴⁹ George W. Hill, M-G-M director.

United States by a representative of the Chinese authorities. A letter agreed to in this conversation is understood to give the Studios a method of obtaining release from this obligation.

As final exhibits there are enclosed ⁵² copies of the two letters addressed by the representatives of the Studios to the Chinese authorities on March 26, referred to in the second paragraph of this despatch, and of the notarial authentication of the signatures as attached by Vice Consul Harold E. Montamat at the request of the signers; copies of two letters, dated March 28, addressed to the representatives of the Metro-Goldwyn-Mayer Studios by the President of the Central Publicity Department of the Kuomintang, acknowledging the receipt of the two letters just described, which acknowledgments were sent both in English and Chinese; and a memorandum of conversations, dated March 28, reporting an assurance given by Dr. Lo that steps had been taken to arrange for the actual taking of motion picture films and for the appointment of Mr. Theodore Tu as representative of the Chinese authorities to work with the Studios; it may be stated that the representatives of the Studios had expressed their willingness to have Mr. Tu act in that capacity.

Exceptionally complete records have been kept of all conversations and informal written communications connected with the application of the Metro-Goldwyn-Mayer Studios for permission to take motion pictures in China, firstly, because the whole project is an innovation and will constitute a precedent and, secondly, because of the possibility that one party may accuse the other of failure to live up to assurances given during the discussions and evidence bearing on such a contention would, in that case, be valuable.

Very respectfully yours,

WILLYS R. PECK

893.4061 Motion Pictures/121

The Counselor of Legation in China (Peck) to the Secretary of State

NANKING, April 23, 1934.

[Received May 19.]

SIR: I have the honor to inform the Department that during the past few months a fundamental change has taken place in the official organization controlling the motion picture industry in China, whereby control over motion picture matters has passed in large measure from the Government to the Kuomintang.

It will be recalled that formerly the censorship of films and other questions relating to the motion picture industry in China were placed under the direction of the National Board of Film Censors, an organization consisting of representatives of the Ministries of

⁵² None printed.

Education and Interior, with representatives of the Party Headquarters acting in an advisory capacity. However, in November, 1933, as the result of a mob attack on a Chinese motion picture company in Shanghai, allegedly for having produced films tending to encourage class struggle, an investigation of the activities of the Board was made by the Central Publicity Committee of the Kuomintang. It is reported that the investigation revealed that the Board had approved certain films of a communistic nature, and accordingly, in December, 1933, the Committee proposed that the Board be reorganized and placed under Party control. It is understood that the Ministries of Education and Interior agreed to this proposal, as the members of the Censorship Board were also officials of the two ministries and found it difficult efficiently to perform the functions of their concurrent posts.

The Central Executive Committee of the Kuomintang on February 8, 1934, passed a resolution reorganizing the National Board of Film Censors and changing the name to the "Central Motion Picture Censorship Committee", and subsequently promulgated the "General Principles Governing the Organization of the Central Motion Picture Censorship Committee". There is enclosed a copy of the Chinese text and translation of the "General Principles . . .",⁵³ as they appeared in the March 15, 1934, issue of the semi-official *Central Daily News*, Nanking. The most important points in these General Principles are the following:

- 1) The Censorship Committee shall be placed directly under the "Committee for the Guidance of the Motion Picture Industry of the Central Publicity Committee of the Kuomintang".
- 2) It shall exercise censorship over motion picture films, both domestic and foreign and issue showing and export permits.
- 3) The members of the Committee shall be recommended by the "Committee for the Guidance of the Motion Picture Industry", but shall be appointed by the Executive Yuan.
- 4) The committee shall submit a monthly report to the Executive Yuan and the "Committee for the Guidance of the Motion Picture Industry".
- 5) The General Principles have been passed by the "Committee for the Guidance of the Motion Picture Industry", and approved by the Central Publicity Committee, and have been submitted to the Central Party authorities for record.

It will be seen from these General Principles that the "Committee for the Guidance of the Motion Picture Industry" will henceforth constitute the highest authority on motion picture matters in China, and that it will report to central party headquarters. It would appear that the only control which the government will exercise over the matter will be derived from its power of appointment of the members

⁵³ Omission indicated in the original.

of the Censorship Committee, but even here its authority is limited, for it must appoint the members from among those persons recommended by the Party committee.

The "Committee for the Guidance of the Motion Picture Industry" will exercise general control over the motion picture industry, but the censorship of films and scenarios will be carried on under its direction by two other committees, the "Censorship Committee", above-mentioned, and the new "Motion Picture Scenario Censorship Committee".

The members of the Censorship Committee were appointed on March 6, 1934, by the Executive Yuan, which simultaneously instructed the Ministries of Education and Interior to abolish the old National Board of Film Censors and make the necessary transfer of its activities and records to the new Committee. The Committee commenced functioning on March 21, 1934. In view of the fact that the Committee has been in office for such a brief period, the extent of the power which will be exercised by it can not yet be determined. It is presumed, however, that it will carry on a censorship of films which present no difficult problems, but that important and controversial questions will be referred for decision to the Committee for the Guidance of the Motion Picture Industry.

The new Motion Picture Scenario Censorship Committee will have supervision over the scenarios of films to be produced in China, either by Chinese or foreign motion picture companies, and the approval of this Committee must be obtained before production can be undertaken.

It is to be hoped that the transfer of control over the motion picture industry in China from the Government to the Kuomintang will not result in creating additional difficulties for American film exhibitors and producers, and that the decisions of the new Committees will be governed by reason and common sense, rather than by prejudice.⁵⁴

Respectfully yours,

WILLYS R. PECK

893.4061 Motion Pictures/130

The Secretary of State to the Minister in China (Johnson)

No. 1400

WASHINGTON, July 2, 1934.

SIR: Reference is made to the Legation's despatch No. 2739 of May 24, 1934,⁵⁵ in regard to the censorship of amateur motion pictures.

⁵⁴ Principal points at issue in the year 1935 were the matters of increased fees and the retroactive features of the new regulations. Telegram No. 379, July 26, 1935, 6 p. m., from the Minister in China, reported:

"A memorandum from the Foreign Office under date of July 13 concedes the complete abrogation of the retroactive provision regarding the screening of the censorship certificate at the time of exhibition of the film. Only films censored from December 7, 1934, are now required to observe the requirement." (893.4061 Motion Pictures/178)

⁵⁵ Not printed.

In this connection it is noted that Counselor Peck is continuing in his endeavors to persuade the Chinese authorities to grant special consideration to amateur motion picture films. In the event that his efforts to attain that end prove unsuccessful it is suggested that he again discuss the matter informally with the appropriate Chinese officials and that in so doing he include a statement to the effect that, although the Department does not question the right of the Chinese Government to impose such non-discriminatory motion picture censorship regulations as may be deemed desirable, the present insistence of the Chinese Government on applying to amateur and non-commercial films of the eight and sixteen millimeter type a strict interpretation of the Motion Picture Censorship Law is proving costly to amateur photographers and, what is of more importance, a source of considerable inconvenience and irritation.

It may also be pointed out that, as far as the Department is aware, no other country has adopted similar regulations in regard to non-commercial moving picture films; that many countries annually expend large sums of money to encourage visits by foreign tourists who are the chief users of amateur motion picture cameras; that according to Chinese sources the annual income to China from the tourist trade is from twenty to thirty million dollars Chinese currency; and that to subject tourists who may desire to carry away with them some tangible evidence of China's progress, such as for example a motion picture of Shanghai's Bund, to the cost, inconvenience and delay of forwarding to Nanking for censorship personal and non-commercial films is likely to create in the minds of those affected the belief that the Chinese Censorship Committee has adopted a viewpoint which is neither reasonable nor one calculated to encourage the tourist traffic which has proven to be a source of great revenue to China.

Very truly yours,

For the Secretary of State:
WILLIAM PHILLIPS

OBJECTION BY CHINA TO OPERATION OF AN UNLICENSED RADIO STATION BY AN AMERICAN CITIZEN IN HUPEH; REGISTRATION OF AMERICAN AND OTHER RADIO RECEIVING SETS

893.76/20

The Minister in China (Johnson) to the Secretary of State

No. 2603

PEIPING, March 22, 1934.
[Received April 21.]

SIR: I have the honor to enclose a copy of despatch No. 456, February 17, 1934, from the Consul General at Hankow,⁵⁶ in regard to the demand of the Chinese authorities that an unlicensed radio station

⁵⁶ Not printed.

operated by the Reverend R. J. Mueller, an American citizen, at Shih-nan, Hupeh, an interior point, be dismantled.

The Consul General says that Mr. Mueller does not possess a license from the Chinese authorities to operate the station in question, and that he does not know of any sound ground upon which he could properly object to the demand of the Chinese authorities that Mr. Mueller dismantle his radio station. Subject to the Legation's approval, he proposes, therefore, to inform the Reverend Mueller that the Chinese have demanded that he dismantle his station and that he should do so unless he can obtain a license from the Chinese Government covering his station.

The Legation has given careful consideration to the problem presented by this demand of the Chinese authorities, but prefers to have the previous approval of the Department before issuing the instructions requested by the Consul General at Hankow.

The resolution regarding radio stations in China, signed at Washington, February 1, 1922,⁵⁷ provides *inter alia* that "In case there be any radio station maintained in the territory of China by a foreign government or citizens or subjects thereof without the authority of the Chinese Government, such station and all the plant, apparatus and material thereof shall be transferred to and taken over by the Government of China, to be operated under the direction of the Chinese Ministry of Communications upon fair and full compensation to the owners for the value of the installation, as soon as the Chinese Ministry of Communications is prepared to operate the same effectively for the general public benefit."

While the above article would appear to give the Chinese Government authority under certain stipulated circumstances to take over and operate any foreign-owned radio station upon fair compensation, the Legation does not believe that an amateur radio station such as that under discussion could properly be considered as having been contemplated by that article.

Article 2 of the "General Regulations Annexed to the International Radiotelegraph Convention" signed at Washington November 25, 1927,⁵⁸ and to which China is a party, provides "No radio transmitting station shall be established or operated by an individual or by a private enterprise without special license issued by the Government of the country to which the station in question is subject."

Under the terms of the above article, the American authorities would appear to be the only ones competent to license the amateur station in question so long as the extraterritorial treaties remain in

⁵⁷ *Foreign Relations*, 1922, vol. 1, p. 293.

⁵⁸ For text of convention, see *ibid.*, 1927, vol. 1, p. 288; for text of the general regulations, see 45 Stat. 2760, 2779, or Department of State Treaty Series No. 767.

force. As the Legation has no other information upon the subject, and as it is aware of no legislation authorizing any American authority to license amateur radio stations in China, it is inclined to instruct the Consul General at Hankow that he should refrain for the time being from suggesting to the Reverend Mueller that he dismantle his station.

The Legation has been unable to discover any law of the National Government prohibiting, regulating, or licensing the installation and operation of amateur radio stations in China, though the rules governing the Radio Administration of the Ministry of Communications indicate that a system of licensing private stations was contemplated.

Subject to the Department's approval, therefore, the Legation proposes to instruct the Consul General at Hankow to refrain from suggesting that the station in question be dismantled, but in his discretion to reply to the Special Inspector for Foreign Affairs with a request that he be informed regarding the laws of the National Government which prohibit such amateur stations in order that he may be able to give further consideration to the Inspector's request that the station operated by the Reverend Mueller be dismantled.

In its endeavor to ascertain the extent of Chinese laws or regulations upon this subject, the Legation directed the Counselor of Legation at Nanking to request the appropriate Chinese authorities to supply him with the text of any existing law or regulation of the National Government governing the licensing or prohibition of amateur radio stations.

In a telegram of March 19, 11 a. m., Mr. Peck⁵⁹ replied that the Foreign Office had informed him that the Ministry of Communications was unable to discover any laws or regulations governing amateur radios, and that Vice Consul Buss,⁶⁰ in a conversation with the Director General of Telephones and Telegraphs received the impression that there are no Chinese laws forbidding, regulating, or authorizing amateur radios for sending or receiving communications.

Respectfully yours,

NELSON TRUSLER JOHNSON

893.76/19 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 19, 1934—10 a. m.

[Received April 19—6 a. m.]

182. Shanghai's April 17, 2 p. m.⁶¹ Legation has replied as follows:

"April 19, 9 a. m. Your April 17, 2 p. m. From the information available the Legation believes that you should refrain from suggest-

⁵⁹ Willys R. Peck, Counselor of Legation and Consul General at Nanking.

⁶⁰ Claude A. Buss, former Vice Consul at Nanking (resigned January 28, 1934).

⁶¹ Not printed.

ing that Americans register their receiving sets. It does not believe that the provisions of the resolution cited in your telegram are applicable.

The Legation believes that you should inform the Bureau of International Telegraphs of the inquiries you have received and request to be supplied with a copy of the regulations requiring such registration. You might request to be informed under what authority such regulations were issued and remind the Bureau that you are not in a position to advise Americans to register their sets until the matter has been submitted to the Legation and has received its approval."

JOHNSON

893.76/19 : Telegram

The Acting Secretary of State to the Minister in China (Johnson)

WASHINGTON, April 21, 1934—1 p. m.

122. Your 182, April 19, 10 a. m. in regard to the registration of radio receiving sets owned by American citizens at Shanghai.

The Department approves your instruction to Shanghai and desires to be kept informed in regard to developments.

PHILLIPS

893.76/20 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, May 3, 1934—3 p. m.

134. Your despatch No. 2603, March 22, in regard to the unlicensed radio station operated by Mueller. Department approves your proposed instruction to the Consul General at Hankow that he refrain from suggesting that the station be dismantled and that in his discretion he ask for information in regard to the laws prohibiting the operation of such amateur stations in order that further consideration may be given to the matter.

HULL

893.76/25

The Secretary of State to the Minister in China (Johnson)

No. 1426

WASHINGTON, August 8, 1934.

SIR: Reference is made to the Legation's despatch No. 2792, of June 21, 1934,⁶² in regard to Chinese regulations for the registration of radio receiving sets, the text of which the Legation had received from the Ministry of Foreign Affairs, under date of May 29, 1934, with a request that American nationals comply therewith.

⁶² Not printed.

It is noted that the Legation, in view of the apparently innocuous character of the regulations, was not disposed to raise objection to the voluntary registration thereunder of American owned receiving sets. Accordingly, the Legation circularized consular officers in China authorizing them to inform American inquirers in regard to the matter that no objection would be raised to their voluntary compliance with the regulations but that they should bear in mind that the information given the Chinese authorities in connection with registrations might later be used as a basis for future taxation.

The despatch under reference closes with a statement that the British authorities in China are following a similar course of procedure and that the American and the British Legations are not, for the present, replying to the note from the Ministry of Foreign Affairs.

The Department perceives no objection to the course of procedure adopted by the Legation and, unless the Legation has some reason to believe otherwise, feels that no reply need be made to the note received from the Ministry of Foreign Affairs in regard to this matter.

Very truly yours,

For the Secretary of State:
R. WALTON MOORE

893.76/29

The Minister in China (Johnson) to the Secretary of State

No. 3015

PEIPING, October 3, 1934.
[Received November 3.]

SIR: With reference to the Legation's despatch No. 2890, August 4, 1934,⁶³ in regard to unlicensed amateur radio stations, I have the honor to enclose a copy of the Hankow Consulate General's despatch No. 576, September 27, 1934,⁶³ together with a copy of the Legation's instructon in reply.⁶³

As the Chinese authorities had proposed a solution of this matter whereby the radio set in question would be delivered to the Consulate General upon the written undertaking of Mr. Mueller that it would not subsequently be installed and used, as Mr. Stanton⁶⁴ expressed the belief that further local efforts to effect a more satisfactory settlement would be fruitless, and as the Legation was of the opinion that the matter should not be made the subject of official correspondence with the National Government authorities, the Consulate General has been authorized to acquiesce in the solution suggested by the Chinese. The Legation has suggested, however, that Mr. Mueller's agreement be qualified by a statement to the effect that he will not

⁶³ Not printed.

⁶⁴ Edwin F. Stanton, Consul at Hankow.

install or use the set in question without the license of the appropriate Chinese authority, thus permitting a continuance of efforts to obtain a license for the operation of the station should Mr. Mueller desire to resume its use.

Respectfully yours,

For the Minister:

C. E. GAUSS

Counselor of Legation

JAPAN

POLITICAL DEVELOPMENTS IN JAPAN AND EFFORTS TO IMPROVE RELATIONS WITH THE UNITED STATES¹

894.0011/91

The Ambassador in Japan (Grew) to the Secretary of State

No. 639

Tokyo, January 11, 1934.
[Received January 29.]

SIR: In connection with my telegram No. 191 of December 23, 10 a. m.,² reporting the birth of a son to the Empress on that day, it seems appropriate here to comment briefly on the significance of this event and to indicate to some extent its probable effect on the political life of Japan.

For some time past, as I have previously reported, there has been evident in this country a spirit of unrest and indiscipline which has affected the whole Government, and has been particularly noticeable among the younger officers of the Army and Navy. Since the outbreak of the Manchurian venture, the chauvinistic elements have been especially vocal and have openly expressed extreme dissatisfaction with social and political conditions in the country. It is only recently that some of the liberal elements in the population have dared to question the dicta of the super-patriots. Some of the animosity of dissatisfied groups has been directed against the Emperor's entourage, which they felt was hostile to the new developments and was working against the plans of the younger military leaders. The precise degree of this animosity is difficult to estimate. There have been attempts on the life of the Lord Keeper of the Privy Seal, for example, and there have been reports, apparently credible, that the Emperor was to be deposed and another member of the Imperial Family put in his place. Such action would not be without precedent in Japanese history. Apparently the Emperor has not been personally in sympathy with much that has recently taken place in Japanese political life; the Minister of War and other leaders of the chauvinistic elements are reported to have been made to feel the Emperor's personal

¹ For previous correspondence concerning political developments in Japan, see *Foreign Relations*, 1933, vol. III, pp. 700 ff.

² Not printed.

dislike of their views, but he has consistently accepted the advice of his Ministers, so that his personal predilections (assuming a basis in truth for these reports) in no way interfered with the conduct of the Government.

This situation has not been satisfactory to those elements that have wished an alteration in the framework of the political structure. They have felt that the Emperor's surroundings have prevented a complete acceptance by the nation of changes necessary to the "unification of the country", although there seems to be no agreement as to what this would mean in actual practice. It was alleged that, having no son and being surrounded as he is by old men and the influence of women, it was not to be expected that the Emperor could see the needs of the country as they really are; that it was consequently desirable that some other member of the family should assume the Throne.

It will be recalled that the Chiefs of the General Staff of both the Army and Navy are Imperial Princes, and that two of the Emperor's younger brothers are officers—Prince Chichibu in the Army and Prince Takamatsu in the Navy, while the Imperial Guards Division in Tokyo is commanded by Prince Asaka, whose consort, lately deceased, was the Emperor's aunt. These Imperial Princes are working officers, apparently of at least average proficiency. The rumor is that some, or all, of these Princes could be induced to compel the Emperor to abdicate in favor of some one in the direct line who has had "satisfactory" training and possesses the confidence of the military hierarchy. In this connection Prince Chichibu, the Emperor's eldest brother, has been most prominently mentioned. These rumors, so far as the Embassy is concerned, are impossible of verification or refutation. They do, however, persist, and their currency indicates that there is dissatisfaction in some quarters with the Emperor's attitude.

The birth of a Crown Prince, however, will mean the end of intrigue or plots based on uncertainty of inheritance. The great rejoicing with which the announcement was universally greeted expressed a feeling of relief and gratification that was unmistakable. It cannot but make for political stability so far as the Imperial Court is concerned. The Emperor will gain (if such a thing is possible in Japan) in the affections of the people, and there is no doubt that the position and influence of the statesmen responsible for his marriage (of whom Count Makino, Lord Keeper of the Privy Seal, was one) will be decidedly enhanced. It will mean that for the moment at least the chances of a domestic political crisis are minimized. Some of this feeling is perhaps reflected in the little Prince's name—Akihito (bright or clear) Tsugu no Miya.

In this connection, I may say that a very pleasant impression was created in Japan by the fact that the President's telegram of congratulations to the Emperor³ appears to have been the first to be received from any chief of state. According to the press, President Roosevelt's message was received at 2.19 p. m., that from Mr. Pu Yi at 8.12 p. m., and King George's at 11.58 p. m., on December 23rd. A number of people have also spoken to me of the favorable reaction to my having been the first foreign chief of mission to write in the books of the Emperor and Empress. The Crown Prince was born at 6.39 a. m., the public announcement was made by two long blasts of sirens throughout the city at 7, and at 8.15 I inscribed my name at the palace. These small things appear to be noticed in Japan.

Respectfully yours,

JOSEPH C. GREW

711.94/897 : Telegram

The Chargé in Great Britain (Atherton) to the Secretary of State

LONDON, February 1, 1934—6 p. m.
[Received February 1—3: 58 p. m.]

32. Ambassador-designate Saito sails on steamship *Berengaria* February 3.

In possibly assumed after-dinner conviviality and on the basis of old acquaintance he informed me last night in the course of a long conversation that upon reaching Washington he would be entirely motivated by two policies:

1. To persuade American opinion that, in view of the future which the Japanese people were justified in expecting, Japan had been right in principle, although he personally was willing to admit wrong in method, in having sought extension of influence into Manchuria.
2. To persuade the fighting service-politicians of Japan that they had nothing to fear from the United States.

In regard to this last Saito stated he had been appointed through the confidence Japanese army and naval circles felt in him based on his dealings with them during the London Naval and Geneva Conferences. He added that he felt he also understood the psychology of the American people and already was personally acquainted with the President. He said at the earliest opportunity, even possibly at the moment after presenting his letter of credence, he would endeavor confidentially to explain to the President his views that the past was past, that the whole success of his appointment lay in strengthening Japanese-American friendship, that his personal connections in Japan were such that he would be in touch directly with the powers that be,

³ See Department of State, *Press Releases*, December 30, 1933, p. 379.

and that in view of his hope to reassure them on the American attitude he would endeavor to seek from the President an assurance given either to him or to his Government that America would not use force in her future relations with Japan.

Saito left me with the impression that any possibility of modification of the views expressed by Admiral Osumi in the Diet Saturday⁴ lay in some assurance from the American Government as to their peaceful intent toward Japan.

ATHERTON

711.94/897

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck)

[WASHINGTON,] February 2, 1934.

Reference, London's telegram 32, February 1, 6 p. m.

If at any time Ambassador Saito seeks "from the President an assurance given either to him or to his Government that America would not use force in her future relations with Japan", it would seem that consideration should be given to the question: at what point in foreign relations does "use of force" begin.

Obviously, firing by the military instruments of one country upon those of another constitutes use of force. But does not the possession of military instruments coupled with a threat to put them into action also constitute use of force? As between Japan and the United States, which country has made threats? The answer is: Japan.

It may well be doubted whether the American Government should make any commitment in the form of a unilateral statement or in the form of a bilateral non-aggression pact with Japan to the principle that it "would not use force in future relations with Japan". This country is already pledged in a multilateral treaty, the Pact of Paris,⁵ not to resort to war as an instrument of national policy. It might be safe to supplement this by a four or five-power pact in which the signatories would be the United States, Japan, Russia, China and Great Britain in which all of that group of powers agree not to use force in their relations with one another. It may well be doubted whether, strictly upon its intrinsic merits, even such a pact would be desirable. However, if Mr. Saito suggests or requests the assurance under reference, probably the most appropriate response that might be made would take the form of a statement that the American Gov-

⁴ January 27.

⁵ Signed August 27, 1928, *Foreign Relations*, 1928, vol. I, p. 153.

ernment would be perfectly willing to give an assurance that the United States would not use force against another country provided it in turn were assured that the other country would not use force in ways and for purposes detrimental to the rights and interests of this country and other countries with which this country is at peace and toward which it has express obligations to try to maintain peace (such as those which appear in the Washington Conference treaties).⁶

If Mr. Saito seeks "some assurance from the American Government as to their peaceful intent toward Japan", it should be a fairly simple matter for the President to say that he will make it a point at some opportune moment to make a statement within the terms of which there will be contained such an assurance; and to follow this up with a general statement declarative of the generally peaceful attitude and intent of this country. It is doubted whether it would be really appropriate or advisable for the President of the United States to make a declaration of peaceful intent in reference expressly, specifically and exclusively to one country, in this case Japan.

S[TANLEY] K. H[ORNBECK]

811.001 Roosevelt Visit/2 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, February 16, 1934—6 p. m.

16. The following telegram dated January 29, 1934, received by the President:

"Unanimous resolution Pan Pacific organization Japan cordially and unanimously invite you extend trip to Japan mailing you resolution in full ' Viscount Tadashiro Inouye Vice President Pan Pacific Association Japan Imperial Diet."

You are requested, should no objection be perceived, to inform Viscount Inouye informally of the appreciation felt by the President for the courteous and hospitable message which he has thus transmitted on behalf of the Pan Pacific Association and of the interest with which the arrival of the text of the resolution mentioned in the telegram is awaited. You may at the same time inform Viscount Inouye that despite the President's appreciation of the invitation the pressure of his public duties will not permit of his accepting but that appropriate acknowledgement of the invitation will be made upon the receipt of the text of the above mentioned resolution.

For your confidential information, no assumption should be made or cultivated either that the President will or that he will not make a trip

⁶ See *Foreign Relations*, 1922, vol. 1, pp. 1 ff.

⁷ Not printed.

next summer to Hawaii. To any queries in that connection, it is believed that you should reply that you are without any information on the subject.

HULL

111.22/72

*Memorandum by the Assistant Chief of the Division of Far Eastern Affairs (Hamilton)*⁸

I called by appointment on the Japanese Ambassador, Mr. Tsuneo Matsudaira, and had tea with him at his residence.

During the conversation the Ambassador said that during the past two years the situation in Japan had been abnormal and that during the past six months, especially since Hirota became Foreign Minister, a more normal situation had developed wherein diplomacy was re-established in its former and rightful position. The Ambassador said that in dealing with the situation created during the past two years by the abrupt swing to the Right in Japan, the more moderate elements had realized that they must allow time to pass in which the forces of the Right movement would spend themselves and permit the gradual reestablishing of more moderate and normal tendencies.

In regard to relations between the United States and Japan, I inquired whether the Ambassador was of the opinion that at the present time some spectacular action should be taken with a view to improving relations between the two countries, or whether that end could best be achieved by a calm and non-spectacular display of friendship in the day to day relationships between the two countries. The Ambassador replied that in his mind a policy of non-spectacular action designed to build up and foster friendship was the one best designed to serve the interests of Japan and the United States at the present time. He continued that, as I had asked for his opinion in regard to American action and policy in reference to Japan, he felt that at the appropriate time something should be done to adjust the immigration question so as to remove this wound to Japanese pride and sensibilities. He said that he appreciated that it would not be advisable to raise the question until it was evident that a change in the existing law⁹ would be forthcoming. During his comment on the immigration question the Ambassador mentioned the granting to Japan of a quota and I took his reference to a quota as an opportunity to inquire whether Japan

⁸ Transmitted to the Department by Mr. Hamilton, upon his return to Washington from London and the Far East, as an enclosure to his covering letter of March 10, 1934.

⁹ Approved May 26, 1924; 43 Stat. 153. See also *Foreign Relations*, 1924, vol. II, pp. 333 ff.

actually would be satisfied if granted a quota. I pointed out that even though Japan were granted a quota, there would remain the American naturalization law¹⁰ which did not permit naturalization of Oriental peoples. The Ambassador made no clear-cut reply to my inquiry but said that in general he thought that there should be removed in American law all discrimination against the Japanese and that the granting to Japan of an immigration quota would be a step in that direction.

LONDON, February 28, 1934.

894.918/15

The Japanese Ambassador (Saito) to the Chief of the Division of Far Eastern Affairs (Hornbeck)

WASHINGTON, March 2, 1934.

DEAR DR. HORNBECK: Herewith I am sending you an English translation of a telegram recently received from Mr. Hirota. I talked about the matter to the President at luncheon yesterday, and I thought he was very much interested in it.

Believe me [etc.]

HIROSI SAITO

[Enclosure—Telegram—Translation]

The Japanese Minister for Foreign Affairs (Hirota) to the Japanese Ambassador (Saito)

The Japanese Ambassador is advised by the Minister for Foreign Affairs in Tokyo that a decision has been reached by the Japanese Government that those publications as hereinafter mentioned should be considered as harmful and worse than useless in Japan's relations with foreign Powers and should be suppressed:—

1. Publications that relate to matters which would give an intimation of the military tactics and strategies of Japan in her possible foreign wars, whether it be merely an expression of personal opinion or an imaginary fiction.

2. Publications that tend gratuitously to excite feelings of other countries and bring about a situation that may lead to war; e. g. by stressing upon the necessity or inevitability of war with any particular country, whether the name of such country is clearly mentioned or only implied.

¹⁰ Rev. Stat. sec. 2169; amended February 18, 1875, ch. 80, sec. 1, 18 Stat. 318; May 9, 1918, ch. 69, sec. 2, 40 Stat. 547.

711.94/927

The Ambassador in Japan (Grew) to the Secretary of State

No. 702

Tokyo, March 9, 1934.

[Received March 24.]

SIR: According to Tokyo press reports of February 24 and 25, 1934, at a meeting of the Budget Committee of the House of Peers on February 23, Baron Toshiatsu Sakamoto spoke of the desirability of settling in a peaceful manner all questions pending between Japan and the United States and asked for a statement of the Government's views on this matter. In reply, after discussing the importance of creating a mutual understanding between the two countries with regard to their respective positions and, after disavowing any intention on Japan's part of assuming an attitude of antagonism toward the United States, Mr. Hirota, the Minister for Foreign Affairs, stated that for the purpose of eliminating any thought of a future American-Japanese war it was imperative that Japan and the United States start friendly diplomatic discussions for the improvement of relations, that as a first step Japan and the Japanese should understand conditions and public opinion in the United States, and that he had therefore ordered the immediate departure from the Netherlands to the United States of the new Ambassador, Mr. Saito, who would exchange views with President Roosevelt and political leaders in Washington, afterwards come to Japan for conferences with military and other authorities, and subsequently return to the United States with instructions relative to Japan's new policies toward the United States.

Baron Sakamoto, in emphasizing again the importance of avoiding an armed conflict between Japan and the United States, said that Mr. Castle, former Ambassador to Japan, had stated publicly that the United States would not hesitate to recognize the dominant position of the Japanese Navy in the Western Pacific. He (Sakamoto) was of the opinion that, in return, Japan should recognize the superiority of the United States Navy in the Eastern Pacific or create a neutral zone in the Pacific, thereby avoiding a clash of arms between the two countries. In response to Baron Sakamoto's interpellation, Mr. Hirota is reported by the Tokyo *Asahi* of February 24, 1934, to have made the following statement:

"It seems that a partition of the Pacific by the conclusion of some agreement or a guarantee of the independence of the Philippines are problems being considered by both countries. If the United States would be willing to conclude an agreement of this sort, I do not believe that the problem would present much difficulty. I feel certain that Ambassador Saito, after he has been a while in Washington, will take

up this matter. I think it best at present to wait until we have received a report from him and then we can adopt the necessary measures."

[Here follows summary of newspaper editorials.]

Respectfully yours,

JOSEPH C. GREW

711.94/923

Memorandum by the Secretary of State

[WASHINGTON,] March 22, 1934.

The Italian Ambassador called and inquired whether there were any other phases or features relating to the United States-Japanese affairs outside of what was revealed in the two notes recently exchanged between the Foreign Minister of Japan and myself,¹¹ to which I replied that nothing had been said or done or suggested relative to any important phase of the relations between the two countries outside of what was contained in the two notes themselves. He made inquiry about our attitude toward the recognition of Manchukuo, to which I replied that there is nothing new to be said by me on that subject.¹²

C[ORDELL] H[ULL]

711.94/926 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, March 26, 1934—1 p. m.
[Received March 26—7:37 a. m.]

139. The following telegram has been received from Peck¹³ at Nanking:

"March 24, 1 p. m. What follows is translation of informal comments made to the press by the Foreign Office March 23d and published today.

"The nature of the correspondence exchanged between the United States and Japan is informal. Until the full texts have been seen no definite comments can be made. So far as can be observed up to the present the motive for the exchange of correspondence is probably to mitigate the tense atmosphere between the two countries during the past 2 years. There is no other object involved. This view is supported by the circular telegram of the American Department of State to its Legation and Consulates abroad¹⁴ in which it is stated that between the United States and Japan "No negotiations were conducted in the past and no negotiations are being conducted now."

¹¹ For text of message handed to the Secretary of State on February 21, 1934, and the Secretary's reply, handed to the Japanese Ambassador on March 3, see *Foreign Relations, Japan, 1931-1941*, vol. I, pp. 127 and 128.

¹² A similar Belgian inquiry was made the same day (711.94/924).

¹³ Willys R. Peck, Counselor of Legation and Consul General at Nanking.

¹⁴ See telegram of March 21, 5 p. m., to the Ambassador in Japan, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 129.

With regard to the nonrecognition of the puppet organization the American Government has repeatedly declared this to be its unchanged policy. On June 7, 1933 the Advisory Committee of the League of Nations adopted a resolution¹⁵ relative to nonrecognition of the puppet state. The American Minister in Switzerland addressed a formal report to the Secretary General of the League expressing agreement.¹⁶ We firmly believe that the American Government will certainly continue its past policy and will not recognize the puppet organization.'"

JOHNSON

711.94/934

Memorandum by the Secretary of State

[WASHINGTON,] April 3, 1934.

The Japanese Ambassador called and handed me certain translations¹⁷ of Japanese papers regarding the recent exchange of notes between the Foreign Minister of his Government and myself. They were unanimous in their favorable tone and comment. I thanked him for his courtesy in bringing them to me and expressed my gratification to learn of this favorable reaction in the press of his country.

C[ORDELL] H[ULL]

033.9411/291

The Ambassador in Japan (Grew) to the Secretary of State

No. 726

TOKYO, April 5, 1934.

[Received April 21.]

SIR: I have the honor to refer to my despatch No. 645, dated January 13, 1934,¹⁷ in regard to the visit of Mr. Otohiko Matsukata to the United States, and to invite the attention of the Department to the frequency with which these so-called "unofficial envoys of good-will" are leaving for the United States in recent months. The frequency with which the visits are being made, combined with other circumstances, indicate that the visits are officially inspired and have some definite object in view.

The first of the unofficial good-will visitors during recent months was Prince Iyesato Tokugawa, but the Embassy is of the opinion that his visit was actually unofficial and was inspired by his personal friendship for the American people. The next to leave Japan was Mr. Otohiko Matsukata, who told me that his visit was entirely unofficial, but that he hoped to visit the President informally, as he had known

¹⁵ See League of Nations, *Official Journal*, Special Supplement No. 113, p. 10.

¹⁶ For the Department's instructions, see No. 2319, September 20, 1933, to the Chargé in Switzerland, *Foreign Relations*, Japan, 1931-1941, vol. I, p. 121.

¹⁷ Not printed.

the President at Harvard. The newspapers, however, stated that the visit was undertaken under the inspiration of a group of men headed by Count Kentaro Kaneko and with the approval of the Foreign Office. The Embassy understands, moreover, that Mr. Matsukata was in close touch with the Japanese Embassy in Washington during his stay there.

The next unofficial good-will envoy to leave will be Mr. Ryoza Asano, who, with his assistant, Mr. Takashi Komatsu, will sail for the United States on April 12th. Mr. Asano is to be one of the Japanese delegates to the International Labor Conference at Geneva, but he stated recently at a farewell luncheon given by the executive committee of the American-Japan Society that his primary purpose in making the trip was not to attend the Conference at Geneva, but to visit friends and business associates in the United States and to endeavor to foster more friendly relations with the United States. He also told me that he hoped to visit the President, whom he knew at Campobello.

Mr. Asano will be followed by Prince Fumimaro Konoe, the President of the House of Peers, who plans to sail for the United States on May 17. The newspapers first stated that Prince Konoe had been requested by the Minister for Foreign Affairs to endeavor to promote Japanese-American relations and that an "expert diplomat" would be sent by the Foreign Office to assist him. It was also stated that Prince Konoe would seek an interview with the President, for the purpose of exchanging friendly greetings. Prince Konoe promptly denied to the press that his proposed visit had any official significance and stated that he was going to the United States to visit his son, who is attending school there, but that before leaving he intended to visit Prince Saionji, Premier Saito, Foreign Minister Hirota, the War Minister, and others, to obtain information regarding conditions in Japan and regarding Japan's foreign policies, in order to avoid making "stupid replies to questions asked in America and thus embarrassing the Japanese Government."

I may state with certainty that although the Foreign Office is no doubt interested in Prince Konoe's visit to the United States and probably hopes that he will help to promote Mr. Hirota's "good-will" policy, the actual and primary purpose of his trip is to get away from Japan at a time of political embarrassment when he is being strongly urged by certain political groups, against his will, to form a new Government in succession to Viscount Saito. This fact was told me in confidence by one of the highest officials in Japan. The ostensible purpose of Prince Konoe's visit is to attend the graduation of his son from an American preparatory school prior to entering Princeton University next autumn. I understand that Prince Konoe will take an interpreter with him as his command of English is limited.

While it may seem unreasonable that relays of distinguished Japanese visitors should expect to be officially entertained in Washington and that Prince Konog's visit should occur so soon after that of Prince Tokugawa, it should nevertheless be taken into consideration that the former is not only the present President of the House of Peers but is also the first and highest noble in Japan after the Imperial Family, many of his forebears having been the closest advisers to various Emperors in times past, and furthermore that there is every probability that he will eventually become Prime Minister of Japan. He is but 42 years of age.

This rapid succession of "unofficial good-will envoys" suggests some sort of inspiration, which may or may not be official. On the occasion of the departure of Mr. Otohiko Matsukata, the *Japan Advertiser* of January 13, 1934, stated that

"The present unofficial goodwill mission is an outgrowth of a desire among a group of prominent Japanese to do something toward improving relations between the United States and this country, particularly in view of the crisis in Japan's international relations which certain official circles in this country profess to see threatening in 1935 and 1936. One of the leaders of the group was Count Kentaro Kaneko, it was said, and after Mr. Matsukata consented to undertake the mission, the group submitted its plans to the Foreign Office, by which they were approved."

It appears that at least some of these visits have official backing.

Another point regarding the visits which is worthy of attention is that the visitors are either persons who, because of student-days association with the President, are in a position to request a friendly visit with him, or persons who, because of their high rank in Japan, cannot well be refused permission to call upon the President. This naturally brings up the suspicion that the Japanese Foreign Office, having found the Department of State unrelenting in its attitude toward certain Japanese policies in the Far East, has decided to abandon the usual diplomatic channels and is endeavoring to open new channels directly to the President. On this point, some of the articles written by Mr. K. K. Kawakami, and published in Japan, are significant.

In this connection I am taking opportunities discreetly to discourage the sending of such "good-will envoys" on the ground that, so far as I am aware, good-will towards Japan is not lacking in the United States and that matters of political moment between our countries can best and more properly be dealt with through official diplomatic channels. I thought it wise to "inspire" the marked portion of the enclosed editorial in the *Japan Advertiser*,¹⁹ as well as the

¹⁹ Not reprinted.

former editorial to which it refers. The *Advertiser* is widely read by Japanese officials and its editorials may sometimes start them thinking along the right lines.

Respectfully yours,

JOSEPH C. GREW

711.94/940

The Ambassador in Japan (Grew) to the Secretary of State

No. 732

TOKYO, April 6, 1934.

[Received April 21.]

SIR: I have the honor to refer to my despatch No. 702 of March 9, 1934, in regard to the remarks of the Minister for Foreign Affairs in the House of Peers relative to a division of the Pacific Ocean into Japanese and American zones, and particularly to the last paragraph of the despatch, in which it was suggested that the interpellations of Baron Sakamoto and the reply of the Minister for Foreign Affairs may have been previously arranged and intended as "feelers", in an attempt to ascertain the sentiment of the world toward Japanese control of Far Eastern waters.

I am now convinced that Mr. Hirota has some plan in mind, probably in connection with the forthcoming naval disarmament conferences, of proposing an agreement establishing American and Japanese zones in the Pacific Ocean. Mr. Hirota definitely told an American newspaper correspondent in Tokyo (Mr. Wilfrid Fleisher, correspondent for the *New York Herald-Tribune*) that he was considering, as a means of improving Japanese-American relations, the division of the Pacific Ocean into two "zones", American and Japanese. He added, however, that he had as yet not been able to formulate the plan.

The *Tokyo Jiji* on April 5, 1934, published an article purporting to contain the Foreign Minister's instructions to Prince Konoe, who is to leave for the United States in May and who is reported to have been asked by Mr. Hirota to discuss informally various matters with American officials. According to the *Jiji*, the instructions to Prince Konoe contained the following:

"Japan is prepared to consider suggestions for establishment of neutral zones in the Pacific, and to strengthen the agreement regarding Pacific fortifications,²⁰ in an effort to maintain the peace of the Pacific."

While the above may be only an emanation from the fertile mind of a Japanese newspaper reporter, when taken in connection with the above-mentioned remarks of the Minister for Foreign Affairs to Mr.

²⁰ See article XIX of the naval treaty signed at Washington February 6, 1922, between the United States, the British Empire, France, Italy, and Japan, *Foreign Relations*, 1922, vol. I, p. 247.

Fleisher it appears probable that Prince Konoe has been delegated to "feel out" the reaction of American officials and others toward some such proposition.

Respectfully yours,

JOSEPH C. GREW

894.00/510

The Ambassador in Japan (Grew) to the Secretary of State

No. 736

TOKYO, April 6, 1934.

[Received April 21.]

SIR: If the Diet session, recently concluded, accomplished nothing else of particular importance, it did demonstrate unmistakably the existence of a strong feeling in Japan against the abuse of power by the military. This, it seems to me, is of considerable significance, in view of the fact that until the Diet met in January hardly a voice had been raised against military dominance since the outbreak of the Manchurian affair. For over two years the military influence in the councils of the nation has been paramount. Military men, military affairs, wars past and wars probable have occupied a great deal of the attention of the nation during this period. Americans, preoccupied with the problems of domestic economic reconstruction, have been prone to point to these obvious signs of militarism as proof of the inherent belligerency of the Japanese people. Virile as the nation is, there is not much evidence that the Japanese are much more bellicose than the peoples of other strong nations, while there is definite evidence that there is a substratum of common sense and reason in this country which holds firm against extremes.

The most distinctive characteristic of the Japanese people is their intense social consciousness; their discipline and unity. In this they, at times, show an almost sheep-like tendency to follow their leaders. Such a people must needs lack a well-developed critical faculty, particularly that involving bold and independent thinking. Consequently when in September 1931 the nation was led into the gravest and most hazardous adventure since the Russo-Japanese war, the response by the general public was instantaneous and fervid.

During these two years past, an emergency spirit has been maintained, partly through the determined efforts of the military, and partly by the series of events which have aroused the nation;—the Manchurian issue, the Chinese boycott and the Shanghai affair, the Lytton report and the withdrawal from the League, the talk of war with Russia and the United States, the threat of a naval race, the mandated islands issue, and the trade controversy with British India. These events produced a national psychology bordering on hysteria, in which Japan seemed isolated and friendless with the whole world aligned

in opposition. In these circumstances military preparedness seemed the only dependable policy for the nation, and military men were looked to as saviors of the country. As a speaker in the Diet stated: "Not to be a soldier was not to be a man."

The state of mind of this nation is, and has been for some time, abnormal. Americans have only to recall the delirious days between 1917 and 1920 to realize that no nation is immune to mass hysteria. In what might be called the more normal days between 1921 and 1930, the soldier in Japan was steadily losing in prestige and favor. Following the disastrous and expensive Siberian expedition, the soldier had come to be regarded as something of a social parasite. Good families declined to allow their daughters to marry military officers. Repeatedly during this period loud protests against military costs and the size of the military establishments were made* and the army had been forced to give up two divisions. Many observers believe that the outbreak at Mukden in September 1931 was part of the effort of the Army to save itself from further adversity.

All this was changed overnight following the Manchurian outbreak. The soldier was immediately restored to fame and favor and has remained in that happy state until recently.

The reaction against the military was first sensed a year ago following a speech in the Diet by Count Uchida²¹ in which he stated in effect that Japan would rather be reduced to ashes before abandoning her position in Manchuria. This extraordinary statement, with its dire implications, occasioned some sober thinking in this country, and has contributed a new phrase to the language: "shodo gaiko" or "desperate diplomacy". This phrase was freely discussed at the time of Uchida's resignation, and strong hints were made that Japan had no stomach for any such policy of desperation in dealing with foreign affairs.

Count Uchida was known to be hand-in-glove with the military authorities, and his resignation was undoubtedly a blow to the military influence. The new Foreign Minister, Mr. Hirota, has so unmistakably demonstrated his eagerness to cultivate better relations abroad that mere mention of the changed Japanese diplomacy is sufficient in this discussion. The Department will recall that shortly before Hirota assumed office, Mr. Shiratori, notorious chief of the publicity section of the Foreign Office, and Mr. Tani, Chief of the Asiatic Bureau, both closely in touch with the War Office and highly influential officials under the Uchida regime, were transferred away from the Foreign Office. These arch leaders of the chauvinistic element had split the Gaimusho into two bitterly hostile camps. Their passing

*Embassy's despatch No. 223 of May 9, 1931. [Footnote in the original; despatch not printed.]

²¹ Japanese Minister for Foreign Affairs until September 1933.

healed this split and left the more moderate camp under the new Foreign Minister definitely in control.

No discussion of military influence in Japan during the past two years would be complete without mention of that extraordinary high-priest of the military cult, half-mystic and half-Spartan,—General Araki.²² His great personal influence both in military and civilian circles made him a unique, as well as highly dangerous element in the Government. Literally speaking, what he demanded was done, and no one, not even with the prestige of Mr. Takahashi, the veteran Finance Minister, could successfully oppose him. Had he decided for a war with Russia or the United States, there is little doubt as to what would have happened.

But even General Araki was not immune to the new moderate spirit. It seems certain that he capitulated to the conciliatory policies of Hirota in the famous Five-Ministers Conference † last fall, following which this country has very apparently changed its attitude toward the rest of the world. But in conceding to the liberal policies, General Araki seems to have lost the confidence of the chauvinists in the Army and to have dug his own political grave. As someone has said, he gave the Army too many unredeemed (political) checks. Realizing this situation, he resigned on the score of illness which seems to have been no more serious than a cold.

General Hayashi, the present Minister of War, is generally regarded as an old fashioned warrior type of leader. However, his cautious and moderate utterances in the Diet have shown him to be an entirely different type from his predecessor. His appointment may be considered a decided step forward for the liberal school of thought in Japan, as opposed to the extreme chauvinist element.

I have mentioned the reaction against Count Uchida's declared policy of "desperate diplomacy", and have digressed to touch on the personalities of his associates and successors, who have influenced the conduct of foreign affairs. An outline of other factors which have changed public attitude toward the military should follow.

In Japan, as in all countries, the pendulum of public feeling tends to resume the norm. The public may be aroused to a high pitch of feeling over a given situation, but sooner or later the tautness slackens. This, in my opinion, is what is happening in Japan. Under the calm leadership of Mr. Hirota, the country has come to accept a more reasoned view of foreign relations, and to discount the cries of "emergency" and "crisis" from the military diehards. Utterances in the Diet would indicate that the public now begins to feel that it has

²² Japanese Minister of War until January 1934.

† Embassy's despatch No. 566, October 31, 1933. [Footnote in the original; despatch not printed.]

been tricked into an unnecessary state of agitation, and is inclined to blame the military for the false alarm.

Outspoken discussions of the budget in the Diet also reveal dismay over the size of the military demands and the suspicion that the military have deliberately stirred up the people with the talk of a crisis in order to get the money for their own plans. The staggering cost of the "desperate diplomacy" is being brought home to the Japanese in earnest. The Army and Navy budget for the 1934-35 year is approximately Yen 940,000,000 out of a total budget of Yen 2,112,000,000. But more sobering is the fact that the military expenditure exceeds the total revenue from taxation by about Yen 150,000,000. As one speaker stated in the Diet: "We will have no country to defend if we spend all our resources on defense".

Curiously enough, the most heated criticism of the military in recent months, both in the Diet and the press, has been of military meddling in politics and of military indiscipline. The notorious "May 15th Affair" in which Premier Inukai was assassinated in a plot involving Army and Navy officers, caused a tremendous shock to the nation. At the trials the military authorities seemed to try to exploit the affair as a demonstration against the corruption of party government. More recently the public has seemed to suspect that the whole parliamentary structure was being undermined in favor of a movement toward fascism of a Japanese brand, led by elements in the armed forces. Japanese may feel disgust at the corruption of the politicians, but they obviously dread a fascist regime. Criticism of military interference with affairs of state outside of their proper ken occupied more attention in the Diet than any other topic, barring the budget. I have appended to this despatch translations of selected statements²³ made in the Diet in this connection. They bear out practically all conclusions drawn in this despatch.

The influential capitalistic classes have long fretted under the exactions of the military and the Army's restrictions on the capitalistic exploitation of Manchuria. No extension of military or fascist authority would be pleasing to these classes.

Finally, due consideration of the effect of military appropriations on the farming classes must be given in assigning causes for the decline of military favor. The Army and Navy draw most of their personnel directly from the farms, where during the past few years conditions have become almost intolerable, with prices falling and debts increasing. Relief funds appropriated in last year's budget have been severely cut in the present year's budget due to the pressure of military demands. Although Finance Minister Takahashi cleverly avoided admitting this fact in the Diet, it was obvious to all

²³ Not printed.

listeners that there was not enough pie to go all around if the military seized a disproportionate share.

To the American observer, interest in this changing attitude toward the military lies in the fact that the nation is obviously regaining its equilibrium. The tumult and shouting, the hysteria and fanaticism are dying down and the nation is awakening, with a throbbing financial hang-over, to the realization that Japan has more enemies than friends, and that friendship must be cultivated if Japan is to avoid disaster. Isolation may be a proud pose, but cooperation is the surer path to peace and prosperity. It is this, I think, that the Japanese are now beginning to realize.

One must bear in mind, however, that due to the peculiar structure of the Japanese constitution by which the supreme command of the Army and Navy lies out of the competence of the civilian government, and due to the character of the Japanese people, at once excitable and easily led, this country will remain an unstable quantity in international relations until time has worked more fundamental changes.

Respectfully yours,

JOSEPH C. GREW

711.9411/4

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] April 12, 1934.

The Chinese Minister called to ask me whether I could give him any information with regard to the reports which were originating in the Japanese press to the effect that Japan had proposed to the United States a treaty of non-aggression; that this Government had sent a counter proposal with respect to a joint non-aggression pact, including the United States, China, Russia and Japan; the Minister asked how much truth there was in this report.

I said that I knew of no direct proposal from the Japanese along the lines indicated, that, of course, something of this sort had appeared from time to time in the Japanese press and was in the nature, perhaps, of a "ballon d'essai;" further the United States had made no such proposal of a joint non-aggression pact.

The Minister pressed a little further as to how such a joint pact would be regarded here, to which I replied that I could not speak for the President or the Secretary, but that, speaking personally I thought that if China, Japan and Russia agreed upon some such pact it would not be difficult for us to join; I asked Mr. Sze how he felt about it and whether he saw any prospect of a joint action along these lines. The Minister said that he had hoped the President would take the initiative in an effort to bring about some sort of mutual and joint

guarantee of non-aggression, but he did not indicate that the Chinese Government was prepared in any way to discuss the matter at the present time.

WILLIAM PHILLIPS

711.9411/5

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*

[WASHINGTON,] April 13, 1934.

The Italian Ambassador asked for an appointment and called on me this morning. He read me a telegram which he said he had just received from Rome in which his Foreign Office informed him that it had received a telegram from the Italian Ambassador in Moscow stating that information was in circulation in Moscow to the effect that the Japanese Government had proposed to the American Government a non-aggression pact and the American Government had replied that it would not be agreeable to a bilateral pact but would be agreeable to a four-power pact (United States, Japan, Soviet Union and China). The Ambassador asked whether I could give him any information.

I replied that I doubted whether the Department would wish to make any statement but that I could say to him for his confidential information and the confidential information of his Foreign Office that no proposals had been received here and no such project is, on our part, under discussion. I requested that, if the Ambassador reported this to his Government, he especially ask them not to circulate or to make public any statement with regard to the matter. The Ambassador said that our confidence would be respected.

The conversation there ended.

S[TANLEY] K. H[ORNBECK]

894.415 Perry/23

The Ambassador in Japan (Grew) to the Secretary of State

No. 772

TOKYO, May 4, 1934.

[Received May 19.]

SIR: The celebration in Japan of the eightieth anniversary of the signing of the first treaty with the United States,²⁴ and in commemoration of both Commodore Perry and Townsend Harris, has been

²⁴ Signed at Kanagawa, March 31, 1854, Hunter Miller (ed.), *Treaties and Other International Acts of the United States of America* (Washington, Government Printing Office, 1942), vol. 6, p. 439.

carried out in a thoroughly hearty and genuine manner. It has entailed many banquets and other meetings, and all too many speeches. In this respect the undersigned has been called upon to do what he considers as more than his rightful share, for in dealing with the same subject in four public addresses and three written messages the streams of inspiration are likely to run dry. At any rate, it may safely be said that the matter has been approached from every possible angle, the memory of the distinguished Commodore and of our first Consul and Minister to Japan has been highly and fitly honored, while "the friendly relations so happily existing between the United States and Japan have been cemented" as almost never before.

The celebration opened with a Japanese-American radio hook-up on March 30. On this side the addresses were made by Viscount Ishii and myself, on the American side by Ambassador Saito and former Ambassador Roland S. Morris. The American program came through to Japan with perfect clarity. Copies of my address on that occasion and also at the luncheon of the combined Chambers of Commerce and Industry of Tokyo and Yokohama, attended by some two hundred prominent officials and business men, were forwarded to the Department with my despatch No. 728 of April 4, 1934.²⁵ The texts of the subsequent two speeches at Shimoda and before the America-Japan Society are to be found in newspaper clippings enclosed herewith.²⁶ The local press reports of all of these speeches appear to have been favorable.

The meeting at Shimoda was a really inspiring affair. In attempting to convey a picture of it to the Department I can perhaps best enclose a very informal excerpt from my diary of that day, as well as a few photographs.²⁵ That meeting brought home to me the genuine respect in which the memory of Commodore Perry and Townsend Harris is held in Japan and I for one was very much moved by it all.

Respectfully yours,

JOSEPH C. GREW

711.94/970½

Memorandum by the Secretary of State

[WASHINGTON,] May 16, 1934.

In accordance with his personal request made of me prior to the middle of April for a confidential and purely informal conversation about affairs as they exist between his Government and the Government of the United States, I met the Japanese Ambassador at my

²⁵ Not printed.

²⁶ Not reprinted.

apartments in the Carlton Hotel by appointment this morning. The Ambassador had specially requested that this conversation be entirely confidential, not made of record, and not conveyed to anybody. With only a word or two of preliminary conversation, the Ambassador proceeded to refer to his original suggestion that we have this conversation with a view to seeing whether different questions with respect to the relations between our two governments might not be simplified, and perfect and permanent relations of understanding and friendship be developed between the two countries as a result.

He then handed me three pages of manuscript, unsigned,²⁷ which he said was to be treated in the same manner as the whole conversation. I read the manuscript, and then commented to the effect that I found it a very interesting paper and would be disposed to examine the various topics contained in it with care and interest. There was no attempt on my part to make the slightest commitment in any way, nor to advance counter proposals or topics in any affirmative manner. I did, purely in a tone of inquiry, bring a number of considerations to the attention of the Ambassador. After I read his manuscript, he remarked that his people had been led to believe, to a more or less extent, that the United States in the past had sought to checkmate his country in most all of its plans, ideas, or moves in the way of progress externally, which I construed to mean political and military expansion or expansion by force or its equivalent.

I remarked that we were living in a highly civilized age, and that my country, for example, was exerting every effort as rapidly as possible to condemn, repudiate, and discard any and every practice, policy, or utterance that might be reasonably calculated to give just or reasonable ground of complaint to any other people or country; that it was our attitude to condemn and abandon just as rapidly as possible a number of practices towards different Latin American countries which had given rise to friction, misunderstanding, and ill-will between our country and those affected; that human progress and civilization called for just such reforms and that this was the way my government and my people felt; and that we had no notion of turning back to those irritating and trouble-breeding methods which at times my government had applied to different countries in Latin America.

I commented further, at the same time emphasizing that I was only offering this comment in the form of an inquiry which at present did not call for an answer, on the grave crisis in almost every conceivable way through which the world was passing; and remarked that some

²⁷ For text of memorandum, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 232.

months ago an American citizen stepped into an aeroplane and sailed away, but that inside of eight days after flying around the world and over Japan, the Ambassador's own country, this same American alighted back at the station in the United States from which he had started; that formerly, and until very recently, England, for example, had felt herself isolated and secure from any ordinary interference with the Channel between her and Western Europe, whereas it was now patent that a fleet of 2000 bombing planes, probably carrying explosives of infinitely more powerful force than any heretofore used, could with perfect ease and convenience fly from many of the capitals of Western Europe to London, blow that city off the map, and return within a few hours time to their base. I said that twenty years ago no human being with the wildest stretch of imagination could have visualized the smallest part of the amazing changes that had taken place in every part of the world during this period, and that only the Lord could begin to visualize the even more startling changes that might reasonably take place during the next twenty years; that amidst these amazing changes the more highly civilized nations had correspondingly greater responsibilities and duties, both from the standpoint of their own progress and well-being and that of the world, that could not be dodged or evaded; and that no notion need for a moment be entertained that my country, or his, or any other one country, no matter how highly civilized, could securely keep itself above the much lower level of world affairs, leaving them, and all of the people of other countries to undergo a steady state of decline and even collapse, without that civilized nation itself being drawn down in the vortex.

I stated that this meant that since there were no two more highly civilized countries than Japan and the United States, their own self-preservation, as well as their world responsibility, called for the utmost breadth of view and the profoundest statesmanship that their biggest and ablest statesmen could offer; that, faced with these unprecedented problems and conditions, it was all-important that his statesmen and mine should be broad-gauged enough to understand each other's problems and conditions, as well as those of the world, and to have the disposition and the will to deal with them in such capable manner as would avoid misunderstanding or material differences and promote both national and world progress; and that in no other way could countries like Japan and the United States, which were at present the trustees of the greatest civilization in history, make such showing as would give them a creditable place in the future history of the world. I said that, of course, Great Britain and other countries had their wonderful civilization, which I was not even

remotely minimizing, but that Great Britain in particular was at present, and would be perhaps for some time to come, deeply engrossed with the serious and dangerous political, economic, and peace problems in Western Europe.

I repeated from time to time that I was only commenting in a general and inquiring way, and the Ambassador indicated his agreement with my utterances without elaborating upon them. I further commented in the way of professed inquiry that in all of these circumstances—together with another important circumstance, which was that Japan with her 65 million people was surrounded by over a billion of the world's population which was living chiefly in a very primitive condition, and that the economic, social, and political rehabilitation of all these peoples involved vast needs of capital and of other phases of material cooperation, with the result that these needs were and would be so vast that no one country could supply them within a number of generations—I was wondering, therefore, as to just how rapidly Japan would deem it either necessary or wise to expand with her commerce. I left the implication broad enough to include political and other kinds of expansion. I then elaborated just a little further about the huge undertaking that would be involved, and said that in the meantime nobody could predict what would be happening to the world in an infinite number of ways which would call for the utmost cooperation on the part of civilized nations.

I agreed to confer further with the Ambassador at my apartments in the Carlton Hotel after examining the manuscript.

C[ORDELL] H[ULL]

711.94/960½

Memorandum by the Secretary of State

[WASHINGTON,] May 29, 1934.

In accordance with the original personal request of Ambassador Saito that he and I confer individually, in strict confidence and not to be recorded, with regard to the relations between Japan and the United States, the Ambassador, upon my invitation, called at my apartments at the Carlton Hotel for a second personal conversation.

Ambassador Saito had at our first conference handed me a written memorandum,²⁹ to which I referred in the account of our first conversation. The memorandum contained eight points or topics. The list

²⁹ For text of memorandum, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 232.

of these eight topics, parallel with my replies and comment in substance just opposite each, were as follows:

SAITO

These are entirely my private thoughts:

(1) There are too much suspicion and fear between the United States and Japan at present and some governmental action to dispel such feelings on both sides is very desirable.

(2) The impending naval disarmament problem can most happily be approached after some such measure is taken.

(3) American suspicions as to Japan's motives are essentially these: That Japan has aggressive designs on the Asiatic Continent and that Japan may even be courting war with the United States—which are not true.

(4) Japanese suspicions as to American motives are essentially these: That the United States constantly tries to obstruct Japan from working out her national aim, which is nothing but the establishment of peace and order in the Far East; that the United States has been giving undue encouragements to China to take a defiant attitude against Japan—which are not true.

HULL

Taking up the points made in your memorandum, in the order in which they are set forth, my thoughts are as follows:

(1) I share your view that there is too much suspicion and fear between the United States and Japan, and I believe that effort on the part of both governments toward dispelling such feelings is desirable.

(2) That the impending naval disarmament problem could more happily be approached if there were not such feelings is of course true.

(3) American suspicions with regard to Japan's motives arise from observation in this country of Japan's courses of action, and these suspicions are not peculiar to the United States: they coincide with those which also have developed elsewhere.

(4) It is our belief that what is most needed toward removing and preventing suspicion and misunderstanding and fear between the United States (along with other countries) and Japan is the development of a coincidence of attitude and effort with regard to the problem of creating and maintaining conditions of peace. As you have stated, Japanese suspicions that the United States constantly tries to obstruct Japan and that the United States has been encouraging China to take a defiant attitude against Japan are not warranted by the facts. The American Government has been and is earnestly and sincerely working, as are many other governments, for the establishing and maintenance of conditions and machinery of peace in the whole world, including the Far East.

Certain of the activities in which Japan has engaged have given the impression that Japan's national aim is to achieve the advancement of Japan's interests, as conceived by Japan, at the expense of other countries, especially of neighboring Asiatic countries, and particularly of China. It is our belief that, if, in pursuit of a policy of establishing peace and order in the Far East, Japan would avoid giving ground either in fact or in appearance for the belief on the part of her Asiatic neighbors that Japan's objectives imperil their national security and on the part of the other powers that Japan violates or threatens to violate their rights and interests, all misunderstanding on that score and in that direction would disappear.

(5) Japan and the United States should repose full confidence in the sincerity of the peaceful motives of each other.

(5) Confidence is a state of mind which rests upon impressions. Sincerity is a matter of the heart. The people of any country form their impressions of the motives of another country from their observation of acts and of words. For the production of an impression of sincerity, acts and words must be in harmony. Japan and the United States can best convince each other that their motives are peaceful by making both their words and their courses of action those of peace.

(6) Trade relations between the two countries are fortunately complementary, highly beneficial to both and should be promoted.

(6) Trade relations between Japan and the United States are fortunately in most fields complementary; they are beneficial to both countries; and they should be promoted in every legitimate way—but with due regard always for the rights and interests of other countries and without interference by either country with the trade of the other with other countries.

(7) Upon these premises, cannot a joint declaration be now made by the United States and Japanese Governments?—in some such sense:—

(7) I am inclined to question, in principle, the value of bilateral declarations of policy. The many countries which make up the fam-

(a) Both Governments will cooperate with each other to promote trade to the mutual advantage of the two countries and to make secure the principle of equal opportunity of commerce in the Pacific Regions.

(b) Both Governments, having no aggressive designs whatever, reaffirm the pledges each to respect the territorial possessions and the rights and interests of the other, and restate their determination that the two countries should ever maintain a relationship of peace and amity.

(c) Both Governments mutually recognize that the United States in the eastern Pacific regions and Japan in the western Pacific regions are principal stabilizing factors and both Governments will exercise their best and constant efforts so far as lies within their proper and legitimate power to establish a reign of law and order in the regions geographically adjacent to their respective countries.

ily of nations have in recent years been drawn so closely together that each is essentially the neighbor of all. Every country of importance has substantial relations not with one other country alone but with several or many other countries. It is desirable that every country have friendly relations with all countries with which it has contacts.

The rights and obligations of the states members of the family of nations beyond their own borders are tending to become general. The conclusion between any two countries of a special agreement on political lines has a tendency to create in fact or in appearance a special situation meaning or implying that the relations between the two are closer than are those between each of them and other countries; it tends to constitute them a special group and to signify that there exists between them a special community of interests and objectives peculiar to them and not shared by, assented to, or open to others. The American people have always been adversely disposed toward the theory and the practice of political alliances. This country has entered upon and is party to a considerable number of multilateral agreements with regard to policies, and it probably will enter into more of such agreements in the future. But, in the making of bilateral agreements, it has restricted itself for the most part to the conclusion of agreements for the general or particular regulation of relations between itself and, in each case, the other country party thereto. For the regulation of relations between Japan and the United States, there are in effect today a number of agreements, among which are the exchange of notes (Root-Takahira)

of November 30, 1908,³⁰ and the Treaty of Commerce and Navigation of February 21, 1911.³¹ Recently the Minister for Foreign Affairs of Japan addressed to me, under date February 21, 1934, a letter³² in the course of which he outlined at length and greatly to my gratification various important features of Japan's foreign policy. In reply, I addressed to the Minister for Foreign Affairs, under date March 3, 1934, a letter³³ in the course of which I outlined similar important features of the foreign policy of the United States. In the course of that exchange, each of us declared emphatically and unequivocally that his country had no aggressive designs against any other country. It seems to me that in the texts of these various documents there is to be found as full and complete affirmation as could be made in any or in many joint declarations, by each of our Governments, of commitment to the principle of amity and friendship and peace in the relations of our countries to each other and to all countries. I said: "I am glad to take this opportunity to state categorically that the United States on its part has no desire to create any issues and no intention to initiate any conflict in its relations with other countries." I meant just that. I do not believe that I could express more unequivocally the fact that this country has no thought of aggression against Japan or against any other country.

Neither the Government nor the people of the United States have conceived that it is a right or a duty or an intention of the United States to establish a reign of law and order in regions geographi-

³⁰ *Foreign Relations*, 1908, p. 510.

³¹ *Ibid.*, 1911, p. 315.

³² *Foreign Relations*, Japan, 1931-1941, vol. I, p. 127.

³³ *Ibid.*, p. 128.

cally adjacent to this country. We would not wish to make assertion of that right or to entertain such an objective now or in the future. It would be impossible for me to give encouragement to Japan toward the assertion by it of such a right or the prosecution by it of such an intention in regions geographically adjacent to it. The tendency among nations today is, it seems to us, away from rather than toward such concepts and practices. The tendency today is toward the concept that the problem of promoting conditions of law and order while conserving the fundamental rights of all nations and the problem of bringing about and maintaining peace anywhere and everywhere are problems of common interest and concern to all nations.

(8) If such a joint declaration can now be made, all war talk will immediately be silenced, the psychology of men will undergo a change and whatever question may arise between our two countries will become capable of an easy solution. China will begin to see that she can no longer rely upon her time-honored policy of setting one Power against another. Not only so, but peace of the Pacific Regions will thereby be lastingly established—a signal contribution to world peace.

(8) I cannot believe that the making of such a joint declaration, if it were possible, would, when it had been made, have the effects which you suggest. Such declarations have been made before, both between our two Governments and between others. They have not had consequences such as you predict for such a declaration if made now. To put an end to talk of war, countries must demonstrate that they abhor use of force and will resort to it only if attacked. The United States has at no time aligned itself with China against Japan; I perceive no reason why it should align itself with Japan against China. The peace of the Pacific will be assured when all countries there concerned make it their fixed policy to abide in their relations with each other by the professions of article II of the Pact of Paris. If Japan and the United States each wish to avoid conflict and to have peace, there is no need for a joint declaration of policy by the two Governments.

If either of them entertains any other motives, the making of such a joint declaration by them would have only a misleading and ephemeral effect in connection with the problems which exist or which may arise between them.

The American Government will continue to give, as it has given in the past, earnest thought to ways and means calculated to dispel suspicion by the Japanese people of American motives and action in the Far East. That full measure of mutual respect and confidence which it is the endeavor of the people and Government of the United States to make prevail in their relations with other peoples and governments must, in our opinion, rest upon approximate similarity of objective and of method. We sincerely hope, therefore, that it may be possible for the Japanese Government to join with us and with the other great powers in cooperative effort to ensure peaceful approach to and peaceful disposal of the many problems which are inherent in the complexity of and delicacy of international relations under prevailing modern conditions.

It is our belief that it is to the best interest of Japan and of the United States and of all concerned that Japan be an active participant in the councils and the efforts of the nations in dealing with problems of world concern, and that, as such, Japan place confidence in and enjoy the confidence of the other nations. We shall make it our effort to encourage adoption by the Japanese people of that view and adoption of it by any others who may be in doubt or may hold a contrary view. Japan has in recent years acquired, whether deservedly or not, a reputation for truculence and trouble making. There was before 1931 in many quarters suspicion of Japan. Events in Manchuria, Japan's withdrawal from the League of Nations and statements made on and after April 17 of this year by various Japanese officials,³⁴ along with statements which are frequently made by other Japanese leaders and in the Japanese press, have tended to give the

³⁴ For correspondence on this subject, see pp. 112 ff.

impression that the suspicions were warranted. It is "up to" Japan to live down and remove these impressions. We are willing to be of assistance. But this effort will take time and it cannot be made successful merely by use of words. One thing that might help a great deal would be avoidance of use of words in various connections where words do more harm than good: I refer especially to what may be called arguing in public back and forth across the Pacific.

I am giving constant thought to discovery and devising of ways and means whereby Japan and the United States can be of help to each other without sacrifice by either of its own interests and with advantage to both. [End of statement by the Secretary of State.]

At the conclusion of the foregoing conversations, the Ambassador expressed some disappointment that the United States Government did not feel justified in indicating that its policy would be such that Japan would not be attacked or seriously threatened in a military way in the Orient, so that he and others of his government could quiet public sentiment by assuring them of such policy. I reiterated in reply a second or third time that my government felt constrained to rest its attitude absolutely on the statement which I transmitted to Foreign Minister Hirota on or about April 28, 1934,³⁵ which statement succinctly and comprehensively defined the rights, interests, and obligations of the United States in the Orient. I also emphasized the view that both countries must proceed by acts rather than words to satisfy the other of its real attitude; that the exchange of personal notes between Hirota and myself some weeks ago afforded the broadest and deepest possible foundation on which to build better understanding and the closest friendly relations; and that so many treaties in different parts of the world were being violated or ignored that it was all the more important and necessary for nations to act rather than talk if they were to improve relationships. I further emphasized and re-emphasized the view that not only my country but most countries were in doubt as to what would become of their equality of trade rights in the Orient in future years if the avowed purpose of Japan for dominant overlordship of Eastern Asia, in the sense that Japan insists on superior and paramount authority, should be brought about and acquiesced in by the balance of the world at this time; that this grave doubt was accentuated by the fact that, while proclaiming the doctrine of the law of manifest destiny and the right of superior authority in Eastern Asia, there was in almost the same breath a loud demand for a big Japanese navy on a parity with that of England and the United States; and that these considerations would render it extremely difficult to convince the people in any country outside of the Orient

³⁵ See telegram No. 59, April 28, 7 p. m., to the Ambassador in Japan, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 231.

that their governments should acquiesce in the proposals claimed by many Japanese leaders for such superior authority in Eastern Asia as might probably soon develop into still wider authority in other respects than the maintenance of peace and order, and with the result that equality of trade rights in the Orient of the balance of the world might be seriously interfered with. I said that that point was very definitely in the minds of my country and my government in addition to its interest in peace conditions in every part of the world. I called the Ambassador's attention to the work for peace that my government was striving in a purely inoffensive way to perform both at Geneva and in the South American Chaco for the reason that all civilized nations, whether they realized it fully or not, were seriously interested in the important phases of peace the world over.

C[ORDELL] H[ULL]

711.94/960½

The Secretary of State to President Roosevelt

WASHINGTON, June 9, 1934.

MY DEAR MR. PRESIDENT: I send you herewith a copy of a memorandum of my conversation with the Japanese Ambassador held on May 29, 1934.³⁶

This was in reply to a proposal which the Ambassador had made in a "secret and strictly confidential" memorandum which he handed to me on May 16³⁷ that the American and the Japanese Governments make a "joint declaration" of policy. My reply was, in brief, that we could not adopt that suggestion, but in making that reply I took occasion to comment at considerable length upon some of the points which he had made and to express and emphasize the view that the real test of friendship and of friendly intention between the two countries is to be found in action rather than words.

At this moment we have indications that the Ambassador is not inclined to accept as final my expression of the view that we cannot act upon his suggestion that there be made a joint declaration and that he may be contemplating appealing to you in the hope that you will be more responsive to his effort. That was what Viscount Ishii did in 1918,³⁸ appealed to the President after the Secretary of State had expressed himself adversely to the making of a joint declaration of policy, with the result that there was concluded at that time the Lan-

³⁶ *Supra*.

³⁷ For text of memorandum, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 232.

³⁸ For correspondence relating to Viscount K. Ishii's special mission to the United States in 1917, see *Foreign Relations, 1917*, pp. 258 ff; *ibid.*, *The Lansing Papers, 1914-1920*, vol. II, pp. 432 ff.

sing-Ishii Agreement³⁹—which Agreement resulted in no end of confusion and embarrassment. I feel that it is highly desirable that you give the Ambassador no encouragement to think or to report to his Government that you are favorably disposed toward his project. Already certain Japanese newspapers have stated that you made a promise to Viscount Ishii when he was here last year which promise the American Government has not kept. You of course made no such promise, but the likelihood is that the slightest indication of willingness to take the matter under consideration will be construed or be represented by Japanese officials concerned as a favorable assurance.

Faithfully yours,

CORDELL HULL

811.001 Roosevelt Visit/18a : Telegram

The Acting Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, June 11, 1934—noon.

94. Regarding press reports that it was intimated at White House luncheon on June 8 that the President contemplates or desires meeting at Hawaii for discussion high officials from Japan, there is no basis in fact and it has been reported to Department that Japanese Ambassador and Prince Konoye have already made denial. The President's trip is to be recreational, not political.

You may use the above in whatever connection you deem desirable.

PHILLIPS

811.001 Roosevelt Visit/19 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, June 13, 1934—5 p. m.

[Received June 13—7:03 a. m.]

122. Department's 94, June 11, noon. As a matter of principle it generally seems preferable to let such stories die a natural death and not to issue statements from the Embassy. In the present case, however, there appear to have been certain influences intent upon keeping the story alive. The Foreign Office spokesman this morning told the correspondents that the Foreign Office had received a telegram from Saito the contents of which he could not divulge but that he understood that the President had not talked about inviting Hirota or other Japanese officials to Honolulu. He added significantly that "that is the situation up to today."

³⁹ For text of notes signed November 2, 1917, see *Foreign Relations*, 1917, pp. 264-265; for text of protocol, see *ibid.*, The Lansing Papers, 1914-1920, vol. II, p. 450.

In view of Hirota's semi-humorous observations to certain newspaper correspondents yesterday reported to the United States by the Associated Press to the effect that if invited to Honolulu he might accept, a public statement by the Embassy at this moment would be interpreted as an open rebuff. The whole story is presumably a trial balloon and should die of inanition. Unless otherwise instructed I shall be guided by developments.

GREW

711.94/970a : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, June 15, 1934—7 p. m.

100. On May 16 Japanese Ambassador handed me a "secret and confidential" memorandum⁴⁰ purporting to represent certain "private thoughts" suggesting that the American and Japanese Governments make a "joint declaration" of policy. On May 29 I informed him orally but definitely that we could not adopt that suggestion. Details follow by pouch.

On June 13 the Ambassador was received by the President in farewell call. I was present. No matters of policy discussed.

HULL

811.001 Roosevelt Visit/19 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, June 15, 1934—8 p. m.

101. Your 122, June 13, 5 p. m., and previous. Believing that the procedure of "trial balloons" and associated practices is overworked by the Japanese Embassy here, and noting that stories on this subject apparently persist in the Japanese press, Department believes that you should inform Hirota orally that the President has no thought of having conferences with Japanese officials during his cruise. Unless you perceive definite objection, please do this and take occasion to suggest the view that public statements and hints to the press by responsible officials speculating or provoking speculation with regard to possible future events involving matters of high policy do more harm than good to the cause of improving relations between our two countries.

HULL

⁴⁰ For text of memorandum, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 232.

811.001 Roosevelt Visit/24 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, June 18, 1934—noon.
[Received June 18—1:45 a. m.]

128. Department's 101, June 15, 8 p. m. Owing to Hirota's absence from Tokyo over the week end I carried out the Department's instructions at the earliest moment this morning. The Minister said that the press had obviously been very desirous of arranging a meeting in Honolulu and that press despatches from the United States had tended to keep speculation alive. I said I presumed that he had in mind the unreliable despatches of Kawakami to which he assented. The Minister said that he had inquired of Saito as to the basis of the rumors and that having received a reply to the effect that the President's trip is to be solely recreational he is taking steps to put an end to the local press speculations. The Department's views were explicitly set forth by me in the conversation.

GREW

711.9411/8 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, June 22, 1934—1 p. m.
[Received June 22—1:47 a. m.]

131. The "high official" who made to Fleisher the statement cabled by him to the *New York Herald Tribune* yesterday concerning Japan's desire for a nonaggression pact with the United States was the Vice Minister for Foreign Affairs.

GREW

711.94/964

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Conversation With the Japanese Ambassador (Saito)

[WASHINGTON,] June 26, 1934.

The Ambassador called at my office by way of farewell yesterday. As I was at that moment absent, I called at the Japanese Embassy this morning.

In the course of our conversation there was brought up no matter of great immediate importance. I took occasion to say to the Ambassador that there were, in addition to various matters to which I knew that he was giving thought and attention, some two or three

matters which he might like to think about during and in connection with his trip to Japan :

First, the question whether the Japanese Government might be interested in the negotiation and conclusion between Japan and the United States of a consular convention.⁴¹ This seemed to be something of which the Ambassador had not thought. After some discussion, the Ambassador stated that he would give the question attention.

Second, the question of free access by foreign vessels, particularly naval vessels, to the area of the Japanese Mandated Islands. I explained to the Ambassador that this question had not been brought to the front, so far as I knew, at any time since he had come here as Ambassador; but that in the past it had on several occasions been brought up by American naval authorities, which authorities (and I understood also British and other naval authorities) had sought free access for naval vessels to harbors of and waters around the Japanese Mandated Islands.⁴² This the Japanese Government had always refused. From time to time our naval authorities bring this matter to the attention of the Department of State. It seemed to me that it might be useful for the Ambassador while he is at home to look into the question and see whether anything could be done, without creating excitement or ill feeling, toward removing this cause of suspicion and basis for allegations on the part of foreign critics of Japan, and at the same time toward affording a convenience to foreign ships and creating good will and confidence. The Ambassador gave the appearance of knowing little or nothing about the history of this question. I therefore gave him some account of its history and of arguments which had been made, some through diplomatic channels and some in the press. The Ambassador finally said that he would give the matter his thought and attention.

Third, I said that some of us here had long had on our minds a question the mention of which is a matter of some delicacy. We have been worried by, and, to be frank, annoyed over some developments in the field of propaganda, in connection with Japanese-American relations, both in this country and in Japan. We have felt, in particular, that there is in the press in Japan a good deal of misrepresentation, some of it doubtless in consequence of ignorance or misunderstanding and some of it probably deliberate, of thought and attitude in this country with regard to Japan and of developments here in the field of American-Japanese relations. The Ambassador said that he quite agreed that such was the case. I then went on to say that I was sure that it must be evident to the Ambassador that there is not in this country, except among a very few people (and there in

⁴¹ See also pp. 839 ff.

⁴² See *Foreign Relations*, 1933, vol. III, pp. 748 ff.

negligible amount), any animus against Japan, and that neither the people nor the Government of this country has any thought whatever of entering upon any course of aggression toward or against Japan. The Ambassador said that he quite realized this. I then said that both he and I know that the matter is often and at great length otherwise represented in the press in Japan. The Ambassador indicated assent. I then read to the Ambassador a paragraph from a note of comment by Mr. Owen Lattimore in the current number of *Pacific Affairs*, which reads:

“Western propagandists in the East, and Eastern propagandists in the West, can no longer do anything but harm. The need of our day is for better Chinese, Japanese and Russian journalists in Europe and America—not to tell us about their countries, but to interpret us to their own countries. We need—and we have not begun to get enough of them—Western journalists who can understand Japanese politics and economics as the Japanese understand them, interpret the conflicting forces of Chinese history and Western pressure by Chinese standards, and feel the creative, formative period in Russia as the peoples of the Soviet Union feel it—or as Duranty⁴³ feels it.”

I said that it struck me that the suggestion which Mr. Lattimore makes there is one which all of us who are struggling with problems of relations between Japan (and other countries of the Orient) and the United States may well ponder. The Ambassador said that the subject was one to which he gave much thought. I said that I thought that governments might do a good deal toward improving the situation. The Ambassador said that he thought so too. He then advanced the view that the concluding of agreements by governments would be helpful toward signaling to the peoples concerned and to the world that relations are amicable and making of trouble is not intended. I advanced the opinion that the reading public takes “in its stride” its reading of news of the conclusion of an agreement; it makes passing note thereof; its eyes then go on to the next item of news and, having seen on one day only the news that an agreement has been concluded but seeing day after day articles and books filled with conjectures of suspicion, erroneous and misleading information, incitement to fear or to hostility, etc., etc., the net result is that the concluding of an agreement does not very materially impress the public, whereas a constant stream of propaganda develops conviction. The Ambassador said that Mr. Hirota had done a great deal toward putting an end to the publishing of war fiction, etc. I said that we had observed this fact with gratification; that the Japanese Government had more authority in such matters than had we; that they could command whereas we could only persuade; that fortunately there had

⁴³ Walter Duranty, Moscow correspondent of the *New York Times*.

been in this country a paucity of objectionable war fiction; that if at any time that type of thing appeared in this country it would be without the approval of and, where our disapproval could be manifested, with the disapproval of the American Government.

At this point I said that I knew that the Ambassador must be very busy and that, wishing him a pleasant and profitable summer, I would be on my way. The Ambassador said that he would give his best thought to the matters which we had discussed.

S[TANLEY] K. H[ORNBECK]

711.94/961 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, June 29, 1934—2 p. m.

106. Under date June 26 Peiping telegraphs that United Press despatch from Washington reports that Saito is returning to Japan after sounding out the President and the Secretary of State in regard to proposals relating to (a) negotiation of a mutual non-aggression pact; (b) a good will and non-competition declaration based on a trade understanding; (c) negotiations in regard to Manchukuo and the Philippine Islands; and (d) discussion of Japanese and American relations with China.

The Department is telegraphing Peiping for its information and guarded use only that this report is entirely misleading; that it is apparently the most recent of a series of attempts made by a certain interested party to create through the vehicle of the press an impression of diplomatic achievement where there has in fact been none or to draw from us a statement of our views; that these stories seem to us to be mischievous in net result; that at times we consider it appropriate to issue denials but as a general rule it seems preferable to ignore the stories; and that there has been no negotiation about anything.

HULL

500.A15a5/154

The Ambassador in Japan (Grew) to the Secretary of State

No. 883

TOKYO, July 5, 1934.
[Received July 23.]

SIR: I have the honor to report that the progress of the preliminary naval conversations in London between the United States and Great Britain has been followed with the greatest interest in this country and there is a perceptible hardening of public opinion on the question of abolishing the ratio principle and demanding parity in defense.

The reported divergence of views between the Foreign Office and the Navy Department over the question of abrogating the Washington Naval Treaty * has apparently been adjusted following a conference between Mr. Hirota and Admiral Osumi, Minister of the Navy, on June 26 according to the *Asahi*. A statement was given out afterward in which Admiral Osumi is reported to have said: "The Foreign Office and the Navy Department are in perfect agreement regarding the naval disarmament situation; there is not the slightest lack of Harmony. Any rumor to the contrary has absolutely no basis."

On the other hand, at the end of June an incident of considerable significance occurred when some sixty high ranking officers of the Japanese Combined Fleet which was at the time engaged in naval maneuvers off Kyushu addressed a joint communication through the Commander in Chief of the Fleet to Admiral Osumi, Minister of the Navy, to Admiral Kanji Kato, member of the Supreme Military Council, and to Fleet Admiral Prince Hiroyasu Fushimi, Chief of the Naval General Staff, expressing the will of the fleet with regard to the forthcoming naval conference next year. The two main points, as quoted in the press were as follows:

1. It is most desirable that in facing the 1935 naval disarmament conference Japan, in order to liberate herself from the existing treaties, should serve notice of the abrogation of the Washington Naval Treaty at the earliest opportunity which presents itself and that strong unified measures should be taken immediately for securing independent rights in national defence and establish the principle of equality for armament rights.

2. In order effectively to cope with the present important situation it is most desired that a Cabinet should be organized which is capable of removing internal political unrest immediately and administering fair and strong policies with the whole-hearted confidence of the entire nation.

The significance of this unprecedented action is great in that it reveals the difficulties with which the conduct of the nation's foreign affairs by the Foreign Office is faced. While the control is being wrested painfully and by slow degrees from the military in Japan it is evident that the military die hard and that the spirit is as unyielding and adamant as ever. It is believed that this joint communication was signed and transmitted by the superior officers of the fleet—it was signed by those having the rank of Captain or higher—in the fear that the younger officers might take more hasty and less considered action. It must also be realized that this action was taken in the face of the recent resignation of the Navy Department's spokesman who was forced out because of his contravention

* Embassy's despatch No. 838 of June 14, 1934. [Footnote in the original; despatch not printed.]

of the regulations in making a statement relating to the internal political situation.† It is not known what attitude the naval authorities will adopt toward this communication.

The press continues to issue warnings that Japan will refuse to participate in the 1935 Conference unless the present ratios are abolished. The *Nichi Nichi Shimbun* says that Japan's opposition to maintenance of the present naval ratios will be made even at the cost of non-participation in the Conference. "Should Britain and the United States insist on extension of the Washington and London Pacts⁴⁴ with maintenance of the present ratios as a prerequisite, Japan would withdraw not only from the main conference but even from the preliminary parley immediately and wait for the reconsideration of the United States and Great Britain. Such is the Japanese policy."

There was immediate and vigorous reaction here to Admiral Pratt's⁴⁵ recent article which appeared in *Foreign Affairs*, in which he denounces as logically untenable Japan's claims for revision of the existing naval ratios, and the article is accepted as accurately reflecting American naval opinion on the subject and as revealing the attitude of the American Government toward the 1935 Conference. A typical reply is that of the *Jiji* in an editorial published on June 21, a summary translation of which as it appeared in the *Osaka Mainichi* of June 24 is enclosed.⁴⁶ This editorial undertakes with unvarnished directness to refute Admiral Pratt's five points which are summarized as follows:

1. Japan does not possess scattered domains all over the world requiring huge naval defense like Great Britain.
2. Japan is not required to defend the shores of two oceans, like the Atlantic and Pacific, as the United States is required to do.
3. Japan's responsibility as a neutral power in an event of hostility among third powers is not so great as that of either the United States or Great Britain who must shoulder the responsibility of safeguarding the rights of neutral nations.
4. There is no danger of Japan being blockaded by the joint action of other Powers as the domestic conditions of the various Powers make such a move impossible.
5. The financial conditions in Japan make it difficult for Japan to maintain a larger Navy.

The first two points are countered with the argument that Japan needs a fleet sufficiently strong to protect herself against any poten-

† Embassy's despatch No. 814 of June 1, 1934. [Footnote in the original; despatch not printed.]

⁴⁴ For text of the Washington naval treaty signed February 6, 1922, see *Foreign Relations*, 1922, vol. 1, p. 247; for text of the London naval treaty signed April 22, 1930, see *ibid.*, 1930, vol. 1, p. 107.

⁴⁵ Admiral William V. Pratt, U. S. Chief of Naval Operations, 1930-33.

⁴⁶ Not printed.

tial enemy. The article then goes on to point out that the type of navy demanded by the United States, with its large units and high cruising radius, together with its ability to concentrate both its Atlantic and Pacific fleets in the Pacific, as shown by the recent maneuvers, makes the United States fleet a real, tangible threat against which Japan must protect herself.

As to her responsibilities as a neutral, Japan points out that her shipping is active on sea lanes all over the world and therefore requires adequate protection. The editorial is not convinced by Admiral Pratt's assurance that there is no danger of Japan being blockaded by the other Powers.

And, finally, the *Jiji* remarks that Japan is the best judge of whether her financial conditions warrant a larger navy and says bluntly: "It is none of Admiral Pratt's business."

In short, the position taken by the press is that what Japan wants is revision of the present ratio for no purpose other than to remove the menace she now feels.

Similar views were expressed by a naval authority in an interview with the *Japan Advertiser* of June 28; he said that whether or not Great Britain had her fleet scattered over the seven seas or the United States has her fleet split on two ocean fronts, so long as either is able to concentrate her navy at any given point for an effective naval operation in time of war, this constitutes a condition which must be taken into account by a third Power. Therefore, "Admiral Pratt's attack on Japan's demand for naval parity on the ground that she does not need to cover the world seas like Great Britain or does not have two ocean fronts like the United States is hardly to the point." The most enlightening statement in this interview, however, and one which perhaps lays bare the very essence of Japan's motives in demanding freedom to build as she pleases may be found in the following:

"Japan's international relations have been particularly adverse to her since the Manchurian incident. All Japanese thought and still think that Japan was right and just in the Manchurian incident. With this conviction, Japan sought to settle the matter in cooperation with other members of the League of Nations. It was Japan who proposed the Lytton Commission for that purpose. But Japan was defeated to the tune of 1 to 42 at Geneva. Japan is absolutely sure that she was right in the Manchurian incident and is convinced that what she believes as just is not just to the Western nations when such justice is found to be prejudicial to their national interests. Japan assumes her responsibility for the maintenance of peace in the Far East, and has decided to carry on her work in her own way according to what she conceives as just and right. In other words, Japan must be prepared for a possible contingency to face the worst under the present circumstances."

Here is a statement right from the heart; it is an unvarnished announcement of Japan's intention to proceed along her chosen path in international affairs irrespective of any other considerations whatever. Under such conditions a nation must be prepared to fight and Japan, aware of this, is working to close the gap of disparity between her Navy and those of those nations which would be most likely, in her opinion, to interfere with her purposes.

Still another argument advanced by the Japanese to support the necessity of an adequate navy is that made by Admiral R. Nakamura, head of the Naval Technical Department, who pointed out that larger nations, with their greater resources, can frequently gain their ends by diplomatic, technical and financial means but that for the smaller nations armaments alone could be effective.

In conclusion, reference must be made to the possible effect upon the Japanese attitude at the forthcoming preliminary naval conversations of the change of Cabinet which is now in progress. As reported by telegram yesterday†, Admiral Okada has been charged with the formation of a cabinet to succeed that of Admiral Saito who has held the reins since May, 1932. While no members of the new cabinet have yet been definitely announced the name of Admiral Suetsugu is frequently mentioned. As the Department is aware, he represents the most chauvinistic elements in the country and if he were to succeed Admiral Osumi this fact could not fail to have great bearing on Japan's attitude at London and afterward.

Respectfully yours,

JOSEPH C. GREW

894.00/529 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, July 6, 1934—2 p. m.
[Received July 6—8:03 a. m.]

147. A Japanese friend in high position has given me the following estimate of new Cabinet.⁴⁷

1. The choice of Ministers represents an outstanding victory for the liberal and moderate forces in Japan as opposed to the Chauvinists and Nationalist fanatics. The opponents of military aggressiveness have completely gained the upper hand and have demonstrated their strength "like a clap of thunder". The country is tired of a warlike psychology.

2. The new Cabinet will follow the general policy of the Saito⁴⁸ administration but with a new driving force and initiative which Saito lacked.

†Embassy's telegram No. 144, July 4, 1 p. m. [Footnote in the original; telegram not printed.]

⁴⁷ Headed by Admiral Keisuke Okada.

⁴⁸ Admiral Viscount Makoto Saito, Japanese Prime Minister since May 1932.

3. If the United States had been able to choose the new Cabinet with American-Japanese relations in view it could not have done better.

4. Admiral Osumi will not remain long as Navy Minister and will probably be succeeded by either Admiral Nomura or Admiral Kobayashi, not Admiral Suetsugu.

My informant is in close touch with the purpose of leaders, and as he predicted Admiral Okada's appointment to me several days before the latter's name had been even mentioned by the press, the diplomats or the public, his opinion is worthy of consideration.

I am not yet prepared to subscribe to the foregoing views in their entirety, but I do believe that the choice of men for the key positions in the new Cabinet indicates a general trend away from aggressive nationalism and consequently may be considered as a victory for the moderates. This is the general opinion in Tokyo.

Repeated to Peiping by mail.

GREW

893.01B 11 Manchuria/15a

The Chief of the Division of Far Eastern Affairs (Hornbeck) to the Ambassador in Japan (Grew)

WASHINGTON, July 16, 1934.

DEAR MR. GREW: I feel that it may be well for us to let you know something of our thought with regard to Mr. George Bronson Rea.

For your orientation, I may say that most of the officers of FE⁴⁹ have known Rea personally over a period of years. I myself have known him for approximately twenty-five years, have read his paper, have received him as a caller; and have managed to avoid, in relations with him, anything in the nature of "hostilities". During these years, Rea has called on me many times, in China, in Paris and here. When he arrived here, last, in the employ of "Manchukuo", he called on me and explained his "mission" and tried to leave with me some papers (copies of his documentation from the "Manchukuo" government) which I declined to receive, and said that he did not wish to do anything which would be "embarrassing to the American Government" or in any way "improper". I intimated to him that he had better live a pretty quiet life.

Rea is, as you know, an American citizen. He is employed nominally by the "Manchukuo" authorities as a "counselor to the Ministry of Foreign Affairs". Since he took up his residence here he has in fact been engaged in a mixture of "Manchukuo" propaganda and criticism of policies and action of the American Government in re-

⁴⁹ The Division of Far Eastern Affairs.

lation to the Far East. At one moment he represents himself as speaking the voice of "Manchukuo", at another moment as expressing the views of an American citizen. Rumor runs, and we have some pretty clear evidence, that he has close contact with the Japanese Embassy. He himself states that he purchases his liquors (which he dispenses liberally) through the Embassy; and we have some pretty clear evidence that he prepares confidential memoranda for the Japanese Ambassador. Much of his time and effort he devotes to discussing with newspaper men of various nationalities, and with Army and Navy officers and other people who go to his cocktail parties, problems not only of "Manchukuo" but of Japanese-American relations.

We of course assume that the Japanese Government is his real employer.

It is in our opinion, an anomaly, not befitting the dignity of any régime, political or of other character, that "Manchukuo" places in our capital a hired "counselor" claiming "official" connection with the Foreign Office of that régime, a man who enters the United States by virtue of his American citizenship, one who probably would have been denied admittance to this country had he claimed status as a "Manchukuoan" and as an official "representative" of "Manchukuo", and who, under cloak of his American citizenship, engages in active political propaganda on behalf of a foreign political entity.

It is not, so we believe, by taking advantage of peculiar technicalities such as prevail in this case that worthy ends in international relations may best be served.

It is our opinion that no useful purpose can be served by agitation at this time of the question of the attitude of the United States toward or with respect to "Manchukuo" and that effort by paid propagandists in the United States to agitate this question—and in so doing constantly to criticize the American Government—operates as an irritant rather than as something beneficial in American-Japanese relations. We were inclined at the outset to look upon Rea's presence here with tolerance and to take toward his activities an attitude of indifference, but as they have developed, with increasing boldness and manifest impropriety, we began to think them definitely prejudicial to the cause of improving relations between Japan and the United States. We suspect (and we have some circumstantial evidence) that Rea was active in launching the newspaper stories in February last that the American Government was seriously considering recognizing "Manchukuo". That little campaign defeated its own ends, but it was a "nuisance". All of this sort of thing runs contrary to our principle of trying to "let sleeping dogs lie". During later months, Rea has been fairly quiet; but he is constantly sowing, among Americans

with whom he comes in contact, seeds of misapprehension and skepticism (to say the least) with regard to the policies and acts of the American Government. We do not take his work very seriously, but we think that the best interests of all concerned would be better served if he were not here and engaged in it.

We do not feel it advisable to take this matter up with the Japanese Ambassador here. I gave him, sometime ago, a couple of hints with regard to the matter. But, as I have indicated to you elsewhere, he has his own ideas about propaganda and I imagine that he finds Rea very useful to him as a purveyor of information and maker of memoranda. We also do not wish to make the matter the subject for an instruction to you. Hence, all that I am saying in this letter is by way of information and suggestion.

We of course are not responsible for this situation. Action which we might take toward bringing it to an end would in all probability occasion publicity of a mischievous type. We do not wish to impute to the Japanese Government responsibility in connection with it nor to intimate that action by the Japanese Government would be possible or appropriate with regard to it. We nevertheless feel that the Japanese Minister for Foreign Affairs might like to have the facts and to know that in our view this situation is unhealthy and objectionable.

We feel that you might find it possible and convenient at some time to take this matter up with Mr. Hirota. You might perhaps say something to him along this line: That, appreciating and reciprocating the desire of the Foreign Minister that the traditionally peaceful and friendly relations between Japan and the United States be promoted by all practicable means, recalling his statement to you to the effect that his principal preoccupation while in office would be the development of better relations with the United States (see your telegram 144, September 18, 4 p. m.⁵⁰), and confident that he would desire that we bring frankly to his attention any situation which in our mind impairs or impedes the much desired development of these friendly relations which we both wish to promote, you wish to lay before him information in regard to a situation which causes you and us some concern (and then give him the facts, as above).

With a view to enabling you, before talking with the Minister for Foreign Affairs, to inform yourself more in detail in regard to the activities of Rea, there are enclosed ⁵¹ a copy of a paper entitled "The Independence of Manchukuo", read by Rea on November 23, 1933, before the members of a legal fraternity of the George Washington Law School. Mr. Rea has openly stated that this paper is "Man-

⁵⁰ *Foreign Relations*, 1933, vol. III, p. 710.

⁵¹ Enclosures not reprinted.

chukuo propaganda". There is enclosed also a copy of an address delivered by Rea on March 7, 1934, at Georgetown University, which you will note was distributed under cover of a circular from the Regent of the School of Foreign Service of that University. It is believed that, after perusal of the enclosures, you will share our view as indicated above that the results of Rea's activities cannot but be adverse rather than favorable to the development of more cordial relations between Japan and the United States.

As indicative of an attitude that is developing in Washington in regard to the efforts of paid political propagandists and lobbyists, there is enclosed also a copy of an article from the *Washington Herald* of April 6 attributing to Senator James Hamilton Lewis certain statements on this subject. I think that some day, perhaps soon, there is going to be quite a stirring up of such matters.

Yours sincerely,

S. K. HORNBECK

125.6331/179

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*

[WASHINGTON,] July 26, 1934.

The Japanese Chargé called on me by appointment and stated that he had received an account from his Government of an unfortunate incident at Mukden. He then gave a narrative of the intrusion by the Japanese youth at Mukden into the American Consulate General and the attempted assault upon Vice Consul Hall,⁵² at the conclusion of which he stated that his Government regretted this and he wished to express his own regret. I stated that we felt that the incident was very unfortunate and that I appreciated his having come and having expressed regret.⁵³

Mr. Fujii then said that he wished to give me a memorandum⁵⁴ with regard to a question of income taxes in this country of Japanese shipping companies. At that point I asked whether I might have Mr. Dooman⁵⁵ hear what Mr. Fujii had to say with regard to that matter, and, with Mr. Fujii's assent, I called Mr. Dooman in. This matter is dealt with in a separate memorandum.⁵⁶

S[TANLEY] K. H[ORNBECK]

⁵² Monroe B. Hall.

⁵³ See *infra*.

⁵⁴ *Post*, p. 827.

⁵⁵ Eugene H. Dooman, Foreign Service officer, temporarily assigned to the Department.

⁵⁶ Not printed.

125.6331/174 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, July 27, 1934—6 p. m.

231. Your 324, July 26, 4 p. m. and 327, July 27, 3 p. m.⁵⁷ The Department realizes that this incident calls for serious consideration and commends the promptness and detail with which the Consulate General⁵⁸ and the Legation reported and made recommendations.

The essential facts seem to be that a Japanese youth, apparently insane, tore down the consular sign, entered the Consulate building and threatened a member of the consular staff; that no one received physical injury; that the Japanese Consul General, upon being informed of the incident, called in person at the Consulate General and expressed orally his regret at the incident and his relief that no one had been injured; that there appears to be no evidence of definite negligence on the part of the police or evidence that the attacker acted with "instructions, assistance or encouragement from any quarter"; that the attacker was taken promptly into custody; and that the Japanese authorities appear to be handling the case in accordance with Japanese law and regulation.

On the basis of the information before it, the Department is disposed to regard the incident as the irresponsible act of a young and deranged individual and to believe that the question of his motives would be difficult of determination and should not be permitted to be made an issue.

The Department will make no decision until the receipt from Tokyo of the Ambassador's comment.

The Consulate General should not further discuss this case with the Japanese authorities until further word from the Department.

Repeat to Mukden and to Tokyo.

HULL

125.6331/177 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, July 29, 1934—3 p. m.

[Received 6 : 22 p. m.]

329. Reference Legation's 327, July 27, 3 p. m.⁵⁹ and Department's 231, July 27, 6 p. m., following from Mukden :

"July 28, 5 p. m. I was informed this afternoon by the Japanese Consul General that Tsuchiyama is being today deported from Mukden to Japan under escort of relatives and police. Upon arrival at his native village he will be subject to special observation by the

⁵⁷ Neither printed.⁵⁸ At Mukden.⁵⁹ Not printed.

police authorities there who will decide whether confinement in asylum or home is necessary. I will shortly transmit a despatch^{59a} containing additional information concerning the legal and anti-American aspects of the case and suggest advisability of Embassy's deferring action pending its receipt."

Repeated to Tokyo.

JOHNSON

711.94/974a : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, August 6, 1934—3 p. m.

134. 1. The *New York Times* of August 5 carries an account under Tokyo date line August 5 of an article by General Tanaka,⁶⁰ translation of which appeared in the *Japan Advertiser* of August 5. The account begins as follows: "President Roosevelt's 'loud' comment on the efficiency of the United States naval establishment in Hawaii is characterized as 'insolent'" by General Tanaka. The account states that "President Roosevelt has traveled to Hawaii and there inspected the Pearl Harbor Base, which is regarded as the center of American offensive operations in the Pacific, telling the world in loud tones its equipment is perfect". There immediately follows a statement apparently directly quoted from Tanaka's article stating that "such insolent behavior makes us most suspicious. It makes us think a major disturbance is purposely being encouraged in the calm Pacific. This is greatly regretted."

2. Please cable the text of a sufficient portion of Tanaka's article to enable the Department to determine whether Tanaka used the word "insolent" and, if so, whether Tanaka applies that word to the President or to a series of American acts to which Tanaka takes exception.

3. Is Tanaka now in active service?

4. Your comments would be welcomed.

5. Forward full text of article by mail.

HULL

711.94/975 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, August 7, 1934—9 p. m.

[Received August 7—1:35 p. m.]

173. Department's 134, August 6, 3 p. m.

1. The paragraph in Tanaka's article which contains the passage referred to by the Department is as follows:

^{59a} Not printed.

⁶⁰ Gen. Kunishige Tanaka, former Japanese Military Attaché at Washington.

"At any rate, there are not a few aspects of the American attitude of late that we are unable to understand. This may be caused by the dancing of the American people to the tune of the flute played by the advocates of armament expansion surrounding the Admiral (Pratt). With the approach of next year's conference, the psychologies of the people of the nations concerned are gradually becoming tense. The American naval and war authorities are loudly proclaiming the necessity of vast naval and air forces, which are steadily being realized. Long flights to Hawaii and Alaska have been carried out, and the United States is being placed on new air bases in Alaska and the Aleutian Islands. With the cooperation of a private naval society, propaganda for replenishment of the Navy is being spread. The Atlantic Fleet is to be stationed once more in Pacific. President Roosevelt himself has travelled to Hawaii, et cetera".

The rest of the paragraph is substantially as quoted by the Department. The translation has been checked with the original Japanese text and found to be accurate.

2. The use of the word "insolent" by Tanaka might be taken to apply either to the President or to a series of American acts.

3. Tanaka was retired as a full general in 1929. He is now President of the Merinkai, an organization of retired army and naval officers and other men of nationalistic leanings.

4. The article does not appear to have been published in any Japanese newspaper. The *Advertiser* obtained an advance copy of the article which is to be printed in the Merinkai magazine published chiefly for the members of the society.

5. I feel that it would be advisable to bring this matter to the attention of the Minister for Foreign Affairs, pointing out the gross impropriety of the language used by Tanaka and inquiring whether the Government cannot maintain control over the public utterances of retired army or naval officers. In view, however, of the Department's point 4 I shall await specific instructions before acting.

6. Full text of the article will be forwarded by mail ⁶¹ on Steamship *General Lee* from Tokyo, August 12th.

GREW

711.94/975 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, August 8, 1934—8 p. m.

136. Your 173, August 7, 9 p. m. It is desired that on the occasion of your next call on the Minister for Foreign Affairs in connection with some other matter, which it is hoped will be in the near future, you refer orally and informally to the Tanaka article as translated

⁶¹ Not printed.

and published by the *Japan Advertiser* and state that the article was reproduced in large part by the *New York Times* and that it drew unfavorable comment in the American press. Please add, in such manner that Hirota will clearly understand that a friendly and informal remonstrance is being made, a statement along lines as follows:

We have noted with gratification that there has been a conspicuous subsidence of writings published in Japan calculated to injure relations between the United States and Japan, and we assume that this condition is largely due to appropriate measures taken by the Foreign Minister and by the Japanese Government. Statements by such a prominent Japanese as General Tanaka which are reasonably open to the interpretation that they characterize action and statements of the President of the United States as "insolent behavior" can only operate toward gratuitous injury to the friendly relations between the two countries.

HULL

711.94/976: Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, August 18, 1934—noon.

[Received August 18—1:58 a. m.]

181. Department's 136, August 8, 8 p. m. My [*Re?*] Tanaka article. Informal representations made to the Minister of Foreign Affairs August 16. The Minister received the remonstrance sympathetically and I was later told by the Vice Minister that Hirota particularly appreciated the manner of its presentation as instructed by the Department. General Tanaka will be advised by the Foreign Office. The *Japan Advertiser* has been officially censured for publishing the obnoxious phrase which does not appear to have been published elsewhere in Japan.

GREW

893.01B 11 Manchuria/16

The Ambassador in Japan (Grew) to the Chief of the Division of Far Eastern Affairs (Hornbeck)

TOKYO, August 20, 1934.

DEAR MR. HORNBECK: After carefully reading and acquiring the contents of your letter to me of July 16 and its enclosures concerning Mr. George Bronson Rea and his activities in Washington, I took occasion on August 16 to talk the matter over with Mr. Hirota, at his residence and not at the Foreign Office, in a friendly way but fully

and with emphasis on certain outstanding points, along the lines of your suggestions. It was made clear to the Minister that I was not making representations either of a formal or informal nature but that in view of his repeatedly expressed desire to be informed of ways and means by which our friendly relations might be improved and, as a corollary, of situations which tended to impair or impede the development of those relations, I believed that it would be helpful to him, the Minister, to be acquainted with the facts concerning Mr. Rea's propagandist activities, the reaction of our Government thereto and the harmful effects created thereby in the United States.

Mr. Hirota seemed genuinely interested in what I told him but he vouchsafed no comment. I dare say that he will talk the matter over with Mr. Saito who presumably, as suggested on page 5 of your letter, may not lend a very sympathetic ear. I have no idea whether Mr. Hirota will carry the matter further, but little was left to the imagination as I brought out the salient facts slowly, clearly and repeatedly in our talk. It will interest me to learn from you in due course whether any results become evident in Washington.⁶²

Yours sincerely,

JOSEPH C. GREW

125.6331/180 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, September 14, 1934—7 p. m.

157. Your 187, August 23, 5 p. m.⁶³

1. Department has now received Mukden's despatch of August 2.⁶⁴

2. The Department appreciates the thoughtful attention given by the Embassy and by the Consulate General at Mukden to indications of anti-American acts or agitation on the part of Japanese nationals and appreciates also the desirability of bringing to the attention of the appropriate Japanese authorities such manifestations of anti-American attitude as may give rise to apprehension lest continuation of objectionable activities associated therewith would be likely to lead to troublesome incidents. At the same time, however, the Department does not wish to run the risk of dissipating the effect of such official representations as have necessarily to be made from time to time; and for that reason it feels that the making of representations should be reserved for cases of importance wherein there is

⁶² The Consul at Dairen, in his despatch dated August 31, 1935, reported the return of Mr. Rea to Manchuria (893.01B 11 Manchuria/15).

⁶³ Not printed.

⁶⁴ Not printed; see telegram No. 329, July 29, 3 p. m., from the Minister in China, p. 676.

involved definite disregard of or serious menace to American interests.

3. After careful examination of the entire record of the Tsuchiyama incident, the Department does not perceive on what ground reasonable exception can be taken to the manner in which the Japanese authorities have handled this incident. The Department would therefore not wish to have any further action taken in regard to this incident or to see it form the basis of discussion with the Minister for Foreign Affairs of the general subject of anti-American propaganda in Manchuria. Moreover, while the Department appreciates that the instances related by Mukden indicate some anti-American sentiment, the Department has noted Mukden's statement that anti-American propaganda in Manchuria has during the past year tended to decrease and the Department does not believe that the incidents referred to by Mukden are of such a character as to warrant the conclusion that any useful purpose would be served by presenting them on this occasion to the Japanese Government.

4. Department commends Chase⁶⁵ for his careful handling and thorough presentation of the incident under reference.

5. Please inform Peiping and Mukden.

HULL

8621.01/298

Memorandum by the Assistant Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] November 2, 1934.

During the course of a call the Japanese Ambassador referred to a conversation which he had had with Mr. Hornbeck shortly before the Ambassador's departure for Japan,⁶⁶ wherein Mr. Hornbeck had suggested that the Ambassador might care while in Japan to take up with the appropriate authorities of the Japanese Government the question of making less difficult the visits of American citizens to the Pacific islands under Japanese mandate. The Ambassador said that he had discussed this question with the appropriate authorities of the Japanese Government; that they were quite willing that American nationals should make such visits; that there had been an occasion when one individual (the Ambassador remarked that he thought that it had been a British subject) had gone to the Mandate Islands ostensibly as a civilian, although it later developed that he was there for espio-

⁶⁵ Augustus S. Chase, Consul at Mukden.

⁶⁶ See memorandum by the Chief of the Division of Far Eastern Affairs, June 26, p. 664.

nage purposes; that such incidents as this made some of the Japanese authorities reluctant to have foreign nationals visit the Islands; but that when the authorities were assured that the visits were for no improper purposes no obstacle would be placed in the way of American nationals making such visits.

711.94/991

The Consul at Kobe (Donovan) to the Secretary of State

No. 398

KOBE, November 2, 1934.
[Received November 23.]

SIR: I have the honor to report that Lieutenant-Colonel Hageno (?) Matsumoto, an officer assigned to the staff of Prince Higashi-Kuni, Commander of the Fourth Division of the Japanese Army now at Osaka,⁶⁷ made a highly inflammatory and anti-American address to the Young Men's and Ex-Soldiers' Associations of Suma, a suburb of Kobe, on the evening of October 29th.

The gist of his remarks was as follows:

1. The outcome of the Naval Conference is immaterial in that Japan now has a preponderance of warships of the class desired, and will continue to maintain this advantage. Japan is in a position to defeat America at any time, and in fact, any other country or combination of countries.

2. American duplicity during former Naval Conferences degraded Japan, and this insult to the Imperial Navy must be avenged.

3. After all, America is the one nation that stands in the way of justice, and the long list of insults from that country must be wiped out, and to establish Japan as the just ruler of the world America must be crushed.

4. America, formerly the richest and most opulent nation in the world has become weak and flabby through dissipation and now is the time for Japan to prove the worth of her inheritance of the Yamato Damashii.

5. War is surely coming and all must be prepared so that a successful outcome may be assured. The Japanese Army is now waiting for the time to act, and the ex-service men and reserves must be prepared at any time to be called to the colors, which will probably be by the end of this year, or early next year. No ex-service man should leave his district unless on very urgent business, and then only for a very short time.

6. Japan has never lost a war and never will.

This information was obtained by Clerk Carey J. Scott of the Consulate staff who overheard part of the address. Mr. Scott lives in

⁶⁷ In his despatch No. 408, November 28, the Consul at Kobe reported not being able to confirm the officer's connection with the Japanese Army, but added: "I desire to emphasize the fact that the audience was convinced that the speaker was officer of the Japanese Army." (711.94/994)

Suma near where the meeting was held and on the evening of the 29th happened to be walking by the hall. Attracted by the noise he stopped near the entrance for a few minutes and overheard part of the address. That night about 11:30 P. M. a member of the Young Men's Association called at the latter's residence in a highly excited state of mind and advised him to leave the country as there would surely be war within a short time. This young Japanese was a former pupil and close personal friend of Mr. Scott's and from him Mr. Scott was able to obtain complete information regarding Lieutenant-Colonel Matsumoto's address. It may be mentioned that the hall where the meeting was held is used for athletic events and that Mr. Scott has gone there on various occasions and is personally acquainted with many of the members of the Young Men's Association, hence his presence for a few minutes near the entrance attracted no attention.

The naval discussions now in progress at London have undoubtedly stirred up anti-foreign feeling in Kobe and such speeches as the one cited above can easily lead to a serious incident involving foreigners especially when the type of listener, usually a not over intelligent or especially well balanced youth, is borne in mind.

Lieutenant-Colonel Matsumoto's speech is undoubtedly only one of many of its kind since officers of the Japanese Army are continually delivering addresses at meetings of the Young Men's and Ex-Service Men's Associations. It is seldom, however, that the text of their remarks is so readily available as it is in the present instance.

The Department is referred to the following despatches⁶⁸ on the same subject:

- No. 355, August 30, 1934.
- No. 365, September 10, 1934.
- No. 378, September 20, 1934.
- No. 387, October 16, 1934.
- No. 392, October 22, 1934.
- No. 396, October 30, 1934.

Respectfully yours,

HOWARD DONOVAN

811.33621/6

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*

[WASHINGTON,] November 5, 1934.

The Japanese Ambassador called by appointment. He gave me substantially the same information that he had given Mr. Hamilton, in an earlier call, with regard to the question of visits to the Mandated

⁶⁸ None printed.

Islands and the negotiation of a consular convention. With regard to the Mandated Islands, however, he made his statement in much broader terms than he had done in conversation with Mr. Hamilton. He said that he had talked the matter over with naval authorities in Japan and that they would have no objection to "visits". I asked whether by that he meant visits of naval vessels. He replied that he did. I asked whether he meant that naval vessels would be permitted freely to visit, cruise among the Islands and enter all ports. He replied that it was his understanding that if permission was requested for such visits permission would be given.

S[TANLEY] K. H[ORNBECK]

894.00/538

The Ambassador in Japan (Grew) to the Secretary of State

No. 1079

TOKYO, December 11, 1934.

[Received December 28.]

SIR: For some years Japanese industry has been developing very rapidly. The most noticeable advance, so far as the outside world is concerned, has been made in the textile field. Japanese cotton goods and a variety of other articles such as bicycles and cheap toys and notions are exported in large quantities to many countries. At the same time there has been an intense development in many other lines which have not come prominently to outside attention because they do not enter greatly into international trade.

These developments have coincided with an exceptionally strong wave of nationalism. This tendency is world-wide, and in following it Japan is merely in the fashion. It is, however, a fashion to which the Japanese take kindly. All through their history they have alternated between periods when outside contacts were welcomed and periods when efforts, more or less successful, were made to cut off outside contacts and develop internal economy without them.

These periods have usually coincided with periods of activity among foreign nations with whom Japan was thrown in contact. For example, Japan accepted Chinese civilization and culture almost at a gulp during the T'ang era. When the glories of this reign began to fade and the Japanese felt that they had nothing more to learn from China, intercourse was restricted. The Japanese set to work to develop what they had obtained. During the Mongol period (Yuan) in China, the Japanese were engaged in defending themselves from invasion. During the Ming period, intercourse with China was again renewed, which resulted in increased industrial and cultural activity in spite of the unsettled political conditions in Japan at this period.

About the middle of the 16th century Western civilization began to exert an influence on the Japanese, stimulating them to greater efforts. These activities culminated in the invasion of Korea and the sending of a number of missions of investigation, as we should call them today, as far away as Europe. The decline of the Ming dynasty in China, and the intense rivalries among European nations coincided with the nationalism of the Tokugawa era in Japan when foreign intercourse was shut off for over two hundred years. This seclusion was broken down from the East, where the descendants of the Europeans had conquered the American continent and set sail from the eastern shores of the Pacific to find the Far East once more.

The nineteenth century was a period of great intellectual, political and industrial activity in Europe and America. It is noteworthy that it coincided with great developments in Japan, who welcomed intercourse with the West, and set herself to learn from Europe and America, instead, as she had previously done, from China and to a lesser extent from Korea.

The World War and its aftermath—intense national hatreds, bankruptcy and political instability in the West—together with great industrial development in Japan, have combined to lead many elements in the country to think that perhaps they have learned all that the West has to teach them, and that it may be better to reduce foreign contacts to a minimum and develop a Japanese milieu more suited to their needs.

This point of view coincides with the world craze for what is termed self-sufficiency, and has made the task of the intense nationalists much easier. They point to efforts made in many quarters to keep out Japanese imports as evidence of the superiority of Japanese products and assure their fellow countrymen that Japan has made such progress that Western civilization has nothing further to offer and Japan has no longer any need for foreign teaching. This nationalist urge manifests itself in many ways. It is largely the basis of the Japanese demand for naval parity; it runs through the Japanese insistence upon Japan's superior or special position in China: China was once Japan's teacher and must be made to realize that Japan has thrown off all leading strings and is equal to any one, East or West. The East, with Japan as leader, will set up a balanced economy to offset Western aggression.

As would be expected, the nationalist or exclusivist tendency is more noticeable in Army and Navy circles than elsewhere, although it would be a mistake to assume that the armed services are exclusively nationalist or that the civilian population is free from the tendency. The Army and the Navy however are pretty thoroughly imbued with it. Their influence in this direction is manifested in many ways,

especially in the industrial field. One example will illustrate the (to us) absurd length to which it is pushed. Some months ago General Motors, who have an assembly plant in Osaka, decided that they would enlarge their establishment, as they have reached the limit of production with their present equipment. With the idea of inviting Japanese participation, they offered to sell stock in the Japan company to one Aikawa, Managing Director of the Kuhara interests. The arrangement has been held in abeyance, however, because the company has been unable to obtain permission to purchase New York exchange for the amount they are to be paid. The Department of Commerce and Industry has been unwilling to issue a certificate that the transaction was non-speculative, due, it is stated, to Army opposition. The Army is promoting the manufacture of a Japanese-made automobile, and desires Kuhara cooperation in this direction rather than their association with a foreign concern. Similar instances of opposition to the growth of foreign interests have been frequent of late.

Many Japanese who are in sympathy with this movement realize that the Japanese product will not be as effective, but they are persuaded that these are emergency times, that the country is in danger and that a Japanese product will serve their turn for the moment. Others again resent what they term exploitation of Japan for the benefit of the foreigner and would honestly prefer no export trade in this type of article to having industry in Japan in any degree subject to foreign control. These forces are now operating in feverish haste to produce in Japan everything which the military decides are key industries or articles "necessary to the national defence". The country is on an emergency footing, and the determined effort to be "self-sufficient" is absorbing a large part of its energies.

This state of mind is being made use of, naturally, by many industrialists who see in it an opportunity for themselves. It seems probable that some of the present oil difficulties, for example, are in a measure due to the influence of a few men in the oil refining business who believed there was an opportunity to get rid of foreign competition in the sale of refined petroleum.⁶⁹ It is significant that the President of the Japan Oil Company is a member of the House of Peers, as well as President of the new "Manchukuo" Oil Company.

There are, of course, men of vision in Japan who are aware of these considerations. They realize that Japan is, and in the nature of things must continue to be, dependent on the outside world for many things, especially raw materials, necessary to the country's industrial life. They understand that technical assistance and inter-

⁶⁹ For representations on establishment of oil monopolies in Japan and Manchuria, see pp. 699 ff.

national cooperation are needed if Japan is to continue on the path of industrial progress. They are, however, helpless in the face of what amounts almost to national hysteria. For the moment they feel unable to make long range plans for industrial development which involve extensive cooperation with foreign interests. They believe that public opinion would not countenance it, and what is more, they might have difficulty in negotiating much profitable business with the Government.

It seems unlikely that this situation will continue indefinitely. If it continues Japan will find herself more and more falling behind the West as contacts are reduced. In the past few months a number of new projects have been broached by representatives of foreign concerns which have interests here. They are anxious to enlarge their interests, to introduce new methods and bring their equipment up to date (the case of General Motors, cited above, is one example). Their Japanese associates realize the need for it, but are unable to give clear cut replies or to take on new responsibilities. They are becoming uneasy and in some cases interested Americans have come to the Embassy for advice. They have been told that they would have to be patient and await developments; either the present tension would ease, or there would be a violent alteration in the course of things—a war, which seems improbable at the moment, or some political overturn which it is impossible to foresee. It seems out of the question to look forward at this time to a return to the seclusion which Japan practiced at an earlier period. None the less, a determined drive is on at the moment to regain, so far as may be, the independence of foreign influence which the nationalists feel has been lost, to the Empire's great shame.

Respectfully yours,

JOSEPH C. GREW

711.94/1002

The Ambassador in Japan (Grew) to the Secretary of State

No. 1116

TOKYO, December 29, 1934.

[Received January 16, 1935.]

SIR: I have the honor to refer to the Embassy's despatch No. 1079, December 11, 1934, entitled *Recent Political Tendencies in Japan* in which was discussed the contemporary wave of virulent nationalism. In that despatch it was shown that from the historical point of view the present drive towards a state of isolated self-sufficiency is not a new phenomenon in this country. One of the inevitable concomitants of this periodic drive is the decline of foreign prestige. Moreover, in Oriental nations prestige has a special importance quite alien to Occidental understanding.

This importance arises from considerations which are rooted deeply in the fabric of Oriental society. The tradition of "face" (i. e. Prestige), which is as little understood in the West as are the ideas of contractual obligation and abstract justice in the East, may be compared in importance to the heritage of Roman Law in European civilization. The Oriental spirit seeks above all to accept and to allot responsibility for that which has already happened, and it instinctively avoids decisions which involve a rigid future course of action. A spirit of compromise and personal sympathy facilitates the adjustment of contracts in a manner quite unacceptable to the ethical and legal standards of Occidental peoples. Therefore, although legal commitments do not necessarily bind the future, prestige is a compelling factor when future relationships are considered. In Japan, a militaristic country, the principal basis of prestige is force. It was the power of Commodore Perry's fleet which provided the mainspring of western prestige in Japan in modern times.

It is of course platitudinous to remark that the decline of American prestige in Japan impairs the effectiveness of American policies in the Orient. It is not, however, so simple to grasp the full extent of the handicap which such a decline imposes or to isolate its individual effect from the various factors which contribute to the sum total of Japanese *intransigence*. At every step one is confronted by considerations of the broadest importance to our future political and commercial relations with the Far East. If it is true that the distrust of Japan's word which has been built up in the United States by the events of the last few years will take years of constant good faith to eradicate, it is also true that it will take some years and no small expense before the Japanese will take at face value the representations of the United States Government. This misfortune is due in part at least to the decline of American prestige.

From the Japanese standpoint nothing is more disastrous to prestige than failure to act on a statement of intention. In the recent extraordinary session of the Diet the Seiyukai party introduced an additional relief measure calling for an appropriation of ¥180,000,000 and then lamely withdrew it when the Government evinced its willingness to dissolve the Diet. The following day every paper in Tokyo commented editorially on the Seiyukai's humiliation making such statements as "The mess made by the Seiyukai has jeopardized the future of all parties" (*Yomiuri*), "The prestige of the Seiyukai as a public organization has been thrown to the winds" (*Asahi*), and "Sooner or later the party may go to pieces" (*Miyako*).

Although western prestige in general was undermined by the defeat of Russia in 1904-1905, by the futility of the world war, and by the seeming inability to overcome the long depression which Japan feels

that she herself has conquered, American prestige in addition suffered through our ineffective representations in regard to Manchuria. Certain policies were enunciated under the leadership of the United States and they failed to modify Japan's course of action. No distinction is made in the practical Oriental mind between inability to carry out a professed policy and unwillingness to do so by the forcible methods which are alone valid against a virtual military dictatorship. In either case failure is the essential fact, it is well remembered, and the next pronouncement of the nation—or the party—which has failed receives only the attention which the previous weakness, real or supposed, merits. The Japanese remember that the so-called "Stimson Doctrine" which had the support of the American public was not implemented by any positive action.

At this point it may be remarked that history has shown that time and again the Japanese are in the last analysis willing to accord just consideration to the rights of foreigners only when they are confronted with superior force or the certitude of retaliation. As outlined above these are the elements of prestige in Japan. However, the Japanese have seized upon the experience of 1931-32, on the statements of the pacific elements in America, and on the effects of a prolonged industrial depression there. These elements were destructive of prestige and they induced the Japanese belief that it was possible to secure naval parity with the United States. They also explain in part the ineffectiveness of certain representations made by the Embassy within the past year. No serious attempt was made to answer the arguments presented in the Embassy's two notes requesting extradition of the Japanese involved in the Kaiun Maru case. No serious attempt has been made to answer the representations made on behalf of the American oil companies.

But despite the independent policy of present-day Japan she has already modified her policy towards the one nation which has assiduously devoted itself to building up its defences in the Orient and to making clear its readiness to employ them if need arises. Soviet Russia has forced the Japanese army to relegate all ideas of seizing Vladivostok and the Maritime Province to the uncertain future although at one time such action seemed imminent. Soviet Russia has avoided the seizure of the Chinese Eastern Railway and is receiving a fair price for it. Propaganda against Soviet Russia has markedly decreased during the past year although the army's appetite for the funds of the nation is as rapacious as ever. As I have already reported, my Soviet colleague not long ago repeated to me the remark of a prominent Japanese that the greatest single factor in obviating war between the U. S. S. R. and Japan was the marked increase of Soviet military strength in the Far East.

On the other hand anti-Americanism is rampant in the press and the cinema. When our naval supply ship *Gold Star* came to Kobe lately, there were sneering references to the fighting qualities of a navy which permitted the presence of women on one of its vessels. The cumulative force of a campaign of this character induces false beliefs full of tragic potentialities. Even so staid an organization as Rengo which seldom speaks editorially recently circulated a statement which attempted to prove that the Japanese navy had nothing to fear from that of the United States largely because of the invincible morale and superior bravery of Japanese seamen. The *Nichi Nichi* has been harping on this theme for weeks. The mass of the people gladly accept these arguments and they are part and parcel of the decline of American prestige.

When the Japanese learn that it is no longer possible substantially to ignore American rights, when self-interest forces them to realize that it is more advantageous to cooperate, when the present trend destructive of American prestige is reversed, we may rest assured that many of the problems which present irritating and potentially dangerous aspects will be more reasonably considered by the Japanese. These things can not be brought about by half-way measures, however. The root of American prestige as applied to Oriental peoples is the power of the United States navy. We cannot assure a square deal for our own interests by pacific means without adequate naval strength. We are given no credit by reason of American ethical standards of which we are justly proud. American motives are deeply mistrusted in Japan and are judged by Japanese standards. A recent editorial (*Fukuoka Nichi Nichi*) stated: "Intimidatory diplomacy can only be applied to negotiations with a weaker power. America may apply such a policy to the Central or South American countries but she cannot do so to Japan". Would such statements appear if American naval preparedness was a recognized fact in Japan? They have not recently been applied to Soviet Russia despite the polemics of the Chinese Eastern Railway negotiations.

Respectfully yours,

JOSEPH C. GREW

PROTECTION OF JAPANESE LIVES AND PROPERTY IN THE STATE OF ARIZONA

811.5294/499a : Telegram

The Acting Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, August 22, 1934—5 p. m.

143. On August 20, Japanese Chargé called on Under Secretary and stated that he had a telegram from his Government stating that a farmer's organization in neighborhood of Phoenix, Arizona, had on

August 16 announced that all Japanese living in that district must move out within 10 days. He requested Department's help. Later, he gave Hornbeck⁷⁰ memorandum stating that Japanese Vice Consul from Los Angeles was at Phoenix and, in absence of Governor, had talked with Attorney General. There was apparently discussion of the possibility that American farmers might try to move the Japanese by force and the Japanese resist by force.

On August 21, the Under Secretary telegraphed the Governor and Hornbeck talked by telephone to the Attorney General of Arizona. Text of Under Secretary's telegram was apparently given out in Phoenix. Attorney General telegraphed Under Secretary as follows:

"Local County Attorney's office is of the opinion that the farmers of this valley protesting Japanese situation will not resort to physical violence. County Attorney's office advises that farmers have been repeatedly admonished not to resort to physical violence but rather to allow orderly court procedure to follow. Sheriff's office advises that it has no knowledge of any contemplated use of physical violence. Also that Sheriff's office is prepared to protect rights of all people involved."

Department has also asked information from another source and has received report similarly reassuring. Apparently both Americans and Japanese are charged with having violated Arizona alien land law but no evidence of force being used.

Associated Press reports received from Tokyo this morning indicate that Japanese Government and press appear to be more agitated and apprehensive than the facts of the situation warrant. We of course cannot guarantee that procedure will be absolutely orderly, but we shall spare no effort and are confident that Arizona authorities will do likewise to see that none but lawful processes are followed.

Department suggests that you inform Foreign Office of the above and urge that it discourage, as we are doing, sensational discussion of the matter.

PHILLIPS

811.5294/500 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, August 24, 1934—4 p. m.

[Received August 24—9 a. m.]

189. Department's 143, August 22, 5 p. m., Arizona incident.

1. I brought pertinent facts today to the attention of the Vice Minister for Foreign Affairs who assured me of cooperation of For-

⁷⁰ Stanley K. Hornbeck, Chief of the Division of Far Eastern Affairs.

eign Office in discouraging sensational discussion and expressed appreciation of Department's efforts.

2. There appears as yet to have been no sensational or agitated comments in the Japanese press which has in general confined itself to a mere report of the facts.

GREW

811.5294/522

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Conversation With the Japanese Chargé (Fujii)

[WASHINGTON,] September 21, 1934.

I. Mr. Fujii called by appointment and said that he had come to give me such information as he had with regard to the recent unfortunate incidents in Arizona. He said that on September 12 some parties unknown had fired shots at a Japanese farmer who was working in his garden, at night, and had pushed this farmer's automobile into the river. The farmer was not injured. On a later date some "bomb-shells" had been exploded at points near houses of Japanese farmers. Mr. Fujii said that he had not come under instructions and that he was not making "representations", but that he hoped that the State Department would take any action which it might appropriately take toward ensuring the safety and safeguarding the rights of Japanese nationals.

Mr. Hornbeck said that we had not received any special information; we knew only what had appeared in the press and what Mr. Fujii had just said. We had found the Arizona authorities sincerely disposed to try to prevent unlawful acts. Even with the best of intention on the part of authorities, there occur frequently and almost everywhere some unlawful acts. It would appear from the press reports that both the state and the local authorities are trying to prevent such acts and to apprehend the perpetrators of the acts which have been reported. There does not appear as yet any warrant for further action by the Department, but we have the situation much in mind and will not fail to do what may seem appropriate, if and when. Mr. Fujii said that he was sure that we would do whatever seemed appropriate.

II. Mr. Hornbeck then said that he would take this opportunity to speak of an unfortunate incident which had occurred a few days ago in the Philippines. Mr. Fujii said that he knew to what Mr. Hornbeck was referring. Mr. Hornbeck went on to say that in that incident Filipino authorities had boarded a Japanese fishing vessel, which they had the right to do, and the Japanese crew had apparently as-

saulted these authorities and thrown them overboard; apparently these authorities would have been drowned had not a third party picked them out of the water; authorized Philippine vessels had gone in pursuit of the offending Japanese vessel but had apparently not caught it. The unlawful resistance and forceful action of the Japanese crew in this case was of a rather serious character. Mr. Fujii inquired whether we had made any representations at Tokyo. Mr. Hornbeck replied that we had not, as we were endeavoring to ascertain the full facts; but that we might find it necessary to make some representations. Mr. Fujii inquired whether the Japanese Consul General at Manila had not done something in the matter. Mr. Hornbeck replied that we had understood that he had expressed himself as regretting and condemning the action of the Japanese crew.

Mr. Fujii then referred to some other matters and said that he had originally intended calling yesterday but had put his call off until today in order to avoid newspaper correspondents: he thought that the less publicity there was given to his call—in connection with the Arizona matter—the better. He repeated that he had not been sent by his Government. Mr. Hornbeck said again that we would watch the Arizona situation closely. And the conversation there ended.

S[TANLEY] K. H[ORNBECK]

811.5294/521

The Japanese Chargé (Fujii) to the Secretary of State

No. 184

WASHINGTON, September 26, 1934.

SIR: Under instructions from my Government, I have the honor to call your attention to the recent anti-Japanese situation in the State of Arizona where the movement had for some time subsided, due to the precautions taken by the Department of State and the State of Arizona.

According to the reports received by this Embassy the anti-Japanese movement in Arizona seems to have again become very active.

On September 12th some fifteen people in six automobiles shot at Mr. Tadano who was on his farm and ran his truck into the river; on September 18th explosives were thrown near the dwellings of Mr. Okuma and Mr. Asano by several people who came in automobiles; and several farms cultivated by Mr. Yamamoto, Mr. Inouye, Mr. Taki-guchi and Mr. Tadano were flooded, their water-gates being destroyed.

The Japanese nationals in Arizona are naturally in a state of panic, due to the renewal of these acts of violence, and the Japanese Government view the situation with growing concern lest it should disturb the most cordial relations between Japan and the United States.

I have, therefore, the honor to ask that you be good enough to take the necessary steps to assure protection for the lives and property of Japanese nationals residing in the State of Arizona.

Accept [etc.]

KEINOSUKE FUJII

811.5294/521

The Secretary of State to the Japanese Chargé (Fuji)

WASHINGTON, September 29, 1934.

SIR: I acknowledge the receipt of your note, dated September 26, 1934, in which there are cited reported instances of hostile acts directed against the persons and property of certain Japanese nationals resident in the State of Arizona, and in which you request that necessary steps be taken to assure protection for the lives and property of Japanese nationals residing in that State.

Conformably to the assurance given to you on the occasion of your call at the Department on August 20, that every appropriate effort would be made, the Department brought to the attention of the appropriate authorities of the State of Arizona the existence of apprehension lest there arise in that State a critical situation affecting the lives and property of Japanese nationals. Assurances were promptly received from the authorities concerned that there had been taken and would be taken appropriate measures with a view to protecting the lawful interests of all persons involved.

The purport of your note under acknowledgment has been communicated to the Governor of the State of Arizona, and it may confidently be expected that he and other authorities concerned will not remit their efforts in the premises.

I take this occasion to confirm the assurances which have already been conveyed to you orally by officers of the Department that the American Government, desiring to promote an adjustment by lawful processes of difficulties that may exist or may arise affecting Japanese nationals resident in the State of Arizona, will continue to give the matter its solicitous and careful attention.

Accept [etc.]

For the Secretary of State:
WILLIAM PHILLIPS

811.5294/527

The Governor of Arizona (Moeur) to the Secretary of State

PHOENIX, ARIZONA, October 4, 1934.

MY DEAR MR. HULL: I have your letter of October 1st⁷¹ with further reference to the anti-alien activities in the Salt River Valley.

⁷¹ Not printed.

I feel that the courts of Arizona have this situation well in hand and there has not been, and from every indication there will not be, any serious violence. The two incidents referred to by the Japanese Embassy, from all information available to me, were more than likely attributable to Communistic or "Red" activities in the Salt River Valley at this time.

It is essential that we have the fullest cooperation from the Department of Justice and the Immigration Department in our endeavors to curb these Communistic activities, as a very firm stand in this matter on the part of all governmental agencies is imperative.

You may be assured that every precaution is being taken to see that no violence occurs, and that you will continue to have my full cooperation in this situation.

Sincerely yours,

B. B. MOEUR

811.5294/526 : Telegram

The Chargé in Japan (Neville) to the Secretary of State

TOKYO, October 9, 1934—6 p. m.

[Received October 9—7:42 a. m.]

221. Embassy's 189, August 24, 4 p. m. and despatch 994, October 3.⁷² I was told at the Foreign Office today that in the past few days there had been numerous resolutions presented to the Government by various ultrapatriotic societies urging strong action in the Arizona case; that as each delegation appeared efforts were made to minimize the situation, but there was a possibility that, if they were to continue they might be used for domestic political purposes.

Apparently these delegations are [causing?] the Government, especially the Foreign Office, considerable annoyance. The Embassy has not been molested, possibly through the efforts of the authorities.

NEVILLE

811.5294/521

The Secretary of State to the Japanese Chargé (Fujii)

WASHINGTON, October 9, 1934.

SIR: Referring to your note of September 26 and to the Department's acknowledgment of September 29, 1934, in regard to the question of protection being accorded to the lives and property of Japanese nationals residing in the State of Arizona, I am pleased to inform you that the Governor of Arizona has written me under date October 4 stating that the courts of Arizona have the situation

⁷² Latter not printed.

well in hand and that there has not been, and from every indication there will not be, any serious violence. The Governor also assures me that every precaution is being taken to see that no violence occurs.

Accept [etc.]

For the Secretary of State:

WILLIAM PHILLIPS

811.5294/526: Telegram

The Secretary of State to the Chargé in Japan (Neville)

WASHINGTON, October 9, 1934—8 p. m.

176. Your 221, October 9, 6 p. m. On October 1 the Department wrote the Governor of Arizona ⁷³ and on October 6 communicated with him by telephone and received assurance that everything possible is being done to prevent unlawful acts and to protect the rights of all concerned. The Department is confident that the State authorities are giving appropriate attention to the situation. The Department has informed Japanese Chargé d'Affaires here.

HULL

811.5294/534

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] October 11, 1934.

The Japanese Chargé d'Affaires called to thank me for our note of yesterday ⁷⁴ with regard to the Japanese situation in Phoenix, Arizona; he said that the Department's communication had crossed a message which he received this morning from his Government, in which deep concern was expressed with regard to the Arizona developments; the Japanese Government had been advised that originally 8,000 acres had been under cultivation by Japanese farmers and that now only 2,000 acres are under Japanese cultivation; the explanation being that American land owners have been threatened with violence if they continued to employ Japanese laborers; the land owners themselves, therefore, had become fearful of violence and had cancelled largely their contracts with Japanese laborers. The Chargé also reminded me that no arrests had been made, as yet, and for this reason his Government would welcome the sending of Federal Agents to Phoenix; he was glad, however, to learn that a committee of three had been formed consisting of one representative of the Japanese laborers, one representative of the American farmers and one neutral, which it was hoped would find a friendly solution to the problem.

⁷³ Letter not printed.

⁷⁴ Note dated October 9, p. 695.

I explained to the Chargé the Department's concern, that I had personally talked to the Governor, who I felt certain was doing everything he could and who was evidently aware of the importance of the matter; I explained to him that Federal Agents could only be sent out by the Department of Justice under very unusual circumstances and that it was up to the Attorney General to decide when those circumstances existed. I also explained that we were in touch with the Attorney General on this very point and that I would let the Chargé d'Affaires know as soon as the Attorney General had reached any decision; I said that it might well be that the Attorney General would have to communicate with the Governor of Arizona before sending an agent to that state.

WILLIAM PHILLIPS

811.5294/562 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, December 10, 1934—5 p. m.
[Received December 10—6:30 a. m.]

272. My 221, October 9, 6 p. m. The Minister for Foreign Affairs was interpellated Saturday⁷⁵ in the House of Peers concerning the steps taken by the Japanese Government in the Arizona case.

In replying Mr. Hirota said that he had lodged a protest at Washington "grave in comparison with usual diplomatic etiquette" and that he believed that the Washington authorities were taking the proper steps in the matter. When his interpellator remarked that no arrests had yet been made and declared that the state of affairs was "barbarous" Mr. Hirota countered by expressing doubts that the acts of violence were committed by American citizens and suggested that they might be committed by aliens who wished to dissipate the relations between Japan and the United States.

The Embassy has no knowledge of Mr. Hirota's sources of information in connection with the last statement above nor of the grounds upon which the statement might be based.

GREW

811.5294/562 : Telegram

The Acting Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, December 11, 1934—6 p. m.

203. Your 272, December 10, 5 p. m., last sentence. Under date October 4, the Governor of Arizona informed the Department that

⁷⁵ December 8.

some of the incidents occurring in the Salt River Valley might be attributable to communistic activities, and the Governor's statement to this effect appeared in the press.

For your further information. Everything possible continues to be done to prevent unlawful acts and to protect the rights of all concerned. To this end Department of Justice agents are investigating in the affected area and the Governor of Arizona has established an arbitration committee. The Department also continues to follow developments with the closest attention. Fortunately the sporadic acts of violence that have occurred to date have caused no serious injury to Japanese persons, and only very slight damage to property.

The latest development known to the Department was an informal call on November 30 by the Japanese Ambassador when the Ambassador called attention to a press item of November 29 in regard to the hurling of two bombs and left an informal typewritten statement⁷⁶ recapitulating incidents that have been reported from Arizona up to date. The Ambassador said that he thought conditions were improving somewhat.

The agitation in Arizona is not anti-Japanese in character but is directed at all alien elements whose mode of living and economic activity conflict with certain native American elements. The Department appreciates the attitude of the Foreign Minister which is clearly calculated to discourage development of undesirable complications.

PHILLIPS

811.5294/565

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck)*

[WASHINGTON,] December 20, 1934.

The Japanese Ambassador called on me on December 18 and said that his Government had informed him that a member of the Diet had interrogated the Minister for Foreign Affairs with regard to the Arizona case and there had been raised the question whether the United States Federal Government was interesting itself on the spot in occurrences in the Salt River Valley; also, that the question was likely to come up again in the Diet in January and Mr. Hirota would like to have such information as we could give him. I told the Ambassador that, for his own information, but to be used very confidentially, it is a fact that some Federal agents had been working on the case in Arizona. Giving reasons, I said that I would suggest that he suggest to Mr. Hirota that if the question comes up again he make

⁷⁶ Not printed.

the reply that it is his understanding that Federal agents have been operating in the Salt River Valley, but avoid saying that he had been so informed by the American Government or any of its officers. Mr. Saito said that he "saw the point" and would so proceed.

On December 19 there came to my attention the letter of the Assistant Attorney General of date December 13 transmitting a copy of a report made by the Los Angeles office of the Division of Investigation of the Department of Justice.⁷⁷ I informed the Ambassador today by telephone that I had some new information with regard to the Arizona case. He said that he would like to come in at once and hear what I might be able to tell him. Upon his arrival I told him that we had a report from a Federal agency and that I would give him a sketch of portions of its contents, which I proceeded to do, by reading to him excerpts from this Division's digest of the Los Angeles office's report. The Ambassador thanked me; he said that he had already telegraphed to Mr. Hirota in the sense of my suggestion of December 18 and that he appreciated having the additional information.

S[TANLEY] K. H[ORNBECK]

REPRESENTATIONS ON ESTABLISHMENT OF OIL MONOPOLIES IN
JAPAN AND MANCHURIA⁷⁸

693.113 (Manchuria) Petroleum/33: Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, March 2, 1934—2 p. m.

[Received 3:30 p. m.]

106. Department's 400, December 22, noon,⁷⁹ and subsequent despatches from Consul General at Mukden regarding "Manchukuo" customs policy.

1. Local recourse would appear to have been exhausted for the time being. Companies have unsuccessfully endeavored to pass trial shipments of oil similar to Japanese. They now feel that the present Japanese army [*burning*] test must be eliminated before discrimination can be removed and suggest that efforts be made to obtain adoption of Japanese tariff classification as soon as practicable and that pending such revision of the tariff, mineral oil of over 30 degrees Baumé (excluding products obviously classifiable as lubricating oil)

⁷⁷ Not printed.

⁷⁸ For previous correspondence on this subject, see *Foreign Relations, 1933*, vol. III, pp. 732 ff.; for additional 1934 documents, see *Foreign Relations, Japan, 1931-1941*, vol. I, pp. 130-146.

⁷⁹ *Foreign Relations, 1933*, vol. III, p. 744.

be classified under tariff item 495—the item under which kerosene is classified.

2. Consul General at Mukden suggests and the Legation concurs that representations at Tokyo may possibly accomplish something. The Legation therefore suggests that the Ambassador be authorized in his discretion to make appropriate representations in Tokyo.

3. British Legation is suggesting similar action to the British Minister who is at present in Nanking.

JOHNSON

894.6363/57 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, March 5, 1934—2 p. m.
[Received March 5—7: 15 a. m.]

39. A Government bill has been submitted to the Diet which will place virtually complete control of oil importation and refining in Japan in the hands of a Government commission. The bill, (a) requests all refiners and importers of petroleum products to obtain annual licenses to operate and to conduct operations in accordance with instructions from the Government, (b) requires refiners and importers to maintain minimum stocks which are to be kept at the disposal of the Government at current prices, and, (c) authorizes the Government to fix prices when deemed necessary in the public interest. It is expected that this bill will receive the approval of the Diet in the near future.

2. The bill is ostensibly designed to assure the Government of a permanent supply of oil at reasonable prices for use in time of war, but its effect upon the American and other foreign oil companies operating in Japan will of course depend more upon the administration of the law than upon the specific provisions contained therein. It is obvious that under the powers granted by the legislation the foreign oil companies can at any time be forced to abandon their business in Japan. The local manager of the Standard-Vacuum Company has been orally assured by the Minister of Commerce and Industry that the purpose of the legislation is to protect rather than jeopardize the business of the foreign oil companies but this assurance will not necessarily bind future administrations.

3. The British Ambassador recently has informally stated to the Vice Minister for Foreign Affairs that the oil interests of his country are anxious to cooperate with the Japanese oil industry but that they would like to know what the future policy of the Japanese Govern-

ment is to be, in order that they may be in a position to formulate their own future policy and determine whether further investment and installation is justified, and he expressed the hope that the administration of the impending legislation if passed would not interfere with the present activities of the foreign oil companies in Japan. The local manager of the Standard-Vacuum Company would like to have me make similar informal representations. Does the Department perceive objections? (See my despatch 311 [384²], May 11, last ⁸⁰).

GREW

693.113 (Manchuria) Petroleum/34 : Telegram

The Secretary of State to the Ambassador in Great Britain (Bingham)

WASHINGTON, March 8, 1934—2 p. m.

92. Please state orally and informally to the Foreign Office as follows:

(a) In October last the Department instructed consular officers in Manchuria to make suitable representations to Manchukuo Customs and other local authorities against the practice of Manchukuo Customs of admitting Japanese illuminating oil under a lower rate of duty than that levied upon American kerosene. Such representations proving ineffectual, the American Consul General at Mukden was instructed to discuss the matter with the Japanese Embassy to Manchukuo.

(b) The discrimination complained of is still being practiced, the Manchukuo authorities affirming that the use of any test other than the present "burning test" for determining the illuminating property of oils offered for importation would be impracticable and that suitable revision of the tariff would have to await a general revision of the entire tariff schedule, which would not be made for about 18 months.

(c) We are informed that British consular officers have been making similar representations, and therefore we assume that the British Government shares the view that the practice under reference of the Manchukuo Customs is discriminatory and that it cannot be reconciled with the repeated assurances of the Japanese Government that the open door would be maintained in Manchuria.

If such assumption is correct, the American Government would be glad to receive at as early a date as may be convenient an indication of the British Government's view with regard to the possibility of similar representations in the premises being made simultaneously by the American and British Governments, through their respective Ambassadors in Tokyo, to the Japanese Government.

HULL

⁸⁰ Not printed.

894.6363/57 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, March 13, 1934—7 p. m.

28. Your 39, March 5, 2 p. m. Please make orally and informally to the Foreign Office a statement similar to that made by your British colleague as outlined in paragraph 3 of your telegram up to and including the word "justified" and add the following:

"I assume that the Japanese Government in regulating the oil industry will accord to American oil dealers and refineries in Japan the same rights and privileges as are or may be granted to Japanese oil dealers and refineries, and that it will give the same consideration to the interests of the American oil concerns that it may give to the interests of Japanese oil concerns."

HULL

693.113 (Manchuria) Petroleum/37 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, March 14, 1934—6 p. m.

66. Your 106, March 2, 2 p. m. The Department instructed Embassy [at] London to ascertain views of the British Government with regard to the possibility of representations being made at Tokyo by the American and British Ambassadors. The Embassy reported as follows:

"114. March 12, 4 p. m. Department's telegram No. 92, March 8, 2 p. m., concerning Manchukuo customs on illuminating oils was read to Chief Far Eastern Department. He stated that judging from reports from British Consul General [at] Mukden, who recommended that no representations be made in the present case, the question appeared to be a highly technical one, not involving a clear-cut case of discrimination and consequently a difficult point to argue. Orde⁸¹ was therefore not disposed to recommend representations suggested in the last paragraph of Department's telegram under reference."

Inform Mukden of the foregoing and in your discretion authorize Mukden in its discretion confidentially and discreetly to intimate to American oil companies that the British oil interests appear not to have convinced British authorities that British representations are warranted.

The Department is giving consideration to the advisability of making official representations independently. Please therefore report fully by telegram circumstances of reported refusal of Man-

⁸¹ Charles William Orde, head of the Far Eastern Department, British Foreign Office.

chukuo Customs to accord illuminating oil—other than kerosene—imported by American companies the same favorable treatment which is accorded similar oil imported by Japanese concerns.

Repeat to Tokyo as Dep[artmen]t's No. 29, 6 p. m.

HULL

693.113 (Manchuria) Petroleum/38: Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, March 17, 1934—3 p. m.

[Received March 17—1:55 p. m.]

126. Department's 66, March 14, 6 p. m. Detailed circumstances of refusal to accord similar treatment to American companies are embodied in Mukden's despatch of February 21st⁸² which should reach the Department in the next few days.

American companies indicate intention to abandon efforts to import fuel similar to Japanese because to degrade the quality of their kerosene sufficiently so that it will fail to pass the burning test and be admitted under item 506 would adversely affect the market and also because in practice the burning test offers too many opportunities for discrimination in enforcement.

It is now suggested effort be made to obtain following interpretation of tariff items: that any refined mineral oil regardless of trade name which has a gravity of 30 degrees Baumé and over but which is not readily classifiable as subject to duty under item 482, 491 or 497 should be assessed duty under item 495. Item 490 applies to gasoline, 491 to liquid fuel, 497 to lubricating oil and 495 to kerosene. Representatives of the companies have referred this solution to their Shanghai head offices with suggestion that it be submitted to the Dairen Commissioner of Customs and/or the Hsinching authorities.

If representations are to be made in Tokyo the Legation believes that they should be along the lines outlined Legation's 106, March 2, 2 p. m. paragraph 3 [1]. British Minister's action consisted of a cable to British Legation [*Ambassador?*] at Tokyo informing him of our contemplated action and suggesting possible desirability of similar representations. Copy of his cable was repeated to Foreign Office but no answer received.

I am also now informed by British Legation that British Consul General [at] Mukden refrained from expressing any opinion as to the desirability of representations Tokyo. Repeated to Tokyo.

JOHNSON

⁸² Not printed.

693.113 (Manchuria) Petroleum/41 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, March 22, 1934—5 p. m.
[Received March 22—2:10 p. m.]

126. My telegram No. 114, March 12, 4 p. m.;⁸³ and despatch No. 564, March 13,⁸⁴ concerning "Manchukuo" customs on illuminating oils. I have just been advised informally by Chief of Far Eastern Department as follows:

"Apparently owing to the uncompromising attitude of the Manchurian customs authorities this question has again become more acute. Your Legation at Peiping has we understand recommended to the State Department that the United States Embassy at Tokyo should take the matter up with the Japanese Government, and our Minister in China has suggested to Sir Francis Lindley⁸⁵ the desirability of concerting action in the matter with his United States colleague. We are seeking the views of the appropriate Department of the Board of Trade on the technical aspects of the case, and I will not fail to keep you posted of any further development which may occur on our side."

Foreign Office asks what decision you may reach on the whole question.

BINGHAM

894.6363/59 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, March 29, 1934—noon.
[Received March 29—4 a. m.]

60. Referring to my No. 39, March 5, 2 p. m.

1. The Petroleum Control Law has been approved by the Diet without change but the enforcing regulations have not yet been promulgated. It was stated in the lower House that the primary objectives of the bill were (a)—to regulate the imports of oil and thereby to promote the development of the domestic oil-refining industry and (b)—to secure an adequate supply of oil at all times.

2. I have not yet made the representations envisaged by the Department's 28, March 13, 7 p. m., because the local general manager of the Standard-Vacuum Oil Company which is primarily concerned recommended delay on the ground that the future administration of the law and not the terms of the law itself is the important factor in the situation and it seemed preferable from various points of view

⁸³ See telegram No. 66, March 14, 6 p. m., to the Minister in China, p. 702.

⁸⁴ Not printed.

⁸⁵ British Ambassador in Japan.

to await the actual passage of the legislation. I shall shortly make the desired representations.

3. Local newspapers report that the Japanese Government is considering negotiations with the Netherlands Government for the purpose of regulating the trade between Japan and the Netherlands Indies on the barter system. From reports which the Embassy has special reason to believe are true it appears that the Japanese Government is considering the purchase by local and Manchurian refineries of a much larger proportion of crude oil from the Netherlands Indies than has been purchased in the past in order to offset the present heavy excess of exports to the Netherlands Indies. If some such arrangement is made the crude oil exports from the United States to Japan will be adversely affected.⁸⁸

GREW

693.113 (Manchuria) Petroleum/44 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, March 30, 1934—6 p. m.

85. Your 126, March 17, 3 p. m.

1. The Department under date March 22 was informed by our Embassy at London that, according to the British Foreign Office, the British Minister in China has suggested to the British Ambassador at Tokyo the desirability of concerting action with his American colleague in the matter of making representations to the Japanese Government, and that the Foreign Office is seeking the views of the appropriate department of the Board of Trade on technical aspects of the case.

2. The Department is instructing the Embassy at London as follows:

"You may inform the Foreign Office that we consider it both unnecessary and inadvisable to rest any representations which this Government may decide to make to the Japanese Government on arguments or considerations of a technical nature. The action of the Manchukuo customs in classifying as kerosene illuminating oil imported by an American firm which was of substantially similar quality to oil imported by Japanese firms and classified under a lower rate of duty evidences beyond any reasonable doubt that the test used by the Manchukuo customs lends itself to discrimination against non-Japanese oils. Additional evidence of discrimination would appear to be found in the fact that, following the establishment of the dis-

⁸⁸ The Ambassador in Japan, in his despatch No. 734, April 5, reported his call on April 2 at the Japanese Foreign Office, stating "The Vice Minister for Foreign Affairs said that he fully appreciated the position of the American oil companies; that he would look into the matter, and if at any time he should be in a position to give me information concerning the points that I had raised, he would be very glad to do so." (894.6363/61)

criminating practices of the customs authorities, there has been an unusually large increase in the importation of Japanese light oils and a corresponding decrease in the importation and sale of American and British kerosene.

We understand that the interested oil companies have recommended to their head offices, for submission to the Commissioner of Customs at Dairen and the authorities at Hsinching, a new system of classification which may possibly solve the difficulty, and it would seem desirable to await the result of efforts toward that end. However, if the proposal of the oil companies is not accepted by the local authorities, we would be glad to receive (as suggested in our telegram No. 92, March 8, 2 p. m.) an indication of the views of the British Government with regard to the desirability of similar representations being made simultaneously to the Japanese Government by the American and British Ambassadors at Tokyo."

3. Please keep the Department promptly informed of the decision of the oil companies and of any clarification in the British position that you may be able to learn of through your British colleague.

4. If you have not already done so, please keep Tokyo fully informed, especially with regard to your 106, March 2, 2 p. m., Department's 66, March 14, 6 p. m., your 126, March 17, 3 p. m. and this telegram.

HULL

693.113 (Manchuria) Petroleum/47: Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 10, 1934—noon.

[Received April 10—7:08 a. m.]

160. Department's 85, March 30, 6 p. m. British Legation has had nothing from its Foreign Office. American Consul General at Mukden⁸⁷ reports however that his British colleague informed him that advices from his Embassy [at] Tokyo indicate British Embassy proposes to make similar representations in line with our suggestion. Myers expresses belief that similar representations by American Embassy had become desirable.

Repeated to Tokyo.

JOHNSON

693.113 (Manchuria) Petroleum/48: Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, April 12, 1934—noon.

[Received April 12—12:47 a. m.]

67. Referring Peiping's number 160, April 10, noon. British Embassy informs me that a second secretary mentioned the matter of

⁸⁷ Myrl S. Myers.

the Dairen oil discrimination informally to a subordinate official of the Foreign Office last week but that no formal representations have been made. Also that the British Consul at Dairen has been authorized to associate himself with representations being made on this subject by the foreign oil companies at Dairen.

Repeated to Peiping.

GREW

693.113 (Manchuria) Petroleum/50 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, April 14, 1934—1 p. m.

[Received April 14—8:30 a. m.]

167. Embassy's despatch 606, April 5,⁸⁸ regarding "Manchukuo" customs duty on illuminating oils. The Embassy has just received the following informal letter from Orde:

"With reference to your call here on 3d April when you left with me an *aide-mémoire* regarding discrimination against the United States and British kerosene in Manchuria, I am writing to say that we have in principle authorized Sir Francis Lindley at his discretion and in concert with his United States colleague to make representations to the Japanese Government. We have at the same time explained to him that the State Department are in favor of postponing action until the result of the companies' negotiations at Dairen and Hsinching is known, and we are asking him to keep in touch with the oil companies as well as with your Embassy."

BINGHAM

693.113 (Manchuria) Petroleum/52 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 16, 1934—2 p. m.

[Received April 16—6:15 a. m.]

171. Department's 108, April 13, 5 p. m.⁸⁸ British Legation states that its Embassy Tokyo has been authorized to make representations towards acceptance of formula set forth in paragraph 3 of Legation's 126, March 17, 3 p. m. However, Consul General at Mukden reports that oil companies have now sent letter to Dairen Commissioner of Customs requesting acceptance that formula.

Legations agree that no representations should be made at Tokyo until the result of companies' local representations is known.

Repeated to Tokyo.

JOHNSON

⁸⁸ Not printed.

693.113 (Manchuria) Petroleum/53 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, April 17, 1934—1 p. m.

[Received April 17—6:55 a. m.]

175. Legation's 171, April 16, 2 p. m. On further consideration the Legation believes that representations at Tokyo should not be withheld until result of companies' local representations is known but on the contrary should be made now and should be in the nature of an effort to obtain favorable consideration of the formula suggested by the companies to the customs authorities. My British colleague concurs.

Tokyo informed.

JOHNSON

693.113 (Manchuria) Petroleum/56 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, April 19, 1934—5 p. m.

52. Peiping's telegram No. 175, April 17, 1 p. m.

1. Department believes that it would be desirable that you make representations at the Foreign Office with a view to reinforcing oil companies' representations at Dairen. (See page 3, Dairen's despatch, March 3, 1934, to Peiping.⁹⁰) It leaves to your discretion whether the representations should be made formally or along the lines of Department's telegrams No. 89, October 6, 5 p. m.,⁹¹ and No. 97, October 14, 4 p. m.⁹²

2. Assuming that your British colleague is prepared to take similar action (Department's 50, April 17, 3 p. m.⁹⁰), please notify him of the above.

Repeat to Peiping as Dep[artmen]t's 118.

HULL

693.113 (Manchuria) Petroleum/57 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Tokyo, April 25, 1934—noon.

[Received April 25—3:07 a. m.]

74. Department's 52, April 19, 5 p. m. I called on the Minister for Foreign Affairs today and made representations with a view to reinforcing oil companies representations in Dairen, acting along the

⁹⁰ Not printed.⁹¹ *Foreign Relations, Japan, 1931-1941, vol. I, p. 125.*⁹² *Ibid.*, p. 126.

lines of Department's 89, October 6, 5 p. m.,⁹³ and 97, October 24 [14], 4 p. m.⁹⁴ The Minister said he would interest himself in the matter. I have informed my British colleague.

Repeated to Peiping.

GREW

693.113 (Manchuria) Petroleum/58 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, April 28, 1934—11 a. m.
[Received April 28—4: 25 a. m.]

81. My 74, April 25, noon. The Foreign Office informs me orally that it is sending two officials to Manchuria in the near future for the primary purpose of attending a consular conference and that these officials at that time will thoroughly investigate the problem of oil duties.

Repeated to Peiping.

GREW

893.6363 Manchuria/17 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, June 12, 1934—3 p. m.
[Received 7: 35 p. m.]

243. Reference Mukden Consul General's despatch to the Department May 4⁹⁵ regarding Manchuria Company. 1. British Legation informs me that it has received from its Foreign Office information to the effect that the British Ambassador at Tokyo advised his Foreign Office that he had been informed on reliable authority that it was contemplated in the autumn of this year to increase capital of the Manchuria Petroleum Company to such an extent that a monopoly would be possible and that a monopoly would then be established. In view of this fact the Ambassador had recommended to his Foreign Office the possible desirability of informal representations to the Japanese Government at the present time rather than to wait until a monopoly had actually been established. The Ambassador is said to have expressed the belief that such representations would be more likely to prove effective if made before any decisive measures had been taken toward establishment of the monopoly. British Foreign Office has referred matter to British Minister here with request for his views and those of the American Legation.

⁹³ *Foreign Relations, Japan, 1931-1941, vol. I, p. 125.*

⁹⁴ *Ibid.*, p. 126.

⁹⁵ Not printed.

2. The Legation believes that if representations are to be made to the Japanese Government, it were better to make them before the alleged plan for the creation of a monopoly has materialized. However, it feels that the American Ambassador at Tokyo is in a better position to determine the desirability and possible success of such action.

3. The Legation would appreciate receiving the Department's views upon this matter in order that it will be in a position to reply to the British Legation's inquiry.

Repeated to Tokyo.

JOHNSON

893.6363 Manchuria/18 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, June 19, 1934—3 p. m.

[Received June 19—7:30 a. m.]

257. Legation's 243, June 12, 3 p. m., despatch No. 929, June 13 from the Consul General at Mukden,⁹⁶ copy of which was supplied to the Embassy at Tokyo, indicates that Consul General is reliably informed that necessary legislation will be enacted about September and that monopoly of petroleum business will go into effect early next year when Manchuria Petroleum Company begins to function. It is reported that Manchuria Petroleum Company will engage in refining only, its products to be sold to monopoly business and thence distributed through a system employing existing dealers of foreign companies. Present capacity of refinery which is under construction at Dairen is reported to be 15,000,000 gallons per annum with eventual expansion contemplated. If reported capacity is correct Consul General anticipates approximate reduction of 40 percent in imports of foreign distributors as compared with 1933. He suggests that if representations are to be made they be made prior to September next when it is anticipated monopoly law or regulations will be promulgated.

JOHNSON

893.6363 Manchuria/18 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, June 20, 1934—7 p. m.

180. Your 243, June 12, 3 p. m., and 257, June 19, 3 p. m.

1. Department is inclined to believe that it would be desirable for the American and British Governments to take concerted action in

⁹⁶ Despatch not printed.

this matter by making informal representations to the Japanese Government prior to the establishment of the monopoly and is prepared to authorize the American Ambassador at Tokyo to make such representations provided the British Government similarly instructs the British Ambassador at Tokyo.

2. However, before informing your British colleague of the above, please repeat this telegram to the Ambassador at Tokyo with request that he inform you of his views. If they are in accord with the Department's views, you may then inform your British colleague; if not, you should inform the Department of the Ambassador's views and await further instructions.

HULL

893.6363 Manchuria/19 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, July 2, 1934—5 p. m.
[Received July 2—11 a. m.⁹⁷]

286. Department's 180, June 20, 7 p. m., was repeated to Tokyo with request for Ambassador's views. Following has been received in reply:

[“]June 28, 1 p. m. Legation's June 22, noon.

1. I perceive no objection to making informal representations in Tokyo in concert with my British colleague provided that a tenable basis for such representations can be found.

2. Representations might be based:

(a) On the ground that an oil monopoly would obviously infringe the principle of the open door. This would in all probability be met by the allegation that the monopoly is for purposes of national defense. (Mukden's despatch No. 901, March 6⁹⁸)

(b) On article 15 of the United States-China treaty of 1844⁹⁹ (presuming that this article is still effective). Such representations would seem like quibbling.

(c) On the fact that the often expressed policy of “Manchukuo” welcoming the participation of foreign capital in the development of the country would hardly be effective if old-established foreign investments were threatened by a monopoly.

3. I favor representations based on points (a) and (c) in conjunction.

4. I do not believe that any representations will be successful but I do consider it desirable to place our standpoint on record.

5. The British Embassy in Tokyo concurs with above viewpoint.”

⁹⁷ Telegram in two sections.

⁹⁸ Not printed.

⁹⁹ Miller, *Treaties*, vol. 4, p. 559.

British Legation here was informed of the sense of the above and of Grew's views. The Legation now informs me that instructions have been issued by its Foreign Office to Ambassador [in] Tokyo directing that he informally call the attention of the Japanese Government to the fact that participation by the South Manchuria Railway and the contemplated erection by monopoly of refinery within leased territory indicates Japanese sanction of project and that such sanction would appear to contravene article 3 of the Nine-Power Treaty.¹ British Ambassador was directed to endeavor to secure withdrawal of South Manchuria Railway and all Japanese capital from participation in the enterprise and to urge upon Japanese Government desirability of inducing "Manchukuo" to abandon project.

Before reporting further to its Foreign Office British Legation is requesting observations of British Ambassador in the light of this instruction and has promised to inform me when it is received.

British Foreign Office instruction also directed that instructions be issued to the British Consul General [at] Mukden to enter protest with "Manchukuo" government (which Legation understands is done by personal communication from Consul General to Vice Minister for Foreign Affairs who is a Japanese, omitting all use of titles) on the grounds that establishment of monopoly would contravene treaty undertakings of "Manchukuo"—that government having solemnly undertaken to be bound by provisions of the treaties between China and foreign powers. In view of information contained in Grew's June 28, 1 p. m. quoted above, British Legation is delaying issuance of instructions to the Consul General until observations of British Ambassador have been received when further instructions will be requested of the Foreign Office. Should British Legation direct representations by Consul General at Mukden to "Manchukuo" authorities the Legation believes that we should do likewise.

Tokyo informed.

JOHNSON

800.503193 Manchuria/6

The Ambassador in Japan (Grew) to the Secretary of State

No. 868

TOKYO, July 2, 1934.

[Received July 23.]

SIR: I have the honor to refer to the various despatches and telegrams to the Department from the Legation at Peiping and the Consulate General at Mukden, regarding the reported intention of the "Manchukuo" Government to establish an oil monopoly in that coun-

¹Treaty regarding China, signed at Washington, February 6, 1922, *Foreign Relations*, 1922, vol. I, p. 276.

try, and to enclose herewith a copy of an announcement² made by the Legation of "Manchukuo" at Tokyo under date of June 27, 1934, as distributed by the Rengo news agency.

The announcement, it will be noted, states that the "Manchukuo" Government has "decided to devise special measures in regard to enterprises which have important bearings on national defense, those of a public nature and for the public benefit, and also those which constitute a basis for all industries such as transportation, communications, iron, steel, light metals, gold, coal, petroleum, automobile, ammonium sulphate, soda and lumber." The announcement does not state what the "special measures" are to be, but it can fairly safely be assumed that they will consist of enactments organizing semi-official joint-stock companies which will be given more or less monopolistic rights as regards certain industries within the country. Such companies have already been organized in the communications, petroleum and automobile industries, with "Manchukuo" and Japanese capital only participating.

If evidence can be adduced indicating that Japanese capital is permitted to participate in such monopolistic industries while other non-"Manchukuo" capital is excluded, it is probable that grounds would exist for a protest to the Japanese Government on the ground of infringement of Article III of the Nine-Power Treaty. The Embassy is now conducting investigations along the lines indicated.

Respectfully yours,

JOSEPH C. GREW

893.6363 Manchuria/20 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, July 3, 1934—6 p. m.
[Received July 3—3:35 p. m.]

142. Reference Peiping's 286³ and previous regarding oil monopoly in Manchuria.

1. The British Ambassador called on the Minister for Foreign Affairs on July 2 and left with him an informal *aide-mémoire* of which the following is a summary:

(a) The British Government has been informed that the Manchurian authorities contemplate the establishment of a petroleum producing, refining, and selling monopoly.

(b) Legislation has been enacted establishing the Manchuria Petroleum Company and it is reported that further legislation will be enacted giving that company a monopoly of petroleum refining as

² Not printed.

³ July 2, 5 p. m., p. 711.

well as withdrawing the business of selling petroleum products from the sphere of free competition.

(c) According to reports, shares of the Manchuria Petroleum Company will be held exclusively by the Monopoly Bureau and Japanese companies, including the South Manchuria Railway, and the company's refinery will be in the Kwantung leased territory.

(d) The *aide-mémoire* then proceeds to inquire whether the Japanese Government can confirm the above and states the position of the British Government as outlined in the second sentence of section 1 of Peiping's 286, invoking article III of the Nine-Power Treaty.

(e) Furthermore, the British Consul General at Mukden has been instructed to state to the Manchurian authorities that a monopoly would be contrary to provisions of the United States-China treaty of 1844⁴ and the Franco-China treaty of 1858,⁵ thereby disregarding international obligations which the Manchurian authorities have undertaken to respect.

(f) The British Government trusts that the Japanese Government will discourage Japan[ese] capital from participation in monopolistic projects in Manchuria and that it will be able to dissuade the Manchurian authorities from proceeding with measures likely to result in violation of the open door principle. (End of summary of *aide-mémoire*).

2. The British Embassy in Tokyo considers this to be an important test case of the open door principle in Manchuria. I concur.

3. It is to be noted that the British appear to have modified their opinion as to the applicability of the United States-China treaty of 1844 and the Franco-China treaty of 1858 and have therefore specifically invoked them through the Consul General at Mukden.

4. While it is true, and to my British colleague advisable, to avoid the appearance of an identic *démarche* in this matter I believe it desirable that our own representations here should be made before the Japanese Government shall have formulated its reply to the British *aide-mémoire*. Urgent instructions are therefore requested.

Repeated to Peiping.

GREW

893.6363 Manchuria/20 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, July 5, 1934—6 p. m.

112. Your 142, July 3, 6 p. m. You are authorized to make informal representations⁶ substantially similar to those made by your British colleague, except with respect to statements made by the British Ambassador in paragraph (E) of the British *aide-mémoire*. In this con-

⁴ Miller, *Treaties*, vol. 4, p. 559.

⁵ *British and Foreign State Papers*, vol. LI, p. 636.

⁶ For text of American informal memorandum to the Japanese Foreign Office, dated July 7, 1934, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 130.

nection, the Department considers it unnecessary and inadvisable to have the American Consul General at Mukden make at this time to the Manchukuo régime any statements in regard to the matter. Department suggests that you emphasize that the proposed monopoly would contravene Article 3 of the Nine-Power Treaty as well as Article 15 of the Sino-American Treaty of 1844 and Article 14 of the Sino-French Treaty of 1858 and would violate the principle of the open door which Japan is committed to uphold and which it has declared that it will uphold.

Repeat to Peiping as Department's No. 198, 7 p. m. in reply to its 286, July 2, 5 p. m.

HULL

893.6363 Manchuria/29

*Memorandum by the First Secretary of Embassy in Japan (Dickover) of a Conversation With the Chief of the Commercial Affairs Bureau, Japanese Foreign Office (Kurusu)*⁷

[Tokyo,] July 9, 1934.

Mr. Kurusu said that our informal memorandum on the Manchurian oil monopoly question⁸ had to be studied by two bureaux, the Asiatic Bureau and his, and that the memorandum had not yet come to him. He said that he thought that the foreign companies were taking the matter too seriously—that the idea was not to put them out of business, either in Japan or in Manchuria, but to build up domestic refining industries in both countries, as a matter of national defense.

He then said that he wanted to ask me about a report which he had heard to the effect that the foreign oil companies were considering the placing of an embargo on the exportation of crude oil to Japan, if the Japanese and "Manchukuo" governments continued to take measures to restrict the foreign companies' business.

I said that I knew almost nothing about the matter. I had first seen the matter mentioned in the minutes of the Oil Control Bill Committee of the Diet, where a member had expressed a fear that some such step might be taken by the foreign oil companies. I said that I had asked an American oil man about the possibility of such an embargo, and had been told that there were so many independent oil companies in California, Mexico, Venezuela and elsewhere, that an oil embargo would hardly be practicable. It had been explained to me, however, I said, that California crude, because of its higher gasoline content, was almost indispensable to the profitable operation

⁷ Copy transmitted to the Department by the Ambassador in Japan in his despatch No. 887, July 12, 1934; received August 6.

⁸ Dated July 7, 1934, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 130.

of the Japanese refineries, but even in California, because of the existence of independent producers, such as the Union Oil Company, the exportation of crude to Japan could not be stopped.

Mr. Kurusu said that his understanding of the situation was much the same; that the Standard and Shell interests could stop the exportation of crude to Japan and Manchuria by only two methods; one was for those interests to buy up all the producing fields, which would be too expensive, and the other was for the oil companies to induce their governments to prohibit the exportation of crude to Japan and Manchuria. He asked if I knew of any attempt to obtain governmental action.

I said that I did not know of any such attempt—that we had no official knowledge whatever regarding the matter—and that I did not even know if the foreign oil companies were discussing the question among themselves. I said that I did not see how any such action would be possible in the United States, except possibly under the N. R. A.⁹

Mr. Kurusu then said that he supposed that if workmen in the refineries in California should lose their jobs because of the cutting off of a part of their Japanese and Manchurian markets through the operations of the refineries over here, the N. R. A. might step in, and, to protect the American workmen, impose an embargo on the exportation of crude to Japan and Manchuria.

I said that I had no idea whether or not the matter was being considered at all at present; that I thought it a question which might possibly come up at some time in the future, but not now. I said that the possibility always existed that, if the foreign oil companies found their large investments in Japan and Manchuria threatened by the expansion of the Japanese oil business, aided by licensing systems and sales monopolies, they might endeavor to prevail upon their governments to cut off the supply of crude to Japan and Manchuria.

Mr. Kurusu then said that the question of an embargo on the exportation of crude to Japan was more serious than appeared at first glance, because it touched upon the question of national defense. It would be of no use, he said, for Japan to build more war ships if there was no oil to run them. He said that for this reason any proposal to cut off Japan's supply of crude would arouse much resentment in Japan and make an amicable settlement of the oil question more difficult.

I said that the foreign oil companies also regarded very seriously the possible loss of their business in Japan and Manchuria. I said that I believed that they had over a hundred million yen invested in Japan alone, and a considerable amount in Manchuria. If they were

⁹ National Recovery Administration.

forced out of business, they could of course sell their equipment to Japanese firms, but it would be a forced sale and they could not obtain the value of the properties. I also explained that the large oil companies needed an outlet for their kerosene, which nowadays was a bye-product in the refining of gasoline, and that the only large market now was in Asia, since America and Europe used very little kerosene. For this reason also the American oil companies regarded the possibility of cutting off their Manchurian market very seriously.

Mr. Kurusu said again that the idea was not to deprive the foreign oil companies of their business. He said that the demand for oil products would increase so fast that the Japanese and Manchurian refineries could not keep up with the demand, and that the foreign companies would stay in business just the same. He said that the refinery which was going to be put up in Dairen could not take care of even half of the Manchurian demand. I said that that might be true, at present, but that it would be possible, in the future, if the refining capacity in Manchuria increased sufficiently, to use the law to stop the sales of imported products in Manchuria entirely. Mr. Kurusu laughed and said that he thought that a remote possibility.

Mr. Kurusu then said that he did not believe in arguing about all these treaty rights—that Japan could reply that she did not understand the treaty clauses the same way. I said that it was principally a question of the maintenance of the Open Door. Mr. Kurusu said that the Open Door applies to China, but that “Manchukuo” can claim that it is an independent state and does not have to regard the principle of the Open Door. I said that the present regime in Manchuria, on announcing its independence, announced its intention of abiding with the treaties regarding China and respecting the obligations which China had incurred under the treaties. But, Mr. Kurusu said, the Western nations have not recognized “Manchukuo”, and an unrecognized state has the right to change its mind. I pointed out, however, that Japan was still bound by its obligations under Article III of the Nine-Power Treaty, and that under this Article it could not seek for its nationals any monopolistic privileges in Manchuria. Mr. Kurusu said that Japan’s nationals could engage in monopolistic enterprises if they were invited by “Manchukuo” to do so.

Mr. Kurusu then asked if the whole matter were not one of vested interests rather than treaty rights. I said that of course the vested interests of the foreign oil companies, both in Japan and Manchuria, were of considerable importance, but that the oil monopoly question in Manchuria was of especial interest because of the principle of the Open Door. Mr. Kurusu said that other countries, France as an example, had imposed oil monopolies on the trade, but that one did not hear the oil companies complaining about their vested interests in

those countries. I said that I did not believe that the large foreign oil companies had any large vested interests in those countries, and, anyway, those countries were not bound by treaties or the principle of the Open Door.

Mr. Kurusu then said that he did not think that he was going to get more than three or four days' holiday this summer, as he was going to be busy with "this Batavia business" and with "this fellow Saito's return" to Japan.¹⁰ He said that he thought that Saito was bringing back with him some sort of plan for a trade agreement. I asked what sort of a trade agreement. Mr. Kurusu said that he did not know and could not see any necessity for a trade agreement, as the trade with the United States was nearly balanced and did not conflict in any important respects.¹¹

I then asked Mr. Kurusu about the "pinky" seal fur skins, but he said that he did not know how the case was getting along but would look it up.

E. R. D[ICKOVER]

893.6363 Manchuria/23 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, July 14, 1934—noon.
[Received July 14—7:55 a. m.]

304. Department's 112, July 5, 6 p. m. to Tokyo regarding petroleum monopoly. British Legation informs me that British Consulate [at] Mukden has now been instructed to make representations to Vice Minister for Foreign Affairs at Hsinching leaving with him an un-addressed memorandum in the sense of item (e) of Tokyo's 142, July 3, 6 p. m. to the Department.

JOHNSON

893.6363 Manchuria/23 : Telegram

The Secretary of State to the Minister in China (Johnson)

WASHINGTON, July 20, 1934—5 p. m.

220. Your 304, July 14, Noon, and Tokyo's 151, July 7, 1 p. m.¹²

1. The Department views the proposed establishment of an oil monopoly in Manchuria with grave concern. Such a monopoly would jeopardize important American interests in Manchuria and would also encourage Chinese authorities in their efforts to monopolize certain phases of the oil business. The Department expects therefore

¹⁰ Reference is to Hiroshi Saito, the Japanese Ambassador at Washington.

¹¹ See pp. 799 ff.

¹² The latter telegram reported, "Instructions carried out today." (893.6363 Manchuria/21)

that the Embassy in Tokyo, the Legation in Peiping and consular officers in Manchuria, including Dairen, (keeping in touch with each other and with their British colleagues) not only watch developments carefully, but also consider ways and means of conserving the American interests involved, reporting to the Department from time to time recommendations toward that end. Careful thought should be given at all times to the question whether it appears advisable that this Government make additional representations, either at Tokyo or in Manchuria, and the Department should be given the benefit of all pertinent views on this subject.

2. Consul General Adams,¹³ while in Peiping, should familiarize himself with the Legation's files in this case.

3. Repeat to Tokyo as Dep[artmen]t's 123.

HULL

893.6363 Manchuria/27 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, August 3, 1934—6 p. m.
[Received August 3—8:30 a. m.]

168. Department's 112, July 5, 6 p. m. I have today received an informal memorandum from the Foreign Office, dated August 2, 1934,¹⁴ in reply to my informal representations in regard to the oil monopoly in Manchuria. The substance of this memorandum is as follows:

1. The Japanese Government is not concerned with the Manchuria Oil Company and the oil plans of the "Manchukuo" government but cites for the Embassy's information certain reports which it is stated were received recently.

2. The Manchuria Oil Company has no restrictions in regard to the nationality of shareholders, and under existing law is granted no monopolistic rights.

3. The "Manchukuo" government seems to be contemplating a law for the control of the oil industry, under which the sales of oil in "Manchukuo" will become a government monopoly. The manufacture, exportation and importation of oil will be included in the monopoly.

4. The "Manchukuo" government does not appear to contemplate that the entire supply of oil to the monopoly will be obtained from the Manchuria Oil Company.

5. The Japanese Government does not consider that investment by the South Manchuria Railway Company in the Manchuria Oil Com-

¹³ Walter A. Adams, Consul General at Hankow, assigned to Harbin, June 29, 1934.

¹⁴ For text, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 132. The Ambassador, in his telegram No. 170, August 6, 7 p. m., added: "British Embassy has received an essentially similar but not identic memorandum under same date." (893.6363 Manchuria/28)

pany will give rise to any question of infringement of the existing treaties.

6. The question of whether or not the "Manchukuo" government is bound by the provisions of the Sino-American treaty of 1844 and the Sino-French treaty of 1858 is a matter to be discussed between the United States and "Manchukuo" governments.

7. While the Japanese Government cannot prevent the investment of Japanese capital in the Manchuria Oil Company and cannot persuade the "Manchukuo" government to abandon its plans for control of the oil industry, it understands that the "Manchukuo" government intends to respect the interests of foreign merchants in "Manchukuo" to the greatest possible extent in connection with the purchase and sale of petroleum, and recommends direct negotiations between the interested merchants and the "Manchukuo" government.

Repeated to Peiping.

GREW

893.6363 Manchuria/30 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, August 8, 1934—11 a. m.

[Received August 8—3:27 a. m.]

174. British Ambassador informs me that when the British Consul General in Mukden last month made representations concerning the projected petroleum sales monopoly to the Director of the Political Bureau at Hsinking, invoking the provisions of certain treaties, the latter said that "his government considered that the failure of the powers to recognize the new state absolved them from the obligations voluntarily assumed in the notification to the Ministers for Foreign Affairs of foreign states March 12, 1932."¹⁵ The Consul General pointed out that the "Manchukuo" statement was unconditional to which Kanai replied: "How can a government which is deemed to have no existence be expected to observe international treaties?"

This telegram supplements my despatch No. 921 of August 6.¹⁶

Repeated to Peiping.

GREW

893.6363 Manchuria/32 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, August 11, 1934—noon.

[Received 5:19 p. m.]

354. Your 132, August 4, noon to Tokyo.¹⁷

1. Perusal of the Legation's files in reference to this matter indicates there is about to be set up in Manchuria a "Manchukuo" government monopoly for the sale and distribution of kerosene.

¹⁵ See telegram from Hsieh Chieh-shih, *Foreign Relations, 1932*, vol. III, p. 579.

¹⁶ Not printed.

¹⁷ Not printed; it requested information.

2. "Manchukuo" exists by the favor and support of the Japanese Government.

3. The Japanese Government has indicated that it does not intend to intervene with its protégé on behalf of American interests which will be affected by this subsidiary monopoly. Obviously it serves Japanese (military) interests that an area, restricting sale of petroleum products, should be created in Manchuria to favor the development of a market for the higher-priced petroleum products of the oil shale refinery now being developed at Fushun.

4. Furthermore, the state of world production and competition in kerosene products permits, if it does not encourage, the setting up of just such machinery as has been devised for the purpose of controlling the sale and distribution of those products in Manchuria. Similar developments are already present in the consuming areas of China.

5. There would be, naturally, nothing for American producers to do but to negotiate with monopoly for sale of crude oil and prepare to liquidate their distributing machinery in Manchuria.

Repeated to Tokyo.

JOHNSON

893.6363 Manchuria/34 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, August 20, 1934—3 p. m.

[Received August 20—2:20 p. m.]

182. Department's 132, August 4, noon.¹⁸ Having discussed the reply of the Foreign Office to our informal representations with my British colleague and with local representatives of American and British oil companies, I have arrived at the following conclusions:

1. Further diplomatic representations in Tokyo would appear to be futile because the Japanese Government obviously does not intend to intervene with "Manchukuo" on behalf of American oil interests.

2. Nevertheless, I am convinced that practical steps should be taken by the American Government and oil companies (working in conjunction with the British Government and oil companies) in an effort to defeat the proposal to establish an oil monopoly in Manchuria, not only because such a monopoly would close the Open Door as regards petroleum products, but also because success in this venture would encourage the Chinese in the establishment of monopolies, would almost inevitably result in the discriminatory operation of the petroleum control law in Japan and would certainly lead to other monopolies in Manchuria. Reports have already been published that tobacco and automobile sales monopolies are under consideration by the Man-

¹⁸ Not printed; it requested information.

churian authorities. These two monopolies, together with the oil monopoly, if carried into effect, would in large measure abolish direct American trade in Manchuria.

3. While I hesitate to advise any course of action which might tend to exacerbate feeling between Japan and the United States, at the same time I do not believe that the policy of suppression of contentious issues should be carried to a point where important American policies and interests become seriously jeopardized. Moreover, the projected closing of the door to direct American trade in Manchuria, in the face of repeated official assurances, to the contrary, seems to me to be sufficiently serious in potential consequences to justify our considering the use of a bargaining weapon, as might be found in an indication of retaliatory measures.

4. The representatives of the two large American and British oil companies believe that the Japanese authorities would be influenced by even an indication that the American and British Governments were purposing restriction or stoppage of sales to Japanese and future Manchurian refineries of crude oil of the type which the refineries are fitted to handle most profitably. Deprived of crude oil of high gasoline content from American and British sources, Japanese refineries would rapidly find themselves in a difficult position. I have been reliably informed that Japanese officials recently conducted inquiries as to the possibility of obtaining crude oil from what they termed "neutral" countries but in every case they found the quality to be unsatisfactory, the supply to be inadequate or the cost of transportation excessive. The initial indication of retaliatory measures might therefore well take the form of a request by the American Government for statistical data from American crude oil exporters for the purpose of studying the effect of crude oil exports on American oil interests abroad.

5. With an import and sales licensing system (in reality a quota system designed to restrict imports of refined petroleum products and to favor local refining) already in operation in Japan and with the prospect of a monopoly in Manchuria, it would appear to be self-injury for the United States to supply the Japanese and future Manchurian refineries with our best oil, thus enabling them in the long run to drive out our long-established oil organizations in Japan and Manchuria and eventually to render useless their installations and investments.

6. Because of the numerous sellers of crude oil, particularly in California, the Japanese representatives of American and British oil companies think that it would be impossible to stop or limit exports to Japan without the support of their respective Governments. I am not in a position here to evaluate the degree of hardship which might be caused to small American exporters of crude oil if such measures were carried out.

7. It is rumored that the Japanese authorities in Manchuria are apprehensive in regard to the plans of the Manchurian authorities to establish an oil sales monopoly, partly because of the diplomatic representations already made and partly owing to accusations of the closing of the Open Door contained in a recent article on the subject of the proposed oil monopoly in the *New York Times*. It is therefore possible that a reasonable amount of additional pressure might cause a modification or even abandonment of the plans.

8. We must not close our eyes to the fact that a very serious issue is at stake, involving in large degree the future of our commercial interests and our traditional policy in the Far East. The Department may therefore wish to consider the political expediency of discussing with the British Government the commercial feasibility of a partial or total embargo on exports of certain composition oils to Japan.

9. My British colleague is cabling his Government along similar lines.

Repeated to Peiping.

GREW

893.6363 Manchuria/33 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, August 20, 1934—6 p. m.
[Received August 20—9:35 a. m.]

368. Following has been received from Consul [at] Mukden.

“August 18, 11 a. m. according to strictly confidential information from the Standard-Vacuum Oil Company the Soviet Neft oil interests are closing all of their Manchurian agencies and canceling all contracts as of August 1st. If this is true it is most probably connected with the greatly increased Russo-Japanese tension and not with the oil monopoly question. Local Soviet Consulate General denies this report.”

Consul is being requested to report more fully by mail.¹⁹

JOHNSON

893.6363 Manchuria/35 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, August 22, 1934—11 p. m.
[Received August 22—1:30 p. m.]

184. My 182, August 20, 3 p. m.

1. My British colleague has sent me in confidence copies of a note and memorandum which he addressed to the Japanese Minister for

¹⁹ The Consul reported in despatch No. 954, August 25, to the Minister that “it seems to be clear that Neft is curtailing if not completely discontinuing its business in Manchuria.” (893.6363 Manchuria/49)

Foreign Affairs yesterday with regard to the projected monopoly for the sale of petroleum in Manchuria.

2. In the note the British Government expresses the hope that after further consideration the Japanese Government will support the representations already made by the British Consul General in Mukden and will take steps to dissuade the Manchurian authorities from proceeding further with this plan or from any similar action in breach of treaty stipulations or of the open door principle.

3. The memorandum takes up three typewritten foolscap pages. It is very strongly phrased and deals chiefly with an itemized and "impressive and binding array of assurances" given by the Japanese Government on many occasions of a most positive and emphatic character that Japan was the champion of and would uphold the principle of the open door in Manchuria.

4. If the text has not been received from other sources the Department may desire to send me rush instructions to cable it in full as a summary would be inadequate for careful study.²⁰

Repeated to Peiping.

GREW

893.6363 Manchuria/31

The Secretary of State to Mr. A. G. May of the Standard-Vacuum Oil Company

WASHINGTON, August 28, 1934.

DEAR MR. MAY: We have received your letter of August 8, 1934,²¹ giving the Department certain information which had come to your attention in connection with the proposed establishment of an oil monopoly in Manchuria.

Among other things you state that the Standard-Vacuum Oil Company may be asked to submit to the proposed oil monopoly quotations on crude oil and that you intend to submit such quotations, feeling that such action would not weaken your position or the position of the American Government in the matter of protest against the unequal treatment which would be accorded you in Manchuria and Dairen if the proposed monopoly should be established. In the concluding paragraph of your letter you also state that you would appreciate being informed in regard to the results of the representations which the American Ambassador at Tokyo made some weeks ago.

With regard to the question of your submitting to the proposed oil monopoly quotations on crude oil, it is believed that you will realize that it is difficult for the Department to comment. The most

²⁰ In response to a request from the Department, the Ambassador in Japan transmitted the text of the British memorandum in telegram No. 185, August 23, 10 a. m. (893.6363 Manchuria/36).

²¹ Not printed.

logical course of action open to the Department in attempting to protect American interests established in Manchuria against monopolies is to endeavor to persuade the Japanese authorities, and through them the "Manchukuo" authorities, to recognize and observe the treaty provisions under which such American interests have become established in Manchuria, with particular reference to Article III of the Nine-Power Treaty, and the provisions in the Sino-American Treaty of 1844 and the Sino-French Treaty of 1858 against the establishing of monopolies in China. However, the Department realizes that you and the other American oil companies established in Manchuria are faced with a practical situation which threatens serious impairment of your established interests in Manchuria and the Department is not inclined to advise against any practical steps that you might decide to take to meet an emergency thus involving your interests. It would appreciate, however, being kept informed of any such steps that you may take.

With regard to the representations made by the American Embassy at Tokyo, it may be stated for your confidential information that the reply of the Japanese Government, under date August 2, 1934,²² in substance (a) confirms the fact that the "Manchukuo" authorities have in contemplation a law for the control of the oil industry in Manchuria, (b) denies that the Manchuria Oil Company has, under existing law, been granted monopolistic rights, and (c) denies that the investment by the South Manchuria Railway Company in the Manchuria Oil Company gives rise to any question of infringement of existing treaties. It is understood that the British Ambassador at Tokyo received an essentially similar but not identic reply, also under date August 2, 1934, to representations which he made, under instructions from his Government, on behalf of British oil interests in Manchuria. The Department is making a study of possible further courses of action in the light of additional comment recently received from the American Ambassador at Tokyo.

Sincerely yours,

For the Secretary of State:
S[TANLEY] K. H[ORNBECK]
Chief, Division of Far Eastern Affairs

893.6363 Manchuria/40 : Telegram

The Minister in China (Johnson) to the Secretary of State

PEIPING, August 28, 1934—1 p. m.

[Received 2:20 p. m.]

387. Legation's 354, August 11, noon. Following is résumé of pertinent parts of recent despatches from Consul, Mukden:

²² *Foreign Relations, Japan, 1931-1941*, vol. 1, p. 132.

1. During past month there have been signs of modification of monopoly program which is reported to have been originally conceived without prior approval of the Japanese Government by Hashimoto, who is a director of the Nippon Oil Company and president of the Manchuria Oil Company and leading spirit in the oil monopoly and a brother-in-law of General Hishikari, Commander in Chief of the Kwantung Army and Japanese Ambassador to "Manchukuo".

2. Subsequent to the publication of the above information, and protests by the American and British Governments, the scheme had been held up and ban placed on press news regarding subject. Indications are that "Manchukuo" authorities wish to reach direct agreement with foreign interests possibly upon quota basis similar to that now in force in Japan and Korea.

3. Local manager of the Standard-Vacuum Oil Company views with suspicion the desire of the "Manchukuo" authorities for direct conversations and feels that in view of apparent success of previous representations at Tokyo further efforts should be made through Japanese authorities.

4. However, Chase²³ concurs with his British colleague that: (a) the fact is [*that?*] important officials of the Oil Monopoly Bureau are also Nippon Oil Company officials, together with the relationship between Hashimoto and Hishikari, makes it appear possible that there may be less of a national defence policy and more of a private interest behind the monopoly than has hitherto appeared probable; which fact should make opposition to the monopoly easier provided face-saving does not become involved, (b) that direct conversations between oil companies and "Manchukuo" authorities might be productive of the results provided it is clearly understood that the treaty position of the companies will not be affected and provided further that suitable negotiators are available, (c) that it is considered efforts to hasten economic development in Manchuria will increase total demand for oil to an extent partially compensating companies for decreased proportional share of trade.

5. In view of the above Chase suggests that the situation calls for, (a) prompt agreement between foreign firms concerned on common plan of action and size of quota to be sought, and (b) appointment and despatch to Manchuria of qualified negotiators as soon as actual intentions of Tokyo and Hsinking are definitely clarified.

6. Legation's 368, August 20, 6 p. m. Chase reports available trustworthy information as indicating that this action has no connection with oil monopoly but is due to tension between Japan and Russia. He cites also announcement of "liquidation sale" by "The Foreign

²³ Augustus S. Chase, Consul at Mukden.

Products Company", a store in the Japanese railway settlement, which has been handling general lines of Soviet products.

7. This has not been repeated to Tokyo as copies of despatches upon which it is based have been sent directly to Tokyo.

JOHNSON

893.6363 Manchuria/36 : Telegram

The Acting Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, August 29, 1934—5 p. m.

149. Your 185, August 23, 10 a. m.,²⁴ and previous, especially 168, August 3, 6 p. m.

While giving careful consideration to the thoughtful suggestions made in your 182, August 20, 3 p. m., the Department inclines to the view that the American Government should not omit reply to the informal memorandum of the Japanese Foreign Office of August 2.²⁵ The Department has examined with approval the British Government's reply, and it seems to us that this Government should also reply, for the purposes, *inter alia*, of keeping the record clear as between ourselves and the Japanese and demonstrating willingness to cooperate as between ourselves and the British. Also, the placing on record at this time of a reply might be useful in connection with the question of possible implementing of the suggestions made in your 182, August 20, 3 p. m.

Unless you perceive substantial reason for further discussion of this question and/or of the text submitted below, in which case inform the Department promptly of your views, please give or send promptly, in such manner as you may consider appropriate, to the Minister for Foreign Affairs, an informal memorandum as follows:

[Here follows text of memorandum dated August 31, 1934, printed in *Foreign Relations, Japan, 1931-1941*, volume I, page 133.]

Inform Department and Peiping of action taken.

PHILLIPS

893.6363 Manchuria/42 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, August 31, 1934—2 p. m.
[Received August 31—5:37 a. m.]

191. Department's 149, August 29, 5 p. m.

1. I entirely concur with the Department's views and have therefore today transmitted the Department's informal memorandum to the Minister for Foreign Affairs.

²⁴ See footnote 20, p. 724.

²⁵ *Foreign Relations, Japan, 1931-1941*, vol. I, p. 132.

2. I have been informed by Mr. Goold, general manager in Japan of the Standard-Vacuum Oil Company, that the Standard, Rising Sun (Shell interests) and Texas Oil Companies have all agreed not to submit bids for the supply of crude oil for the Manchuria Oil Company which is now asking for bids for crude oil for the refinery being built at Dairen.

3. Despite reports from Mukden that the proposed oil monopoly might be changed to a licensing system, Hashimoto, president of the Manchuria Oil Company, recently told Goold that the monopoly plan would certainly be carried out but that the date of enforcement had not been fixed.

Repeated to Peiping.

GREW

894.6363/66 : Telegram

The Acting Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, August 31, 1934—5 p. m.

151. Your 182, August 20, 3 p. m., and 189 [190], August 24, 5 p. m.²⁶ Representatives of Standard-Vacuum and Shell conferred on August 22 with the Under Secretary of State and on August 23 with the Secretary of the Interior. The subject which they brought up was that of the Japanese petroleum regulations and possible action in relation thereto. They suggested joint representations by the three governments most concerned and action by the American Government along the line reported in paragraph 4 of your 182, August 20, 3 p. m.

The Department, noting that the British and Dutch interests which presumably would be affected are considerably greater than the American interests, and for other reasons, took the position that if the British and Dutch Governments directly approached this Government with practical suggestions for cooperation this Government would be prepared to give sympathetic consideration thereto.

The representative of Shell expected to reach London on August 31 and talk with the British Foreign Office. Meanwhile, Department has received on August 29 a telegram from London²⁷ quoting the text of a memorandum handed by the Chief of the Department of Far East of the Foreign Office to Bingham.²⁸ Memorandum states certain facts in the situation; says the British oil interests affected have expressed apprehension at the prospect of having to invest large capital sums in increased storage plants without the certainty of a proper return; that British Government is disposed to support them in resistance to these

²⁶ Latter not printed.

²⁷ Not printed.

²⁸ Robert Worth Bingham, Ambassador in Great Britain.

measures and that, as an American company is also affected, British Government would be glad to learn what is the attitude of the American Government in the matter. Telegram continues, that Foreign Office official said he understood that Shell representatives had discussed the matter with Socony but did not know their views; that Foreign Office understood that Japanese plan if carried out would entail expenditure of 2,000,000 pounds by Shell alone for construction of tanks; that the British Government did not like extensive increase in oil tank storage in Japan; that the Dutch oil interests could be controlled by Shell; and that Foreign Office considers the matter urgent.

Department has telegraphed, August 31, instructing London²⁹ urgently to state to Foreign Office that the objections raised by the interested oil companies against certain provisions of the petroleum industry law seem to us well founded and American Government is prepared to give sympathetic consideration to proposals which the British and Dutch Governments may care to offer toward attaining by joint or concurrent action an amelioration of the situation under reference.

PHILLIPS

893.6363 Manchuria/43 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Tokyo, September 5, 1934—1 p. m.
[Received September 5—2:47 a. m.]

196. My 191, August 31, 5 [2] p. m., paragraph 2. Goold now informs me that the three companies' agreement not to submit bids for crude oil for the refinery at Dairen is being rendered valueless by the fact that Standard Oil of California and Union Oil of California are submitting bids for Kettleman crude oil mixed with kerosene for shipment to Dairen.

Repeat[ed] to Peiping.

GREW

893.6363 Manchuria/50

*Memorandum by the Counselor of Embassy in Japan (Neville) of a Conversation With the Japanese Vice Minister for Foreign Affairs (Shigemitsu) on September 5, 1934*³⁰

Mr. Shigemitsu then said to me that the American Government had sent strong representations about the oil question in Manchuria. I

²⁹ Telegram No. 347, noon, not printed.

³⁰ Copy transmitted to the Department by the Ambassador in Japan in his despatch No. 956, September 6, 1934; received September 24. Omissions are indicated in the copy as transmitted.

told him that I was not in a position to talk about it, as I had just come back. He said that the legal questions brought up in the note were extremely interesting. I asked him what the purpose of the Manchurian action could be—oil revenue or oil control. He said that he could not answer that question, but he suggested that the oil companies might find it to their advantage to talk to the authorities in Shinkyō (Changchun). He said that the Japanese Government sometimes had a good deal of difficulty convincing the “Manchukuo” people of the desirability of certain courses of action, but was always willing to do what it could to facilitate dealings with foreign countries. I made no comment on this statement. He then added that discussions with the “Manchukuo” authorities by the oil companies would raise no question of recognition, and might do some good. He then said that he hoped the oil companies would keep in close touch with the “Shokosho” in Tokyo in regard to the enforcement of the new law in Japan. He said that the Foreign Office wished to settle the matter smoothly and without injustice, but that practically every country on earth was putting some sort of oil control into effect; that the Japanese Government desired an orderly marketing of oil products; that the situation in the United States was different in that America had a large supply of oil. I said that conditions were different in that respect, but that the oil companies had been in business out here for many years; that they had, so far as I knew, conducted their business in good faith and had always been anxious to supply the petroleum needs of the country and to conform in every way with the law. He said that this was true and that he hoped some adjustment could be reached.

After a short conversation on purely personal topics I withdrew.
E[DWIN] L. N[EVILLE]

894.6363/67 : Telegram

The Secretary of State to the Ambassador in Great Britain (Bingham)

WASHINGTON, September 11, 1934—8 p. m.

358. Department's 347, August 31, noon.³¹ Please telegraph action taken and substance of any further communication whether written or oral that has been received by the Embassy from the Foreign Office. Do not make any new approach to Foreign Office.

The Department is informed on private authority that the British and the Netherland Governments have already made representations

³¹ Not printed, but see last paragraph of telegram No. 151, August 31, 5 p. m., to the Ambassador in Japan, p. 728.

to the Japanese Government, and by the Netherland Legation at Washington that the Netherland Government has instructed its Minister at Tokyo to make friendly representations.

HULL

894.6363/72 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, September 12, 1934—2 p. m.
[Received September 12—9:20 a. m.]

519. Department's 358, September 11, 8 p. m. Text of Department's telegram 347, August 31, noon,³² was read to the Chief of the Far Eastern [Department] September 1st who after expressing thanks remarked "it is all right as far as it goes" and later mentioned that he feared it might be difficult "to bring the small American companies into line."

He said that after talking the matter over with the interested departments he would again get in touch with the Embassy.

Nothing written or oral has since been received from the Foreign Office.

BINGHAM

894.6363/76 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, September 19, 1934—11 a. m.
[Received September 19—1:48 a. m.]

205. My 199 [190], August 24, 5 p. m.,³³ and previous telegrams concerning the Japanese petroleum control law. The Netherlands Minister yesterday made "friendly representations" to the Foreign Office on instructions from his Government and left with the Minister for Foreign Affairs an *aide-mémoire* pointing out that the Netherlands oil interests, which act through the Rising Sun Oil Company in Japan, are placed in a difficult position in Japan because of:

(1) The 6 months' stock-holding requirements, which involve a large outlay of capital.

(2) The annual licensing system, which gives no security of business beyond 1 year.

(3) The encouragement of oil refining in Japan, which is detrimental to the refining industry in the Netherlands Indies. The Netherlands oil interests are nevertheless "willing to consider the erection of a refining plant in Japan but so far they have not been able to ascertain if a license to refine oil in Japan will be granted them and

³² See footnote 31, p. 730.

³³ Not printed.

if so whether they will enjoy the same treatment as the Japanese companies.”

(4) The price-fixing regulations, which require the oil companies to sell their stocks and import quotas at prices fixed by the Government.

The *aide-mémoire* then states the Netherlands Legation therefore requests the Japanese Government “to consider means to remedy the detrimental causes which render it extremely difficult for the Netherlands oil interests to reach a decision which is bound to involve great expenditure for which at present no sufficient security is given.”

Full text of the *aide-mémoire* will be sent by mail.³⁴

GREW

894.6363/77 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, September 19, 1934—4 p. m.

[Received September 19—12:20 p. m.]

529. Department's 358, September 11, 8 p. m. Acting Chief of Far Eastern Department today referred to Embassy's conversation with Chief of that Department, now on leave (reported in Embassy's telegram 519, September 12, 2 p. m.) and made the following remarks.

1. About July 23 British Ambassador at Tokyo on instructions from the Foreign Office informally advised Japanese Foreign Office in a friendly conversation that the Shell Company had complained of the Japanese petroleum law on the ground of compulsory tank construction and price-fixing, emphasizing an early date, July 31st and on which the law was to come into effect. The Ambassador said that the British Government considered that as presented the company's complaints were justified and he would be glad if the appropriate Japanese Ministry would hear the company. This was at once agreed to and it is understood that the Under Secretary of Commerce had held conversations with Shell.

2. Though the Foreign Office had not approached the Dutch they understood that “the Dutch Government are willing to authorize their Minister at Tokyo to make a similar *démarche* on behalf of Dutch oil interests.”

3. The Foreign Office did not plan to move again in the matter at present, awaiting a possible answer from the Japanese Government or a request for further action from Shell.

The Foreign Office is of the opinion that in view of our similar interests the Department of State might desire to instruct the American Ambassador at Tokyo to make a similar *démarche* to show the United States Government's concern.

BINGHAM

³⁴ Not printed.

894.6363/76 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, September 21, 1934—8 p. m.

162. Your 205, September 19, 11 a. m. Please make the following communication orally and informally to the Minister of Foreign Affairs. If and when he asks for a copy, you may give him one without entitling it memorandum or *aide-mémoire*.

"1. The American Government has noted that enactment by the Japanese Government of a law (Law No. 26 of March 27, 1934) for the control of the petroleum industry in Japan and, in view of the substantial participation of American interests in that industry, it is moved in all friendliness to invite the attention of the Japanese Government to the disabilities which the law under reference threatens to impose upon American petroleum interests in Japan.

"2. The American firms concerned are convinced that, if, as a condition to continuation of their business in Japan, they are to be required to install equipment and maintain stocks of oil and of oil products in excess of their ordinary commercial requirements; if the required stocks are to be subject to purchase by the Japanese Government at a price to be fixed by that Government; if there is likelihood or possibility that quotas will be prescribed regardless of the amount of business done in the past by firms that may be affected; and if there is likelihood or possibility that quotas may subsequently be raised or be lowered at will;—these firms would not be able to formulate long-term plans for the reasonable safeguarding of their enterprises in Japan and would find it impossible to invest with any sense of security funds necessary for the operation of those enterprises. Accordingly, it is felt that subjection of their enterprises to such conditions and the meeting by the companies of such requirements would be tantamount to a laying upon the companies of special burdens the effect of which would be a contribution to a national objective of Japan at heavy cost to the American enterprises concerned but with no advantage or compensation to the enterprises themselves.

"3. In view of the destructive effect which application of certain provisions of the law would presumably have upon legitimate and established interests developed over a period of many years by American enterprise in response to economic needs of the Japanese people, the American Government expresses the hope that the Japanese Government will see its way clear to avoid subjecting American petroleum interests in Japan to the unusual hazards and the burdensome restrictions upon the normal conduct of business which are apparently implicit in the law under reference."

Report by telegraph when action is taken.

Department is instructing London to inform the British Foreign Office.

HULL

894.6363/77 : Telegram

The Secretary of State to the Ambassador in Great Britain (Bingham)

WASHINGTON, September 21, 1934—8 p. m.

365. Your 529, September 19, 4 p. m.

1. The British Foreign Office having made inquiry in regard to the attitude of this Government and the Department having indicated in its telegram No. 347 of August 31, noon,³⁵ that it would be prepared to give sympathetic consideration to proposals which the British and Dutch Governments might care to offer in the direction of the taking of joint or concurrent action, the Department naturally supposed that the British Foreign Office would without too great delay, in view of the Japanese requirement that the oil companies submit a report on plans of future operations before October 1, next, indicate to this Government what it would be prepared to do or would suggest for action concurrently with the other interested governments.

The Department has now instructed the Embassy at Tokyo informally to invite the attention of the Japanese Government to the fact that the American firms concerned are convinced that if they are to be required to install equipment and maintain stocks of oil in no way related to their ordinary commercial requirements, if such stocks are to be subject to purchase by the Japanese Government at a price to be fixed by that Government, and if quotas for the importation of oil are likely to be prescribed without regard to the amount of business done in the past by such American concerns, there would be created conditions so hazardous and burdensome as to impair the ability of the companies concerned to conduct their business in Japan in a commercially sound and prudent manner.

It is hoped that the British Government may, in view of the facts that its representations were made almost 2 months ago and have thus far apparently yielded no favorable results, find it possible to express to the Japanese Government substantially similar views, thus tending to confer on the independent *démarches* of the interested Governments some of the advantages which might flow from simultaneous and joint action.

2. Please seek an early opportunity to inform the Foreign Office orally in the above sense.

3. For your confidential information but not for communication to the Foreign Office unless they first impart similar information, the Ambassador at Tokyo telegraphed under date September 19 that the Netherland Minister on September 18 under instructions from his Government made representations to the Japanese Minister for Foreign Affairs.

HULL

³⁵ See footnote 31, p. 730.

893.6363 Manchuria/52

*The Consul at Mukden (Chase) to the Minister in China (Johnson)*³⁶

No. 960

MUKDEN, September 22, 1934.

Subject: Oil Monopoly in Manchuria.

SIR: I have the honor to refer to my despatches No. 951 dated August 17 and No. 952 dated August 22, 1934,³⁷ on the above subject, and to submit more recent information, and observations based thereon.

The local manager of the Standard-Vacuum Oil Company has informed a member of my staff that according to information given him by a Japanese employee of the firm in whom he places considerable faith, a lieutenant-commander of the Japanese Navy, whose name was not divulged, was in Hsinking early this month to confer with the authorities there, especially the "Manchukuo" naval office, regarding the proposed oil monopoly. The manager also stated that, according to his informant, the Japanese navy feels that the time is not ripe for an oil monopoly in "Manchukuo", and that at least two or three years should elapse before the consummation of plans for such an organization. No adequate reasons for this coolness on the part of the navy were given, it merely being said that radical steps should not be taken until the quality of the refined products turned out by the new refinery of the Manchuria Oil Company in Dairen could be tested. The Japanese and "Manchukuo" navies' needs would certainly not appear to warrant such an interest in the supply of refined oil in Manchuria, however; and it would seem more reasonable to ascribe the navy's attitude to a fear of possible international repercussions which might among other things result in retaliatory action by the oil companies and the navy's inability to obtain its crude oil requirements. The informant, moreover, confirmed previous rumors that the army also was luke-warm regarding the proposed monopoly, as has already been reported to the Legation. Reasons for this are also lacking.

In view of these rumors, substantiated by the statements of an official spokesman (page 5, despatch No. 951) in much the same tenor, I feel rather strongly that the monopoly will not go through as at first planned, in spite of what was told Mr. Timperley of the Associated Press (despatch No. 952, dated August 22, 1934). Nevertheless, I feel that some sort of oil control will probably be substituted.

Mr. Timperley was recently informed by officials of the "Manchukuo" Finance Bureau that plans for the monopoly were being completed, and that they would probably be put into force within two or three months. The Finance Bureau, it should be remembered, is

³⁶ Copy transmitted to the Department by the Consul at Mukden in his unnumbered despatch of September 22, 1934; received October 19.

³⁷ Neither printed.

largely made up of civilians, many of whom have financial interests in Japan. Prominent among these is Mr. Tsuge, who has the title of "adviser", and who is a director of the Nippon Oil Company. It will also be recalled that Mr. Hashimoto, president of both the Nippon Oil Company and the recently formed Manchurian Oil Company, is the brother-in-law of General Hishikari. It becomes more and more apparent, in the light of the probable non-support of the army and navy, that these two capitalists have been the sole strong protagonists of the monopoly, with nominal support from General Hishikari himself. It is more than likely that they have used their influence also with the Departments of Commerce and Industry, and Overseas, in Tokyo, to get support from civilian official quarters for their monopoly, which would accordingly be more for private gain than for "defence" as has always been maintained.

It also seems apparent that army and navy officials, not only being jealous of the influence in the "Manchukuo" government of civilian enterprises, but also beginning to realize the serious consequences which might arise from an international standpoint following the erection of a complete oil monopoly, have decided that the time is not propitious. No doubt the representations made to the Foreign Office by both the American and British ambassadors in Tokyo have contributed not a little to the military's adoption of this viewpoint. Now that the Overseas Department has been relegated to the background in Manchurian affairs by the liquidation on September fifteenth of the so-called "trinity" system of administration, I feel confident that, for the present at least, individual capitalist schemes will receive but slight consideration, and that the oil monopoly plans will be either abandoned, postponed, or substantially altered.

In connection with the above, I have been informed by the British Vice Consul here that the British Economic Mission, soon to visit Japan and "Manchukuo", has evidenced great interest in the general question of oil, and has been supplied with data relating to the proposed monopoly, which it proposes to make the basis of unofficial representations.

Although the rumors of the abandonment of the oil monopoly persist, I am nevertheless informed by the local manager of the Standard-Vacuum Oil Company that requests for trade statistics of all kinds keep coming in from Hsinking. No reasons for these requests are given, and there is no indication as to whether they are required as bases for quotas and other methods of control under a projected oil control law, or whether they are desired by the Finance Bureau in connection with matters relating to the monopoly. So long as no positive information regarding the abandonment of the oil monopoly is received, the likelihood of such an eventuality must always be borne in mind.

Some sort of oil control which will be monopolistic in effect if not in name will sooner or later undoubtedly be announced. Such a system, I understand, has already been instituted in Japan, where the several treaties applicable to China have no effect, and to which the principle of the "Open Door" does not apply; but if set up in Manchuria, although the foreign oil companies might not suffer from it as they would under a monopoly, the control would be as much in contravention of the treaties and principle as the monopoly.

Respectfully yours,

A. S. CHASE

894.6363/79 : Telegram

*The Chargé in Japan (Neville) to the Secretary of State*³⁸

TOKYO, September 25, 1934—6 p. m.
[Received September 25—11:55 a. m.]

213. Department's 162, September 21, 8 p. m. I read the Department's communication to the Minister for Foreign Affairs today. He asked me for a copy which I left with him, explaining that it was an oral message. The copy bore no indication that it was a communication, memorandum or official document of any description. The Minister said that he understood the position of the foreign oil companies and would see that the points brought out in the conversation would receive the attention of the authorities dealing with the oil question. He said he recognized the hardship which would be worked if the oil companies were required to expend large sums for storage purposes with no assurance for the future.

NEVILLE

894.6363/101

The Chargé in Japan (Neville) to the Secretary of State

[Extracts]

No. 1001

TOKYO, October 5, 1934.
[Received October 22.]

SIR: I have the honor to refer to the Embassy's despatch No. 984, dated September 21, 1934,³⁹ and to previous correspondence on the subject of American oil interests in Japan and their difficulties under the new Petroleum Industry Law. From recent indications it appears that the various questions involved may soon reach an acute stage.

³⁸ This telegram was quoted by the Department in its telegram No. 368, September 26, 6 p. m., to the Ambassador in Great Britain for the information of the British Foreign Office.

³⁹ Not printed.

I cannot escape the conclusion that every effort should be made by our Government, in connection with the petroleum situation in Japan and Manchuria, to protect as far as may be possible the large interests of our nationals in the oil trade of those regions, even at the risk that such efforts may bring added irritation to the relations between Japan and the United States.

The oil problem in Japan and Manchuria, which indicates gross disregard of the rights and legitimate interests of other nationals, is more than a mere matter of the protection of commercial interests; it is a matter which directly concerns international policy and international amity. Unfortunately, in all important instances during recent years where the Japanese have displayed their power, force could not be used effectively for the purpose of compelling a more reasonable attitude on their part. In the case of Japan's oppression of the foreign oil interests, however, the nations concerned have an effective remedy.

Petroleum is Japan's weakest point. The nation must have considerable supplies of oil for its navy, merchant marine, internal transport, air force, manufacturing industries and fishing fleets. The oil produced in Japan cannot fill more than twenty per cent of the requirements. By controlling the supply of crude oil at the sources, therefore, the interested countries may be able to induce a more reasonable attitude on the part of the Government and the people here toward other peoples and toward international relations in general.

From a purely commercial point of view, the action indicated above would appear to be both appropriate and feasible. The closing of the door to American oil companies in Manchuria through the operation of a monopoly system, in order to throw the business to a Japanese-Manchurian refining company, and the probability that the American oil companies selling refined products in Japan will gradually be forced out of the Japanese market through the quota system already established, would certainly appear to justify us in refusing longer to sell the Japanese the materials with which they can accomplish these results. By far the greatest part of the petroleum and petroleum products used in Japan is of American origin. There would seem to be no reason why an American raw material should be supplied in unlimited quantities to assist in closing the market to American finished products.

Moreover, the action of the Japanese Government in compelling the foreign oil companies to pay for and store, in tanks which they must themselves erect, large quantities of oil in Japan in order to create a war reserve for Japan, is one that can only be described as most unfair to the foreign oil companies and one which should be resisted in

every way possible, even though the resistance may work a temporary hardship on some interests, such as small independent producing companies in California which occasionally sell small quantities of crude oil to the Japanese refineries.

The local managers of the two large foreign oil companies operating in Japan are agreed that the plan of controlling Japan's supply of crude oil would be commercially feasible, provided that the American Government could control exports from the United States. The Netherlands Indies fields are controlled by the Shell and Standard interests; the Persian and Burman fields are controlled by the Shell interests; the Iraq field is under the control of an international company of which large shares are held by the Shell and certain American interests. Other sources available outside the United States are in Mexico, Venezuela, Rumania and Russia. The Soviets are not expected to be able to supply Japan with large quantities of crude oil, as their production is only slightly in excess of their own requirements; their crude oil, moreover is not adapted to the existing Japanese refineries and the cost of transportation from the Black Sea is excessive. The Rumanian oil interests are anxious to sell crude oil to Japan, but the quality of the oil is poor and transportation costs are again excessive. The Japanese hope to be able to find sources of supply in Mexico and Venezuela, but as yet the quantities available from independent producers are small and the cost of transportation is heavy. Moreover, such sources as Mexico, Venezuela, Rumania and Russia would not be satisfactory in time of war, as the lines of transportation are long and could be easily cut. The managers of the foreign oil companies in Japan therefore believe that if the American Government could control the export of crude oil to Japan from the United States, the Shell and Standard interests would limit the export from other fields controlled by them, and the Japanese refineries would be placed in a most difficult position, from which they could only extricate themselves by abandoning their plans for monopolizing the oil trade of Japan and Manchuria.

Compelling the Japanese to abandon their plan of building up large reserves of oil at the expense of the oil companies would also appear to be advisable from a military point of view. The Japanese military machine is one of the most powerful in the world and therefore constitutes a constant menace to the peace of the world. It would seem, under the circumstances, to be inadvisable to consent to any measures which would tend to strengthen this machine.

In its telegram No. 182, August 20, 3 p. m., this Embassy offered the suggestion that exports of crude oil to Japan and Manchuria be limited or stopped, and further suggested that, as an indication that some such measure was being considered, the American Government

might request exporters of oil to furnish data regarding their exports, in order to enable the Government to study the effects upon our nationals' oil interests abroad of our exports of crude oil. This suggestion was made in the belief that even a threat of retaliatory measures would cause the Japanese Government and oil interests to relax their pressure upon American oil interests in Japan and Manchuria. It is believed that some initial step should be taken in the near future, as the foreign oil companies are being forced into an increasingly difficult position.

It is realized that many difficulties both domestic and international are involved in attempting to control the export of oil from the United States. It means in many ways an acceptance of the concept that international trade is a matter to be arranged by Governments; that the individual merchant is to be directed, perhaps even sacrificed, in an effort to promote what is supposed to be the common good. Legal and perhaps political considerations, of which the Embassy has no knowledge, might be involved before a decision could be reached. For the foregoing or other reasons it may not be feasible to adopt the suggestions contained in this despatch, but at the present writing, there seems to be no other method of relieving the situation here.

Respectfully yours,

EDWIN L. NEVILLE

894.6363/82 : Telegram

The Chargé in Japan (Neville) to the Secretary of State

TOKYO, October 10, 1934—noon.
[Received October 10—1:55 a. m.]

222. My 213, September 25, 6 p. m., and previous regarding the Petroleum Industry Control Law. I have been informed only today by the British Embassy that on October 5 the British Ambassador made renewed representations to the Japanese Government in regard to the Petroleum Industry Law and left with the Vice Minister for Foreign Affairs an *aide-mémoire* of which the following is the substance:

1. The British petroleum interests have so far been unable to obtain from the Japanese authorities assurances of a nature to relieve their anxiety or information which will enable them to decide upon their future business policy, and consequently they are unable fully to comply with the provisions of the law requiring them to submit details of their plans for 1935.

2. The British Ambassador therefore inquires whether the Japanese Government has been able to give consideration to the position of the British petroleum interests under the new law and expresses the "hope that it will be found possible to direct or modify the operations of that

law in such a way as to relieve them of hardships which it threatens to impose.”

Full text of *aide-mémoire* by mail.⁴⁰

NEVILLE

893.6363 Manchuria/63

The Ambassador in Japan (Grew) to the Secretary of State

No. 1013

TOkyo, October 17, 1934.

[Received November 3.]

SIR: I have the honor to refer to this Embassy's despatch No. 956, dated September 6, 1934,⁴¹ and to previous correspondence on the subject of the proposed oil monopoly in "Manchukuo" and to report below the more recent developments in the situation.

While the Embassy has received no reply from the Japanese Foreign Office to its informal representations on the subject of the proposed oil monopoly in Manchuria, the representations appear to have had some effect, as it is now reported that both the Japanese Army and the Japanese Navy are somewhat opposed to the scheme. According to reports received by the Embassy from various sources, dissension has arisen between the Financial Bureau of the "Manchukuo" government (which is drafting the plans for the proposed monopoly), and the Japanese Navy and the Japanese Foreign Office. The Financial Bureau is proceeding with its plans, but the Japanese Navy fears that the foreign oil companies, or their governments, might adopt retaliatory measures which would interfere with the Navy's supplies of fuel in time of war. Moreover, according to a report from the Consul at Mukden, the Japanese Navy does not want the oil monopoly plan enforced until the quality of the oil products manufactured in the new Dairen refinery of the Manchuria Oil Company has been tested and found satisfactory. The Navy therefore wishes to wait for two or three years before a monopoly system is put into effect.

The Kwantung Army (Japanese) also appears to desire postponement or abandonment of the plans for an oil monopoly. The Army apparently fears the ill-will of the oil supplying nations should a monopoly system be enforced, with the possibility that oil supplies might be cut off in a time of great need. The refusal of the Standard Oil interests, the Shell interests and the Texas Oil Company to quote for the crude oil for the Dairen refinery of the Manchuria Oil Company has upset the Japanese officials, particularly those of the Army

⁴⁰ Not printed.

⁴¹ See footnote 30, p. 729.

and Navy. The Army, however, is precluded from showing any active opposition to the monopoly project, as General Hishikara, the Commander of the Kwantung Army and Japanese Ambassador to "Manchukuo", is the brother-in-law of Mr. Hashimoto, the President of the Manchuria Oil Company, and is tacitly, at least, in agreement with the project. Without the active support of the Army it is possible that the monopoly project will be abandoned or postponed.

It now appears, from reports which have reached the Embassy, that the monopoly scheme is largely the work of the Nippon Oil Company, the largest oil-producing and refining company in Japan. Mr. Hashimoto, the President of the Manchuria Oil Company, is also the President of the Nippon Oil Company. Mr. Tsuge, the Petroleum Adviser to the "Manchukuo" government, is a Director of the Nippon Oil Company and has been the leading advocate of the monopoly project. The Kwantung Army, however, has been insistent throughout (and it is believed sincerely insistent) that an ideal state, free from capitalistic control, should be formed in Manchuria, and therefore it is possible that the Army will more actively oppose the control of the oil business of Manchuria by the Nippon Oil interests.

According to a confidential report from Dairen, the work on the storage tanks of the refinery at Kanseishi (near Dairen) of the Manchuria Oil Company is progressing rapidly. Two tanks are now being erected and the foundations have been laid for three more. Work is also progressing on several stills, and one is near completion. The refinery, however, according to expert opinion, will hardly be ready for operation until late in 1935, although the original plan was to put the plant in operation by January, 1935. At the present rate of progress on the storage tanks, however, the Company should be ready to take delivery of crude oil for refining within two or three months. The first contract for crude oil, amounting to 10,000 tons, it is reported, has been secured by the Rio Grande Oil Company.

Respectfully yours,

JOSEPH C. GREW

893.6363 Manchuria/53 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, October 21, 1934—6 p.m.
[Received October 21—10:50 a.m.]

478. Following from Mukden:

"October 21, 10 a.m. Representatives of the Standard-Vacuum Oil Company and the Asiatic Petroleum Company sent to Hsinking at the request of "Manchukuo" Finance Ministry were yesterday furnished by the latter with an oral statement regarding the proposed oil monopoly, summarized as follows:

(1) The Government to control sales organizations excluding others from right of agencies or sales in the country.

(2) The Government to use all the companies' existing agencies as far as possible and to purchase at a reasonable price all equipment, with the exception of the Dairen and Newchwang plants, which the companies may be ready to dispose of.

(3) Refined oil needs beyond the capacity of the Fushun shale oil plant and the Dairen refinery to be supplied by the present oil companies according to quotas based on the last 2 years.

(4) Present companies to be given preference for Dairen refinery's purchases of crude oil.

(5) New monopoly law to be published shortly.

(6) Monopoly has not yet decided to exercise control over lubricating oil or products other than light oil, gasoline and kerosene, all of which could be brought in under license and disposed of where possible without restriction.

(7) Monopoly therefore requests companies to provide it with information regarding sales and imports during the past 2 years together with lists of agencies and also all plants and equipment to be turned over.

(8) Should the companies fail to provide this information by November 15th monopoly would be compelled to use own judgment regarding determination of quotas."

Tokyo is being informed. Legation's comments will follow later.

GAUSS

894.6363/100 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, October 22, 1934—5 p. m.

[Received October 22—10:25 a. m.]

232. Embassy's 222, October 10, noon, and previous regarding the oil situation in Japan and Manchuria.

1. Referring to pages 3 and 4 of the Embassy's despatch No. 1001, October 5,⁴² which should now be in the hands of the Department, the Department of Commerce and Industry has refused to grant a postponement of the time for filing import and storage plans and has demanded submission of the plans without delay. The foreign oil companies do not see their way to comply with the demand at present.

2. According to Peiping's telegram No. 478, October 21, 6 p. m., plans for an oil monopoly in Manchuria are progressing.

3. It therefore appears that the oil situation in Japan and Manchuria is rapidly approaching a crisis.

4. The Petroleum Committee set up in Japan by the petroleum industry law is scheduled to meet in late October or early November to consider various phases of the oil industry.

⁴² Pages under reference not printed.

5. When the failure of the foreign oil companies to store 6 months' stocks of oil is brought before the Petroleum Committee, it is feared that the committee may take some hasty and drastic action in regard to the foreign oil companies which would have to be upheld in the future because repeal would cause too great loss of face.

6. It therefore might be advisable that any steps which the American Government contemplates taking in this connection should be decided upon before the meeting of the Petroleum Committee.

Repeated to Peiping.

GREW

893.6363 Manchuria/55 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, October 24, 1934—noon.

[Received 2:55 p. m.]

483. Legation's 478, October 21, 6 p. m. Supplementing his October 21, 10 a. m., Chase says that representatives of the oil company made no reply to the statement; that they feel authorities are bluffing and that strong representations would delay indefinitely creation of the monopoly. Chase feels that all foreign trade in Manchuria is threatened and that emphatic diplomatic representations and wide publicity are needed. He suggests that he be authorized to make strong protest at Hsinking.

2. Although the Legation does not believe that representations at Hsinking would be of much use it is of the opinion that following arrival in Mukden Ballantine⁴⁸ might appropriately be authorized to proceed to Hsinking for the purpose of making contacts and discussing informally this and other pending matters and expressing the concern of the American Government at these measures which appear calculated to drive American oil companies out of Manchuria.

3. As the relationships existing between persons involved in the creation of the monopoly would appear to cause some doubt that it is bona fide for national defense as alleged (see Legation's 387, August 28, 1 p. m.) the Legation is inclined to believe that in addition to any representations which the Department may deem appropriate the interests of the oil companies might be served by giving wide publicity to this open breach by "Manchukuo" of its open door, equal opportunity, respect for treaty, customs and obligations. Such publicity might support and strengthen the liberal elements in Japan opposed to dominance by the military.

Repeated to Tokyo.

GAUSS

⁴⁸ Joseph W. Ballantine, Consul General at Canton, assigned to Mukden, September 14.

693.113 (Manchuria) Petroleum/70 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, October 24, 1934—1 p. m.

[Received October 24—9 : 45 a. m.]

484. Legation's 188, April 23, noon.⁴⁴ Recent import statistics indicate that question regarding discrimination in kerosene importations resulted in decided decrease beginning March in the importations of Japanese light oil into Manchuria, but that beginning September such importations have resumed previous figures. Oil companies maintain that this is due [to] laxity in customs examination of small shipments and those made by junk, and that carload shipments are examined in a manner permitting smuggling of high grade kerosene amidst low grade light oil. Companies have made representations to customs but result unknown.

It appears likely that British Consul General at Mukden, accompanied by Commercial Counselor at Tokyo, will proceed to Hsinching shortly to take up this matter informally. American companies have requested that Chase do likewise, but Legation believes that this matter might await arrival of Ballantine. See Legation's 483, October 24, noon.

The Legation understands that matters such as the above are now handled by British consular officers in Manchuria under the direction of the Embassy at Tokyo to which mission they submit their reports rather than to the Legation as heretofore.

GAUSS

893.6363 Manchuria/65 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, October 24, 1934—4 p. m.

[Received October 24—2 : 40 p. m.]

485. Legation's 484, October 24, 1 p. m. Chase reports that the Monopoly Bureau has requested Chinese agents of the Standard-Vacuum Company to send delegates to a meeting to be held at Hsin-king on the 26th for the purpose of selecting distributors of monopoly kerosene; that company have suggested to agents that the Bureau be informed that the matter should be taken up directly with the company.

GAUSS

⁴⁴ Not printed.

894.6363/104

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Conversation With the President of the Standard Oil Company of New Jersey (Walter C. Teagle)

[WASHINGTON,] October 24, 1934.

Reference, Tokyo's telegram 232, October 22, 5 p. m.; Tokyo's mail despatch 1001, October 5, entitled "American Oil Interests in Japan"; and Peiping's telegram 478, October 21, 6 p. m.

Mr. Teagle called by appointment. Mr. Hornbeck said that he was very glad to see Mr. Teagle, as we have just received information regarding new developments—discouraging information—with regard to, first, the Japanese in Manchuria. Mr. Teagle replied that he also had received, last evening, from New York, a substantial amount of new information and that his Mr. Parker was sending what they had to the Department. Mr. Teagle took from his pocket a file which he said he supposed contained the same information that we had.

Mr. Hornbeck then said that it was evident that the Japanese authorities are planning to go ahead regardless of the representations which the interested oil companies and the governments concerned have made. He recalled the prediction which had been made on the occasion of the first call of Mr. Teagle and Sir Henri Deterding⁴⁵ at the Department in connection with this matter, that representations would be of little avail unless it was made evident to the Japanese that disregard of the representations would be likely to result in embarrassment to the Japanese in some concrete form. He said that the demands which the Japanese Government has made for early compliance by the foreign petroleum companies with provisions of the law and the regulations apparently makes it clear that the companies must decide at an early date upon the course of action which they will tell the Japanese Government they intend to follow. He said that we had a memorandum prepared by an officer of the Embassy in Tokyo—which we might conjecture was based in part at least upon a brief supplied by the general manager for Japan of the Standard-Vacuum Oil Company—in which it is pointed out that in relation to supplies of crude oil Japan is very vulnerable; that the major portion of the petroleum and petroleum products now imported into Japan is of American origin; and that "There would seem to be no reason why an American raw material should be supplied in unlimited quantities to assist in closing the market to American finished products."

There ensued some discussion of commercial factors, in the course of which Mr. Teagle referred to the suggestion which he had originally

⁴⁵ Director General of the Royal Dutch Petroleum Company.

made to the Department that the American Government take steps toward regulating (restricting or embargoing) exports of oil from the United States to Japan. Mr. Hornbeck said that, speaking unofficially and purely on the basis of a personal impression, he doubted very much whether it could be expected that the Government would take steps in that direction. He said that he had studied the utterances and the acts of the highest officers of the Administration and that it was his impression that the thought of those officers did not run in that direction; he might be mistaken, he was speaking not on the basis of any decision of which he had knowledge or of anything said to him but on the basis of an impression; he felt that this subject was one with regard to which it would be well for Mr. Teagle to talk with the highest authorities; in fact, he felt that the whole problem under discussion should be taken up by Mr. Teagle with the Under Secretary or the Secretary of State—the problems involved being problems of very substantial importance both to the American oil interests involved and the various governments concerned. Mr. Teagle said that he concurred in the view that the matter should be treated as one of unusual importance and that he would expect to discuss it with higher officers, but that at this moment the highest officer of the Standard-Vacuum Company is in London and is waiting to confer with Sir Henri Deterding at a meeting which will take place probably early next week; he, Mr. Teagle, therefore would not be in position to do anything until after that conference. Mr. Hornbeck said that he was glad to hear that such a conference was scheduled to occur, and that it seemed to him that the oil interests should decide upon a course of action for themselves which would not be contingent upon further governmental action: that is, that they should decide whether they intend to comply with the Japanese law and regulations or to tell the Japanese that they cannot and will not comply therewith. Mr. Teagle inquired what would be the result of non-compliance. Mr. Hornbeck replied that it would probably depend in considerable measure on the manner in which the petroleum interests handled the matter in giving notice of such intent—and on the manner in which they “followed up”; it might be that the Japanese would offer some kind of a compromise; it might be that they would endeavor to buy the equipment which the companies have in Japan and thereafter to handle petroleum business in Japan themselves. Mr. Teagle asked what there was to prevent an automatic confiscation by the Japanese Government of this equipment. Mr. Hornbeck said that he did not believe that that question need arise: if it became clearly evident to the Japanese that the companies were prepared to refuse to do business on the conditions thus far laid down by the Japanese and also evident that, in the event of their being frozen out

of Japan, the companies would exert themselves toward drying up the sources of petroleum imports to Japan and to Manchuria, the Japanese would probably think very seriously before taking the responsibility of creating such an impasse. Mr. Teagle then referred to the difficulty of bringing independent oil producers into line. Mr. Hornbeck said that he realized that this was a very real problem and he felt it was one to which the industry should address its best thought and effort.

At this point Mr. Hornbeck asked that he be permitted to introduce Mr. Mackay ⁴⁶—and Mr. Mackay was called in. Mr. Hornbeck informed Mr. Mackay that he had suggested to Mr. Teagle that the oil companies come to a decision with regard to the course of action which they would pursue vis-à-vis the Japanese authorities; he said that he had by implication suggested that the companies prepare for a contest; that he believed that the Japanese Government, if it saw that the great producers of petroleum were prepared to exert themselves toward refusal to supply crude petroleum to Japan and that the governments concerned were at least sympathetically disposed toward that effort, would hesitate to force the issue. Mr. Mackay indicated concurrence in that view. Mr. Teagle then said that we might all await with interest the report which would be made to him sometime next week of the conference scheduled to be held in London to which he had earlier referred. Mr. Hornbeck said that we would all continue to give the question our thought. The conversation there ended.

893.6363 Manchuria/57 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Tokyo, October 26, 1934—6 p. m.
[Received October 26—10:15 a. m.]

236. 1. In reply to inquiries of the foreign correspondents in regard to the proposed oil monopoly in Manchuria at the Foreign Office press conference today Amau ⁴⁷ is reliably reported to have made approximately the following statements:

(a) "Manchukuo" is an independent country and representations should be made to Hsinking.

(b) If foreign countries claim that Manchuria is still a part of China, they should protest to Nanking.

(c) Japan does not consider that Nine-Power Treaty applies to "Manchukuo".

(d) Declarations made by Japan or "Manchukuo" in regard to the maintenance of the open door were unilateral declarations, which do not have the binding force of treaties and which can be withdrawn.

⁴⁶ Raymond C. Mackay, of the Division of Far Eastern Affairs.

⁴⁷ Eiji Amau, Japanese Foreign Office spokesman.

(e) The principle of the open door means only that all foreign nations trading in China shall have equal rights and does not apply where there is no discrimination as among foreign nations. (When a foreign correspondent asked how Japan was considered in this connection, no clear-cut reply was forthcoming).

2. A press ban has been placed in Japan upon publication of news concerning the oil monopoly in Manchuria. It appears probable that this step was taken to counteract the effect in Japan of a publicity campaign abroad. The afternoon Japanese newspapers, however, have published news despatches from Washington and London to the effect that diplomatic representations have been made on the subject of the open door and the Japanese petroleum industry but they avoid referring directly to the Manchurian oil monopoly.

Repeated to Peiping.

GREW

893.6363 Manchuria/55 : Telegram

The Acting Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, October 26, 1934—6 p. m.

183. Reference Peiping's 483, October 24, noon, and 484, October 24, 1 p. m. (which Peiping is repeating to you) and Embassy's 236, October 26, 6 p. m.

1. Following the receipt of Peiping's telegrams, the Department has given consideration to the question of the advisability and desirability of making, as suggested in paragraph 2 of Peiping's telegram of October 24, noon, further representations in regard to the proposed Manchukuo oil monopoly, but has not yet reached a decision.

2. For your information. Following the appearance in the American press of an Associated Press despatch from Tokyo of October 24 in regard to the projected Manchukuo oil monopoly and the oil situation in Japan, the Under Secretary at the press conference on October 25 orally gave to correspondents in response to inquiries background information. The American press has carried a number of articles and editorials in regard to these questions.

3. Peiping informed.

PHILLIPS

893.6363 Manchuria/59a : Telegram

The Acting Secretary of State to the Ambassador in Great Britain (Bingham)

WASHINGTON, October 26, 1934—6 p. m.

10. Press stories from Tokyo state that "high diplomatic authorities" there have declared that by protesting to Japan against the

projected petroleum monopoly in Manchukuo the British and American Governments have practically scuttled the London naval conversations,⁴⁸ this action amounting to a move by those two governments to inject political matters into the London talks.

As you doubtless are aware, the discussions with regard not only to the projected Manchukuo monopoly but also with regard to the Japanese petroleum law, between on the one hand the British Ambassador and the Japanese Foreign Office, and on the other hand the American Ambassador and the Foreign Office began many weeks ago. No new move has been made by us, and we know of none by the British, in recent weeks. The latest move was a move made by the Manchukuo authorities recently, of which we have thus far not taken official notice. The story that such moves have been made has apparently been given to the press, we know not by whom, at this time, in Japan. Our concern and our action with regard to these petroleum matters are in no way related to our objectives, our efforts or our procedure at the London naval conversations.

PHILLIPS

893.6363 Manchuria/58 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, October 29, 1934—6 p. m.
[Received October 29—9 : 15 a. m.]

238. Department's 183, October 26, 6 p. m.

1. I do not believe that informal conversations in Hsinking or more formal representations in Tokyo, based on allegations of violations of treaty rights and perhaps the principle of the open door, will prove effective unless backed up by some indications of proposed practical steps on our part. The Japanese are sure of the impregnability of their political and economic position in the Far East and are in no mood to recede from their stand, regardless of protestations from other countries. The Japanese Army and Navy clearly desire Japanese control of the oil industry and are well known to be *intransigent*.

2. It appears to me that the time has come to link together, in any future conversations or representations in Tokyo, the oil control system in Japan and the proposed oil monopoly in Manchuria, because the two systems appear to be designed to operate together to give the Japanese practical mastery over the oil trade of Japan and Manchuria and would enable them eventually to drive out our long-established oil interests.

⁴⁸ See vol. I, pp. 217 ff.

3. The Embassy is not aware whether the Government of the United States possesses the requisite legal authority or considers feasible the use of such authority to embargo or restrict the export of certain types of crude oil to Japan as envisaged in paragraph 8 of the Embassy's telegram No. 182, August 20, 3 p. m., and in the strictly confidential section of despatch No. 1001, October 5, 1934. If the answer to the foregoing points is affirmative it would appear that the time has come to give to the Japanese Government some intimation that the United States does not consider it the part of wisdom to supply the Japanese refineries in Japan and in Manchuria with the raw material with which to drive the products of our oil refineries out of the markets in this part of the world and invalidate the heavy investments already made by American capital in installations and general outlay in this country and in Manchuria.

Repeated to Peiping.

GREW

893.6363 Manchuria/59 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, October 30, 1934—4 p. m.
[Received October 30—11:30 a. m.]

496. Legation's 483, October 24, noon. In a despatch of October 23rd to Tokyo⁴⁹ the Consul at Dairen expresses the belief that the officials at Hsinking are not sufficiently sure of their ground to be heedless of any of the proposals for modification of monopoly scheme; that it is imperative that the foreign oil companies formulate a mutually agreeable counterproposal, and that they do not as previously set forth be content only with protesting directly and through their diplomatic representatives on the basis of violation of the open door and equal opportunity. That some form of control over the oil business in Manchuria will be established in the near future seems to him a foregone conclusion, and he feels that the amount of business which the foreign oil companies will be able to retain will depend largely on the unity, determination and wisdom with which they meet the situation. He expresses belief in the possibility that insistence on retaining the privilege of marketing refined oil in Manchuria, accompanied by agreement to submit to a control and quota system, would, when backed by diplomatic protests, be effective.

Tokyo informed that Dairen despatch has been summarized to Department.

GAUSS

⁴⁹ Not printed.

893.6363 Manchuria/58 : Telegram

The Acting Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, October 31, 1934—7 p. m.

184. Your 238, October 29, 6 p. m. A representative of the principal American interest has been in frequent oral and written communication with the Department and with the British private interests concerned, and through them with the British Foreign Office, during recent weeks.

The Department shares your view that there should be some indications of proposed practical steps. However, the British-Dutch private interests involved are probably as great as if not greater than the American. Those interests and their governments have given no indication of plans or intention on their part to take practical steps. The Department has repeatedly stated that it will consider sympathetically suggestions for cooperative action, if and when, originating with the British Government; but no such suggestions have been forthcoming. We do not intend to be drawn or pushed into a position of taking the initiative in action or threats of action to coerce Japan, the consequences of which, if successful, would be of probably greater advantage all told to British-Dutch interests than to American and, whether successful or not, would lay us open to a particularization of Japanese animosity in those premises. We do not at this stage look with favor upon the idea of an embargo or restriction of export by this country—for reasons which need not be telegraphed but which have been explained here. We believe that, first, the interested companies should arrive at a definite understanding among themselves with regard to the course of action which they intend in various eventualities to follow and give us some indication thereof, and, second, proposals for joint or concurrent action should now originate with the British and Dutch Governments.

You should say to the representatives of the American interests that (a) you doubt whether the American Government is in position to proceed with the idea of embargo or restriction of exports; (b) the American Government feels that the interests concerned have not thus far given evidence of a united front or a common plan of procedure on their part; and (c) the American Government is still awaiting an initiative by the British and Dutch Governments in the form either of further action by them or proposals by them for joint or concurrent action. You should discourage expectation, under the circumstances at this moment, by the American interests, of independent and spectacular action by their Government.

PHILLIPS

893.6363 Manchuria/60 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, November 1, 1934—2 p. m.

[Received November 1—8:40 a. m.]

502. Legation's 496.⁵⁰ Following from Consul General [at] Mukden.

"October 30, 10 p. m. The local army spokesman called this evening for the purpose of translating orally the summary of an announcement published today by the 'Manchukuo' government regarding the oil monopoly. While its full meaning is not clear as orally translated the announcement apparently modifies the oral statement of October 20th to the extent of offering to foreign companies the right of acting as selling agents of the monopoly in allotted areas. Since it appears that they would have to purchase all supplies from the monopoly this scheme would seem to be impracticable. It is not yet known if this represents a true desire to come to terms with the companies. The full announcement will be reported to the Legation as soon as it is available.

The spokesman stated that he understands that monopoly law is to be promulgated in a few days and go into effect about January 1st."

GAUSS

894.6363/105 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, November 1, 1934—6 p. m.

[Received November 1—8:15 a. m.]

241. Department's 162, September 21, 8 p. m.

1. Under date of October 31, 1934, the Foreign Office transmitted to this Embassy an informal memorandum in reply to our oral representations. The substance of the memorandum is as follows:

2. The preamble disclaims any intention of disturbing the security of those engaged in the oil industry in Japan.

3. Numbered paragraph 1 states that the reason for the yearly license is the regulation of the importation, production and sale of oil in order to achieve harmony in the industry. As long as the demand for petroleum products in Japan continues to increase, the quotas of the oil companies will not be restricted below the limits of their business before the enforcement of the petroleum industry law.

4. Numbered paragraph 2 states that in allotting increased quotas the intention is to have as much refining done in the country as possible and to give the importers only such part of increase as cannot be handled by the domestic refiners.

5. Numbered paragraph 3 states that the petroleum committee will grant permits for refining after taking into consideration the condition of supply and demand, the circumstances of the existing refiners,

⁵⁰ October 30, 4 p. m., p. 751.

et cetera. Importers of gasoline who wish to engage in refining in Japan may import crude oil in place of refined products. Permission will generally speaking be easily granted, especially if the company concerned has not less than half Japanese capital.

6. Numbered paragraph 4 states that the Government has no intention of taking over at other than market prices oil owned by the companies. It also has no intention of interfering arbitrarily with the market prices of petroleum products but reserves the right to control prices if the public interest demands.

7. There is no mention in the memorandum of the 6 months' stock-holding requirements.

8. Similar memoranda have been received by the British Embassy and the Dutch Legation.

Text by mail.⁵¹

GREW

893.6363 Manchuria/61 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

ТокYO, November 2, 1934—3 p. m.

[Received November 2—4:23 a. m.]

242. Department's 149, August 29, 5 p. m. The spokesman of the Foreign Office informed a member of my staff last evening that the Foreign Office reply to our second representations in regard to the oil monopoly in Manchuria is practically finished and will be delivered in a day or two. I therefore suggest awaiting this communication before the Department decides on further action.

GREW

894.6363/134 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

ТокYO, November 6, 1934—7 p. m.

[Received November 6—9:30 a. m.]

244. Department's 184, October 31, 7 p. m.

1. The foreign oil companies have today received letters from the Ministry of Commerce and Industry requiring them to submit their import and storage plans by November 15th. The letters conclude with a statement of which the following is a translation:

"In case you fail to respond to our request promptly, a smooth execution of your company's business plan for 1935 might be interfered with."

2. The foreign oil interests regard this as an ultimatum supported by a threat. Consultations are in progress and the foreign oil com-

⁵¹ Not printed.

panies will telegraph their recommendations to their head offices within a day or two.

GREW

893.6363 Manchuria/66 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, November 6, 1934—8 p. m.
[Received November 6—10:15 a. m.]

245. Department's 187, November 5, 2 p. m.,⁵² Manchuria oil monopoly. Summary of Japanese reply.

(a) Plans of "Manchukuo" government to regulate the oil industry are projects of that government and are not within the knowledge or concern of Japanese Government.

(b) The Japanese Government appreciated the adoption of the open door principle by "Manchukuo". In case of difference of opinion between "Manchukuo" and third government regarding its application, while the Japanese Government would welcome a reconciliation of views, it cannot be responsible for the industrial policy of "Manchukuo", which claims to have the right to control important industries, but with no intention of subjecting foreigners in Manchuria to discriminatory treatment.

(c) The Manchuria Oil Company is given no monopolistic privileges and the Japanese Government can find no reason to forbid Japanese investments in the company.

(d) "Manchukuo" government does not intend to purchase all the oil which it will sell from the Manchuria Oil Company and the interests of foreign concerns will be considered in the purchases of petroleum.

Full text ⁵³ sent by mail to Shanghai for transmission by naval radio.
Repeated to Peiping.

GREW

894.6363/116 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, November 8, 1934—7 p. m.
[Received November 8—9:50 a. m.]

249. Local manager Standard-Vacuum Company requests Embassy to send the following message in code to the Department for transmission to their principals in New York. I am informed by the British Embassy that they have sent a similar message in code to London for the Rising Sun Company.

⁵² Not printed.

⁵³ For text of memorandum dated November 5, 1934, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 140. The Ambassador in his telegram No. 246, November 7, 10 a. m. (893.6363 Manchuria/67), reported: "The British Embassy has received a similar memorandum."

"Parker, Standard-Vacuum Oil Company, New York.

Referring our cable November 7th, the following is the opinion of the local representative British Oil Company and ourselves. We have been in constant touch with the American and British Embassies and the Dutch Legation.

1st. If it is decided to notify Japanese Government that foreign oil companies refuse to comply with stock-holding regulations then in view of Japan's recent uncompromising and unsatisfactory replies to Government representation, it is considered that apparently the only chance to influence cancellation or modification of these regulations which can be done without Diet action lies in the willingness of the American, British and Dutch Governments to announce simultaneously, and at the time of notification of noncompliance by the foreign oil companies, that if Japan persists in these unfair regulations which force foreign concerns to help finance a national defense scheme, the foregoing Governments will be constrained to adopt practical defensive measures to guard against unwarranted transfer of national petroleum resources.

2d. Japan is almost entirely depending upon the United States and Dutch East Indies for petroleum and if she accomplishes her present objectives in Japan and Manchuria, which depend upon refining crude oil which must be imported, and the export supply of which we assume could at least be subjected to control and the regulations as restrictive and burdensome as those imposed by the Japanese control law, it would then seem likely that Japan will feel free to proceed without fear of opposition to attempt by reexport of refined products and other means to dominate the petroleum situation in China as well.

3d. We should decline for the present to submit information requested by Hsinking (see our cable October 25th) also continue to decline to quote on crude oil because to do so would appear to be tantamount to acquiescing in proposed monopoly and would be inconsistent with protests made by Government.

In view foregoing and as issues involved are more than purely commercial in both Japan and Manchuria we and friends hope that the Governments concerned can be persuaded by you and London to support plan as per first paragraph. Friends are cabling London through British Embassy in similar sense. Goold."

Please inform Embassy if delivered.

GREW

894.6363/115 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, November 8, 1934—9 p. m.
[Received November 8—9: 30 a. m.]

250. My 244, November 6, 7 p. m. The Netherlands Minister has informed me that this morning he sent to his Government a long telegram explaining the oil situation in Japan and stating that in his

opinion there is no hope of obtaining any amelioration of the situation unless the foreign oil companies and the British, American and Netherlands Governments present a united front to the Japanese.

GREW

894.6363/119

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Conversation With Mr. P. W. Parker of the Standard-Vacuum Oil Company

[WASHINGTON,] November 10, 1934.

Mr. Parker called me on the telephone from New York. He inquired whether there was anything new since the telephone conversation between Mr. Teagle and me of yesterday. I said that there was nothing new. Mr. Parker said that this would presumably be his last inquiry before starting for Tokyo; he would like to know whether there is any possibility that the American Government would be disposed to do anything in the way of placing an embargo or restriction upon export of petroleum. I said that we had gone over that matter pretty thoroughly with Mr. Teagle, and that, on the last occasion when the matter had been discussed between Mr. Teagle and me, I had said to Mr. Teagle, unofficially and as a matter of personal opinion, that, upon the basis of my knowledge of the general thought of the Administration, but without this question having been put definitely and been subjected to a decision, it was my impression that action in that direction could not be expected; and I had suggested that if the American companies want a decision with regard to the point they should themselves put the question up to the highest authorities. I reminded Mr. Parker that it has been indicated repeatedly in our statements during the conversations on this subject that the American Government awaits an initiative by the British Government and we definitely do not intend to "get out in front" in this connection. Mr. Parker said that he understood this. He said that his representative in Tokyo seemed still to think that we might lead off with restrictions. I said that our Ambassador in Tokyo has been informed of our attitude and I have not the slightest doubt but that he has informed the Standard-Vacuum representative there.

I then went on to say that, from the fact that the Dutch Shell people are sending representatives to Tokyo, just as Mr. Parker is going there on behalf of Standard-Vacuum, we may assume that the British Government has given them its blessing in that connection; and that presumably the Ambassadors of all three countries at Tokyo will assist these representatives of the companies toward making contacts and going into conference with the Japanese authorities. I did not see that more could be expected of us at the present moment. Mr.

Parker said that he felt that we had been and were being very helpful. He wondered whether I had any other suggestions. I said that I had one: speaking unofficially and informally and personally, I felt that, confronted by a problem such as Mr. Parker will be dealing with on his trip, those who are handling the problem should seriously consider indications of trends in the field of foreign trade and merchandising abroad; that, more and more, governments are going to be confronted with the question of employment for their own people; that in countries circumstanced as are Japan and China—to say nothing of others—there will presumably be more and more a tendency to try to substitute domestic labor and employment for foreign labor and imported services; that, to limit the thought to Japan, the Japanese would import raw materials but as far as possible do their own processing and their own merchandising; hence, foreign companies doing business in Japan would need to think seriously before adding to their investments and expanding their agencies of distribution within the country. No one could say that there might not come about changes in trend, both international and national,—but the trends of the moment must be considered in connection with any commitments for the immediate future. Mr. Parker said that he realized this; that his company had not made new investments in Japan for sometime back; and that he supposed that, more and more, the Japanese would see to it that, where their own people could compete with foreigners doing business in Japan, little if any profit would be permitted to accrue to the latter. I suggested that this part of the conversation be regarded as strictly *entre nous*. Mr. Parker said: "Of course." Mr. Parker said he appreciated all the trouble which we had taken in connection with this matter. I said that it was not trouble; that it was our business; that what concerns the rights and interests of American business concerns us; and that we appreciate the disposition to consult us and "play the game with" us which his company has shown. I wished him an enjoyable and successful trip. And the conversation there ended.

S[TANLEY] K. H[ORNBECK]

894.6363/141

The Ambassador in Japan (Grew) to the Secretary of State

[Extract]

No. 1060

TOKYO, November 16, 1934.

[Received December 1.]

SIR:

There is little doubt that the stock-holding provision of the Petroleum Industry Law is largely a military measure, designed to build up

reserves of oil in Japan for use in case of war. It may be difficult to adduce evidence that any official pronouncement was ever made to this effect, but considerable unofficial evidence can be found to support this contention. Thus, there is enclosed herewith an excerpt⁵⁴ from a speech made by Mr. K. Hashimoto, the President of the Nippon Oil Company, on October 27, 1934, before the stockholders of the Nippon Oil Company, in which the statement is definitely made that the stock-holding provision is a measure of national defense. Viewed in this light, it is respectfully suggested that a new line of attack on the stock-holding provisions might be adopted, by claiming that forced storing of oil by American firms to provide a war-time reserve for Japan conflicts with the last paragraph of Article 1 of the Treaty of Commerce and Navigation of 1911 between the United States and Japan,⁵⁵ which reads as follows:

“They shall, however, be exempt in the territories of the other from compulsory military service either on land or sea, in the regular forces, or in the national guard, or in the militia; from all contributions imposed in lieu of personal service, and from all forced loans or military exactions or contributions.”

If the Department considers that there is any possibility that this line of action could be adopted, the Embassy will gather and transmit to the Department all possible evidence indicating that the stock-holding requirement is a “military exaction”.

Respectfully yours,

JOSEPH C. GREW

894.6363/129

Memorandum by the Under Secretary of State (Phillips)

[WASHINGTON,] November 22, 1934.

The British Ambassador⁵⁶ asked me whether I felt that we were satisfied with the cooperation of the British with respect to the oil problems in Japan and in “Manchukuo.” I recited briefly our policy of declared willingness to cooperate with the British and reminded him that they had taken the first step with us, to which we had replied most sympathetically; that we had made certain representations in Tokyo and that it was, in our opinion, up to the oil companies themselves to make their independent representations, as they were apparently planning to do now by sending their representatives to Tokyo; so far as the oil situation in Japan was concerned, it seemed to me that it was largely a business proposition and that, unless the oil companies

⁵⁴ Not printed.

⁵⁵ *Foreign Relations*, 1911, p. 315.

⁵⁶ Sir Ronald Lindsay.

took a decided position themselves, it was somewhat difficult for this government to act.

The Ambassador gave the impression that the Foreign Office was slightly piqued at our attitude in trying to throw the greater responsibility for action upon the British Government, to which I replied that we naturally assumed they desired to take it, inasmuch as they had the larger interests and that if the British and Dutch interests were lumped together, which in my own mind I always did, surely the British interests involved were overwhelmingly greater than the American interests.

WILLIAM PHILLIPS

893.6363 Manchuria/83 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, November 22, 1934—8 p. m.

[Received November 22—2 p. m.]

254. 1. My British colleague today informed me that he has been instructed by his Government to make renewed representations to the Japanese Government concerning the projected oil monopoly in Manchuria. The instruction recapitulates most of the arguments already advanced, adding that the British Government will probably be obliged to set forth the situation in Parliament and that a deplorable impression will be created if the Japanese Government fails to carry out in good faith the assurances already given with regard to the open door in Manchuria. Clive⁵⁷ proposes to see Hirota shortly and states that he will inform me of the result of his interview.

2. The Ambassador also showed me in strict confidence several telegrams from London reporting conversations between the British Ambassador in Washington and the Chief of the Far Eastern Division of the Department. A telegram of November 17 reports Dr. Hornbeck as stating that the focal points of the oil negotiations are now in London and Tokyo, not in Washington, and that he felt it was he who should ask for information from Lindsay. A subsequent telegram of November 19 indicates among other points that the Department had learned from the oil companies that further action on the part of British Government was now only a matter of hours and that the American Government was awaiting with interest the further initiative of the British Government.

3. The British Foreign Office apparently interpreted Lindsay's telegrams as indicating that the Department suspected the good faith of

⁵⁷ Sir Robert Henry Clive, British Ambassador in Japan.

the British Government on the oil question because Clive writes me tonight:

"After you left I got from Washington the repetition of a telegram to the Foreign Office to the effect that the latter were wrong in supposing that Dr. Hornbeck suspected our attitude over the oil question and adding his (Lindsay's) regrets at the wording of the previous telegram which might have given that impression."

4. Clive was very emphatic in assuring me that his Government regards the oil monopoly in Manchuria as a most serious test case of the future validity of the principle of the open door and counts implicitly on our cooperation in pressing the matter. He regards the cases of the Manchurian monopoly and the Japanese petroleum control law as quite distinct on the ground that the first is covered by treaty rights and the second is not.

GREW

893.6363 Manchuria/121

*Memorandum by the Consul General at Harbin (Adams) of a Conversation With the Soviet Acting Consul General at Harbin (Rayvid) on November 22, 1934*⁵⁸

Mr. Rayvid asked whether Mr. Adams could confirm or refute a telegram from Paris which he had seen to the effect that the American and British oil interests had agreed to boycott Manchuria. Mr. Adams replied that he had not heard of any such agreement. Mr. Adams doubted the accuracy of the report for the reason that the American and British oil interests could not undertake a boycott of Manchuria with any reasonable chance of success without obtaining the cooperation of the Soviet and Dutch oil interests and perhaps others. Mr. Adams asked whether the Soviet oil interests had filed any protest against the proposed monopoly. Mr. Rayvid replied that the Soviet interests had not done so. He said that the Soviet government was in a much weaker position with respect to such a protest than were the other governments concerned because Soviet Russia was not a member of the Nine Power Treaty. He said he thought that in any event mere protests would accomplish nothing because he felt that the establishment of an oil sales monopoly was part of the fundamental policy of the Japanese military authorities. Mr. Rayvid thought it would take more than protests to cause them to change their plans.

Mr. Rayvid asked Mr. Adams what the annual loss to American business would be if the monopoly were instituted. Mr. Adams re-

⁵⁸ Copy transmitted to the Department by the Consul General at Harbin in his despatch No. 54, November 24, 1934; received December 28.

plied that the immediate loss in dollars and cents was trifling, in that this involved only profits on retail sales. American oil would continue to find a market in Manchuria. The United States would lose the refining of some of the American oil sold in Manchuria when the refinery at Dairen got into operation. Mr. Adams said that the slight immediate loss in the profits on the retail sale of oil was not the main concern of the American government. The main concern was the maintenance of the principle outlined in the Nine Power Treaty which Mr. Rayvid had mentioned.

893.6363 Manchuria/83 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, November 23, 1934—7 p. m.

193. Your 254, November 22, 8 p. m. For your information:

1. Please reread Department's 151, August 31, 5 p. m., especially first and last paragraphs.

2. When informed of Department's position, as indicated in our instruction to London of August 31,⁵⁹ a British Foreign Office official remarked "It is all right as far as it goes".

3. On September 19, Foreign Office stated orally to our Embassy its opinion that, in view of similarity of interests, Department might wish to instruct you to make an approach to Japanese authorities similar to that made by British Ambassador at Tokyo about July 23; that it was understood that the Netherland Government was willing to make a similar *démarche* on behalf of Dutch oil interests; and that for the present the British Foreign Office did not plan to take further action. Department on September 21 instructed Embassy to inform Foreign Office to the effect that we naturally supposed Foreign Office would submit a plan for future cooperation and a statement of what it would be prepared to do or suggest for concurrent action with other interested governments; that the Department, however, had instructed you to approach the Japanese Government along the lines indicated in its telegram to you No. 162 of September 21, 8 p. m. Department also expressed the hope that the British Government might, in view of the fact that its representations to the Japanese Government made almost 2 months prior thereto had apparently yielded no favorable results, find it possible to express to the Japanese Government views substantially similar to those of the American Government, thus tending to confer on the independent *démarches* of the interested

⁵⁹ Not printed; see last paragraph of Department's telegram No. 151 to the Ambassador in Japan, p. 728.

governments some of the advantages which might flow from simultaneous and joint action.

4. Please reread Department's 184, October 31, 7 p. m.

5. Since September 19, Department has had nothing direct from British Foreign Office on this subject until, as stated below, on November 17. Meanwhile, we have been informed repeatedly by American interests that they have been informed by British interests at London that the Foreign Office was about to take action. It has been implied and inferred that the action contemplated was to be the making of an approach to us. Representatives of all the oil interests concerned were for several weeks in conference in London, and we were told that the British interests were in close contact with the British Foreign Office. We therefore have assumed that the Foreign Office was fully informed and was exercising a guiding influence; and we have awaited an initiative toward us by it.

6. On Saturday, November 17th, Wiggin⁶⁰ of the British Embassy here informed Hornbeck by telephone of a receipt of a Foreign Office instruction to inquire "what we could tell them about the oil situation," to which Hornbeck replied that we thought that they knew all that we knew and perhaps more but that we would be glad to attempt to reply to specific questions if and when put to us by them. On Monday, November 19th, Hornbeck asked Wiggin to call and gave Wiggin a full account of the developments up to date, repeating the offer to answer any specific questions. Hornbeck again stated that, as representatives of all the principally concerned oil companies have been conferring recently in London, the Foreign Office is probably more completely informed than are we; that in any event the attitude of the Foreign Office seems to be identical with our own and that we have assumed that the Foreign Office would make to us suggestions when it considers doing so opportune and convenient. On November 22 British Ambassador here orally requested of Under Secretary information whether we were satisfied with the cooperation of the British with regard to oil problems in Japan and Manchuria and intimated that British Foreign Office was slightly piqued at our attempt to place the greater responsibility for action upon the British Government. In reply British Ambassador was informed orally that the British Government had first approached us in the matter; that we had replied most sympathetically; and that, inasmuch as British oil interests involved, particularly when added to Dutch interests, are greater than American interests, the Department has naturally assumed that the British Government would wish to accept a major responsibility in the matter.

⁶⁰ Arthur Francis Holme Wiggin, First Secretary of the British Embassy at Washington.

Comment and queries:

(a) There seems to be some confusion as to whether in various references to "the oil situation" there is meant the situation in Japan or in Manchuria or both. Although those two situations are separate, they are closely related and they are both situations with regard to which control and ultimate responsibility lie, in our opinion, with the Japanese authorities; and in connection with both, the problem confronting foreign interests and governments is that of preserving actual investments and markets.

(b) Could you conveniently ascertain from Clive what is the nature of the latest representations which he is under instruction to make or has made with regard to the Manchuria situation?

(c) In the light of all that you now know, would you advise that we instruct you to make to the Japanese another *démarche* similar to that which Clive is under instruction to make in regard to the Manchuria situation?

HULL

894.6363/135 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, November 24, 1934—10 a. m.

[Received November 24—9: 50 a. m.]

257. My 244, November 6, 7 p. m.

1. An official of the Department of Commerce and Industry on November 20 again requested Goold to file the Standard-Vacuum Oil Company's complete import plan for 1935 immediately and added that failure to do so would result in penalization of the company. The British oil company was similarly notified.

2. At an official conference held later on November 20 between the Vice Minister for Commerce and Industry and Kurusu on the one side, and the representatives of the American and British oil companies on the other, Kurusu stated that the Japanese Government was not to be influenced by representations of the character already made by the American, British and Netherlands Governments into altering its petroleum law or abolishing the stock holding requirements. The discussions brought out the following facts:

(a) It might be possible for the foreign oil companies to obtain an official guarantee of their present volume of trade in all products for a period of, say, 10 years, subject to various conditions.

(b) The Japanese Government will give preference to domestic refineries in trade quotas and will not discriminate against foreign-controlled refineries in Japan, provided that the output of such refineries is kept within the amount of the trade quotas.

(c) The Japanese Government will give preference in granting refining licenses to present importers who may desire to convert their business to refining within the country.

(d) Kurusu suggested that any governmental representations which may be made in the future on the stock-holding requirements should contain more concrete evidence showing that the economic burden and risk of stock holding are so great that rather than bear them the foreign oil companies will withdraw from Japan. In such case, all the Japanese governmental departments concerned would have to reconsider the question in the light of alternative sources of supply.

(e) The Vice Minister suggested that, in order to overcome the present impasse regarding the stock-holding provisions, the Japanese Government will accept provisional import plans, conditional upon the foreign oil companies' decision as to whether or not it will be economically possible for them to continue in business in Japan. The Government will then grant provisional sales quotas for next year.

(f) No method of compensating the oil companies in connection with stock holding is under consideration except that of recovering the additional expense from selling prices.

3. At a later private discussion Kurusu intimated that a strong attitude on the part of the foreign companies, such as possible withdrawal from Japan, would assist him and the Vice Minister for Commerce and Industry in influencing the more intransigent governmental departments.

4. Notwithstanding the strong attitude indicated in paragraph 1, it is apparent that the authorities are now showing a more reasonable attitude. It is also obvious that they desire to transfer the discussions from diplomatic to private channels. It is believed possible that their purpose in requesting the data indicated in subparagraph (d) is to acquire evidence which can be used in applying for some modification of the law in the next session of the Diet.

5. The Standard-Vacuum Oil Company is asking its head office for instructions regarding the submission of provisional plans indicated in subparagraph (e) together with a transmitting letter along lines suggested by the Vice Minister reading in part as follows:

"This is being submitted subject to alteration and conditional upon a decision of our principals as to whether or to what extent they are able to continue business in Japan under the conditions imposed by the petroleum industry law."

6. The foregoing plan permits the American oil company to keep within the law but at the possible risk of transferring the discussions from diplomatic to private channels. As the company does not wish to do anything which might prejudice any official action which may be contemplated, the Department's opinion of the advisability of submitting the plans as above indicated is requested.

7. The British oil company is similarly requesting instructions.

894.6363/133 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, November 24, 1934—3 p. m.
[Received November 24—8:15 a. m.]

258. Local manager Standard-Vacuum Oil Company requests the Embassy to send the following message in code to the Department for communication to company's principals in New York. The British Embassy is sending a similar message in code to London for the Rising Sun Company. For explanatory comment in connection with the following message please refer to my 257, November 24, 10 a. m.

"Standard-Vacuum Oil Company, New York. Referring to our cable of November 23rd.^a In private conversation with important Foreign Office representative who was present at interview, it was intimated that the suggested procedure with form 4 and Government's representations along the line indicated would assist him and Commerce Vice Minister to influence other Government departments who were insisting on upholding compulsory stock regulations. Unless it would prejudice any action contemplated by you and Governments we and friends after full discussions with Embassies consider it expedient to adopt compromise suggested by Commerce Vice Minister and complete form 4 provisionally with covering letter reading in part, as follows:

"This is being submitted subject to alteration and conditional upon a decision of our principals as to whether or to what extent they are able to continue business in Japan under the conditions imposed by the petroleum industry law."

"If accepted this will enable us nominally to conform with regulations but without commitment and at the same time in the opinion of the Embassies will not necessarily preclude further diplomatic conversations should they be desirable. From our interview it would seem that Government is showing more reasonable attitude but at the same time is desirous of making issue purely commercial and eliminating diplomatic representations as far as possible. Friends and we are in agreement and they have cabled similar views to London. Good."

GREW

893.6363 Manchuria/87 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, November 24, 1934—8 p. m.
[Received November 24—12:45 p. m.]

259. My [254,] November 22, 8 p. m. My British colleague made representations this morning to the Minister for Foreign Affairs under instructions, presenting an *aide-mémoire* covered by an official trans-

^a Not printed.

mitting note. *Résumé* of *aide-mémoire* will be cabled to the Department separately. Clive informs me that he brought out the following further points orally.

1. British Government regards oil monopoly in Manchuria as an extremely serious matter involving principle of open door. If the oil monopoly is allowed to materialize other monopolies may follow effectually closing the door to other commodities.

2. Sir John Simon ⁶² is faced with the possible necessity of making a full public report on the situation setting forth all the facts which would have a deplorable effect on British public opinion because it has become a question of Japanese good faith.

3. "Manchukuo" has given gratuitous and unconditional assurances that the open door and all treaty rights would be maintained. It is absurd to contend that the failure of the British Government to recognize "Manchukuo" has invalidated these assurances. The question of recognition has not arisen. If the British Government were to recognize "Manchukuo" it would mean the wrecking of the League of Nations. The British Government has no intention of taking such a step.

4. "Manchukuo" would not dare to proceed with such a step as the oil monopoly if advised against it by the Japanese Government. Since the British Government cannot deal officially with "Manchukuo", it expects the Japanese Government, in view of its special relations with "Manchukuo", to intervene.

Hirota at first replied that the case was closed, that no treaties had been violated either by Japan or by "Manchukuo" and that nothing could be done by the Japanese Government to obstruct the projected monopoly. Clive, however, continued to press the case and received the impression that Hirota was impressed by the strong stand taken by the British Government. Hirota observed that the British and American Governments were tending to link up the oil monopoly with the naval conversations. Clive said he could not answer for the United States but he could state definitely that no responsible British Cabinet officer and no responsible organ of the British press had attempted to confuse the two issues. Clive stated that in view of the delicacy of the naval conversations it was very surprising that the oil monopoly should have been set in motion at this time.

End of *résumé* of conversation between Clive and Hirota.

Clive inquired what we propose to do in case the Japanese Government remains intransigent and the oil monopoly goes into effect presumably next February. He thinks that it would be a very serious matter to limit ourselves to mere representations if they prove ineffectual and that the whole future trend of Japanese policy and action in the Far East may depend largely on the outcome of this particular issue. I made clear to him our attitude as conveyed in the various instructions which I have received from the Department.

⁶² British Secretary of State for Foreign Affairs.

Department's 193, November 23, 7 p. m., which is extremely helpful, has just been decoded but is still somewhat garbled. This telegram answers query (b). I shall reply to query (c) shortly after further thought.

GREW

893.6363 Manchuria/93 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, November 27, 1934—6 p. m.
[Received November 27—2: 15 p. m.]

262. Department's 193, November 23, 7 p. m., query (c).

1. The Embassy has kept all of the Department's instructions concerning the oil monopoly in Manchuria and the Japanese Petroleum Control Law constantly in mind, clearly understands the Department's views and policy and has endeavored to reflect the Department's attitude when appropriate occasion has arisen.

2. In the same way the Embassy feels that it need not repeat the various factors and considerations already brought to the attention of the Department in previous telegrams and despatches.

3. In the light of all circumstances now known to the Embassy I believe that a further American *démarche* similar to that made by Clive on November 24 is desirable for the following reasons:

(a) Failure to continue our representations in step with the British would probably convey both to the Japanese and the British the impression that we are weakening in the face of Japan's determined attitude.

(b) Renewed representations would give concrete evidence at least of our own willingness to maintain a united front while awaiting further initiative by the British and Dutch Governments.

(c) Hitherto our representations have been informal and our communications (July 7 and August 31⁶³) were marked "informal memorandum". Since these informal representations have apparently yielded no concrete results it would be a logical step now to follow them up with formal representations either by a signed note or by an *aide-mémoire* or memorandum conveyed by a covering note as was done by the British on August 21 and November 24. In each case the British communications have antedated ours.

(d) A formal and firmly worded recapitulation of the various points already advanced, with the possible addition of a clause similar to the concluding clause of the last British *aide-mémoire* (see paragraph 6 of my 260, November 23 [24], 11 p. m.⁶⁴) and of any further arguments which suggest themselves to the Department, would tend to mobilize and emphasize our whole case.

4. It is impossible to predict the practical effect, if any, on the Japanese of such a third *démarche*. Clive seemed to think that

⁶³ *Foreign Relations, Japan, 1931-1941*, vol. I, pp. 130 and 133.

⁶⁴ Not printed.

Hirota was deeply impressed by his representations on November 24 and especially by his oral allusion to Japanese good faith.

5. The fact should nevertheless be borne in mind that repeated diplomatic representations unsupported by current or eventual practical measures tend to lower American prestige in the eyes of the Japanese. They believe that American protests on almost any issue can safely be disregarded. The nature of the replies already made to our representations in the Manchuria oil monopoly indicates no inclination on the part of the Japanese to give serious consideration to our views and legitimate rights and interests.

6. The outcome of the present issue is exceedingly important not only intrinsically but as a matter of broad principle and of American prestige and as influencing the whole future trend of our commercial interests in the Far East.

7. While it is true that the British-Dutch distribution of refined oil products in Japan is greater than the American, I am reliably informed that in Manchuria the American sales of refined products are approximately double those of the British-Dutch interests (Standard-Vacuum 35 percent, Texas 20 percent, Shell 25 percent, others 20 percent).

8. Oil is the weakest point in the Japanese defensive and economic structure. I am informed by our Naval Attaché that there exists a powerful undercurrent of fear among the Japanese that their supplies of oil might be interfered with as an eventual result of the present oil legislation in Japan and Manchuria.

9. The considerations set forth above should be read in the light of the Department's telegram 184, October 31, 7 p. m., and should not be interpreted as taking issue in any way with the views and policy set forth in that and other instructions from the Department which from the outset of this issue have been clear and consistent.

GREW

894.6363/137 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, November 27, 1934—7 p. m.
[Received November 27—5:26 p. m.]

603. For Hornbeck from Dooman.⁶⁵

"Millard⁶⁶ and I called this morning on Orde⁶⁷ at his invitation to discuss the points raised in the Department's 347, August 31, noon."⁶⁸

⁶⁵ Eugene H. Dooman, adviser to the American delegation at the London preliminary naval conversations.

⁶⁶ Hugh Millard, Second Secretary of Embassy in Great Britain.

⁶⁷ Charles W. Orde, head of the Far Eastern Department, British Foreign Office.

⁶⁸ Not printed, but see last paragraph of telegram No. 151, August 31, 5 p. m., to the Ambassador in Japan, p. 728.

I stated to Orde that I had no authority to speak officially, but that I thought it might be helpful if we talked informally.

Orde remarked that the British oil industry is unified and that therefore the British are not faced with the problem which he understood exists in the United States, of securing concerted action within the industry; he stated that the British oil concerns are already in a position to take effective measures to meet the situation, although they would naturally first assure themselves that such measures as they had under contemplation would not be injurious to British policy and national interests. I said that the circumstances are different in the United States, but that it was my understanding that the American petroleum industry is well organized.

After further conversation, Orde stated that the British Government would regard with favor concerted action between the British and American oil concerns on the following conditions:

1st. Any measure that may be agreed upon should be watertight or at any rate effective.

2d. No formal action shall be required of the British Government.

3d. The situations in Japan and in Manchuria are to be dealt with as two parts of the same problem (in other words, any measure to be taken shall be applied to both areas or not at all).

Orde, who is by temperament extremely cautious, nevertheless showed quite plainly that he is eager to have the British and American oil concerns place themselves in a strong position vis-à-vis the Japanese. He seemed doubtful of the wisdom of making in the present circumstances a further official *démarche* at Tokyo. He said that the British Government and oil interests have not conclusively decided that any measure of the foregoing character should be applied as soon as agreement thereon can be reached, but that they believe that it would be advantageous to give the oil interests freedom to take action. He thought that if any effective private measure can be devised by the oil interests of the three countries concerned, a real and effective basis would be laid for further official representations."

BINGHAM

894.6363/139 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, November 28, 1934—5 p. m.

197. Your 257, November 24, 10 a. m., and 258, November 24, 3 p. m. Message contained in your 258 was immediately transmitted to Standard-Vacuum Company which yesterday sent representative to Washington. Representative informed Department orally that, provided Standard-Vacuum is prepared to take similar action, Shell interests in London are prepared to follow the plan referred to in paragraph 6 of your 257. Representative stated Standard-Vacuum considers such action advisable and will so instruct its Yokohama office provided Department agrees.

Department informed representative to the effect that if effectuation of the plan under reference meets with the approval of the oil companies concerned and the American and British Embassies in Tokyo, the Department would interpose no objection.

HULL

893.6363 Manchuria/93 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, November 28, 1934—7 p. m.

198. Your 262, November 27, 6 p. m. Department has given careful consideration to every item of your excellent summary of the situation and your views as expressed therein and, provided you do not wish to offer amendments as to substance or phraseology, desires that you hand to the Japanese Minister for Foreign Affairs an *aide-mémoire* as follows:

[Here follows text of *aide-mémoire* of November 30, 1934, printed in *Foreign Relations, Japan, 1931-1941*, volume I, page 143.]

Although the text of our *aide-mémoire* contains no specific statement approximating the concluding clause of the last British *aide-mémoire*, it does emphasize that we attribute definite responsibility in connection with this matter to the Japanese Government. We shall continue to keep in mind the statements made in paragraph 5 of your telegram under reference but it seems to us best not to include in the *aide-mémoire* any statement in that connection.

In presenting the *aide-mémoire*, you should emphasize orally the seriousness with which the American Government views the subject under discussion. You may also state the emphatic denial of the American Government that the oil situation either in Manchuria or in Japan is in any way whatsoever linked with our efforts or our procedure at the London naval conversations.

Report action taken by telegraph.

Inform your British colleague.

HULL

893.6363 Manchuria/97 : Telegram

The Chargé in China (Gauss) to the Secretary of State

PEIPING, November 29, 1934—11 a. m.

[Received 11:50 a. m.]

545. Legation's 537, November 24, 11 a. m.⁶⁹ Following from Consul General [at] Mukden:

"November 28, 7 p. m. Representatives of American oil companies have reported to me the results of their interview at Hsinking yesterday with monopoly authorities.

⁶⁹ Not printed.

They were told that the government was determined to go ahead with its plans and that protests on the basis of the principle of the open door were futile; that the authorities had invited the company representatives only for the purpose of ascertaining whether they proposed to cooperate with the monopoly by supplying by December 10th the information requested on the volume of their business et cetera, and by making tenders for supplies, in which case they would be granted quotas; and that otherwise the monopoly would arrange for other sources of supply. It was stated that in case of cooperation the monopoly would become effective in February, otherwise on some later date; that it would operate in Manchuria including the South Manchuria Railway zone but not in the Kwantung leased territory, and that under the plan the foreign oil companies would be entirely eliminated from direct sales to consumers either wholesale or retail.

The company representatives did not commit themselves beyond asking questions and promising to report to their superiors.

The interview has served to clarify the attitude of the authorities and to convince the local representatives of the oil companies that they cannot afford to compromise since they are offered nothing for cooperating beyond quotas of crude and refined imports, which they might be able to supply anyway in the absence of adequate alternative sources."

GAUSS

693.113 (Manchuria) Petroleum/74 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Tokyo, November 30, 1934—5 p. m.

[Received November 30—7:33 a. m.]

265. Department's 52, April 19, 5 p. m.

1. The Consulate at Dairen has received no reply to its proposal of May 7 for a change in the method of classification of kerosene; in the recent revision of the "Manchukuo" import tariff no changes were made in the duties on petroleum products or in the method of classification; and heavy importations of Japanese light oil are again being made into Manchuria under lower rates of duty than those levied on American and British kerosene.

2. British Embassy at Tokyo will therefore instruct the British Consul General at Mukden to make renewed informal representations to the "Manchukuo" government and will inform the Japanese Foreign Office that such instructions have been issued and will indicate the bases of such representations.

3. The British Embassy expresses the hope that this Embassy will take similar action if deemed advisable. I recommend action. Please telegraph instructions.

Repeated to Peiping.

GREW

894.6363/137 : Telegram

*The Secretary of State to the Ambassador in Great Britain
(Bingham)*

WASHINGTON, November 30, 1934—5 p. m.

419. Your 603, November 27, 7 p. m.

1. Department is considering your telegram under reference and will reply later. Please inform Dooman.

2. Please inform Foreign Office that Department on November 28 requested Grew to hand to Japanese Minister for Foreign Affairs a firmly worded *aide-mémoire* prepared by the Department in regard to the proposed oil monopoly in Manchuria. Department also requested Grew to emphasize orally, when presenting the *aide-mémoire*, the seriousness with which the American Government views the subject under discussion; and to state the American Government's emphatic denial that the oil situation either in Manchuria or Japan is in any way linked with our efforts or our procedure at the London naval conversations.

3. With regard to the oil situation in Japan you may inform Foreign Office to the effect that Department has indicated to representative of Standard-Vacuum Company and to Grew that if compliance with the Japanese suggestion for the submission by the concerned oil companies of provisional import plans meets with the approval of the oil companies and the American and British Embassies in Tokyo, Department would perceive no objection thereto.

HULL

893.6363 Manchuria/99 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, December 1, 1934—noon.

[Received December 1—5: 12 a. m.]

266. Department's 198, November 28, 7 p. m. Presented Department's *aide-mémoire* on Manchurian oil monopoly to the Minister for Foreign Affairs today, bringing out orally the two points mentioned in the ante-penultimate paragraph of the Department's telegram.

The Minister in answering my oral representations said that he would forward our *aide-mémoire* to Hsinking but he felt that the American and British Governments were taking a too legalistic view of the matter. The authorities of "Manchukuo" had every desire to maintain the open door in practice and wished to work out with the representatives of the foreign oil companies a reasonable arrangement by which their interests would not be jeopardized. Japan had come

to a special arrangement with "Manchukuo" the benefits of which other nations could no doubt enjoy after they had accorded recognition. I emphasized the unconditional assurances given by the authorities in Manchuria that they would respect and maintain treaty rights and the repeated assurances of Japan to the same effect, in which the question of recognition did not enter at all, quoting specific Japanese statements in support. I said that we could hardly avoid taking a legalistic view of the matter since the sanctity of treaties upon which the whole fabric of international relationships and good faith depended was here involved. The Minister replied that he agreed concerning the sanctity of treaties but that the whole question of the applicability of the old treaties with China was a very difficult and complicated one and that he thought it would be better to lay the stress on the practical rather than on the legalistic aspects of the issue. The authorities of "Manchukuo", he repeated, were anxious to find a satisfactory solution.

The Minister's arguments throughout the conversation were specious.⁷⁰

I have informed my British colleague.

Repeated to Peiping by mail.

GREW

894.6363/137 : Telegram

The Secretary of State to the Ambassador in Great Britain (Bingham)

WASHINGTON, December 5, 1934—11 a. m.

422. Your 603, November 27, 7 p. m. Department suggests that, provided you perceive no objection, Millard and Dooman see Orde and, referring to their conversation of November 27, talk with him on following lines:

1. Department hopes that in the petroleum matters, both in Manchuria and in Japan, the American and British Governments may be able as far as possible to proceed on parallel lines and present common front. We perceive no difference in the attitude and objectives of the two Governments. In view of the facts that British and Dutch oil interests are involved as well as American, that three Governments are concerned, that Deterding took the initiative here toward concerted action, that representatives of the several petroleum interests have been [in?] conference in London, and that consultation between them and the British Government and between the British and the Netherland Governments has been and is possible at short range, Department had been hoping for and expecting suggestions from the British Government with regard to possible course of action.

⁷⁰ For the Ambassador's memorandum of this conversation, see *Foreign Relations, Japan, 1931-1941*, vol. I, p. 144.

Department still feels that it would be advantageous for British Foreign Office to be coordinator and central clearing point in this matter.

2. Department has been informed by British Ambassador here that the Foreign Office's recent request through him for information from Department was prompted by an intimation given to the press by the Japanese Ambassador here that Japan might mediate between British and American petroleum interests. So far as the Department is concerned, there was and is no basis in fact for such an intimation. We believe that the British Ambassador has already so informed the Foreign Office.

3. Department concurs in the thought of the British Government favoring concerted action by British and American petroleum interests. Department has consistently expressed this view to the American interests concerned. We have suggested to them cooperation among all American petroleum interests. We do not believe that short of such cooperation or of definite restrictive action on the part of the American Government effective restriction of petroleum exports from the United States to Japan and Manchuria could be achieved. This Government does not for the present feel moved to proceed in the direction of such action and it does not look as though the oil companies adversely affected are in position to take or to cause the oil industry as a whole to take such cooperative action as might be effective. Whether the situation among the petroleum interests will develop in that direction is a question on which we, at least, venture no prediction.

4. It is our understanding that, representatives of the various petroleum interests directly involved with Japan having proceeded to the Far East, the British and American companies desire that their respective Governments pave the way for discussion by those representatives with appropriate officials of the Japanese Government. May it be understood that the British Ambassador and Netherland Minister as well as the American Ambassador in Tokyo will be instructed by their Governments to take appropriate action toward that end? We assume that it is the view of the British Government that no action other than such, that is, no new *démarche* should be made to the Japanese Government until the representatives of the petroleum companies shall thus have had opportunity to confer with appropriate officials of the Japanese Government.

5. Department feels that there should be frank and full exchange of views between the British, the Netherland and the American Governments in relation to all phases of this matter and all steps envisaged or contemplated; that there should be the best possible working understanding between and among the Governments and the oil interests concerned; and that it should be realized and be constantly kept in

mind by all of the above that there is involved a definite and clear-cut community of interest which calls for and warrants concerted action toward the objective of safeguarding actual legitimate investments and future commercial opportunities. Department is gratified that the British Government appears to share this feeling.

6. We feel that all of the above should be told orally to Orde. Please report by telegram.

HULL

693.113 (Manchuria) Petroleum/76 : Telegram

The Secretary of State to the Chargé in China (Gauss)

WASHINGTON, December 6, 1934—2 p. m.

376. Reference Tokyo's 265, November 30, 5 p. m., Legation's 484, October 24, 1 p. m., both to Department; and Mukden's despatch 970, October 17, to Legation,⁷¹ in regard to discrimination in application of Manchurian import tariff on kerosene.

Department authorizes Legation, unless it perceives objection, to instruct Ballantine⁷² to take, orally and informally, action similar to that of his British colleague along lines indicated in Mukden's despatch above mentioned and to synchronize his action as far as practicable with that of his British colleague.

If Hsinking is visited, expenses in accordance Travel Regulations authorized from Consulate General's allotment.

Repeat to Tokyo with request that Embassy bring informally, at such time as seems appropriate, to the attention of the Japanese Foreign Office the issuance of this instruction.

HULL

894.6363/144 : Telegram

The Ambassador in Great Britain (Bingham) to the Secretary of State

LONDON, December 7, 1934—7 p. m.

[Received 8:59 p. m.]

614. Dooman and Millard called today on Orde, and on his assistant, Randall,⁷³ and read to him your 422, December 5, 11 a. m.

In regard to paragraph 4 of your telegram, Randall stated that:

1. The British oil interests had requested that the British Government give diplomatic support to the representations of the local managers of the affected British companies and that the Foreign Office

⁷¹ Despatch not printed.

⁷² Joseph W. Ballantine, Consul General at Mukden.

⁷³ Alec W. G. Randall, First Secretary, Far Eastern Department, British Foreign Office.

had directed Clive to make, after consultation with Grew, further informal representations.

2. The representatives of the British oil interests who have recently proceeded to the Far East and who are now in Shanghai, will proceed further to Japan to confer with appropriate Japanese officials only in the event that the Japanese response to the representations of Clive and of the local manager is sufficiently favorable to warrant their going to Japan.

Orde said that the British oil interests had expressed sometime ago a desire that the American and British Governments make a joint and formal protest. He thought however that those interests are satisfied to follow the course adopted (as outlined in the preceding paragraph) for the time being. He added that so far as the Netherlands Government is concerned, that Government would be prepared to follow the lead of the British Government.

It is hoped that the foregoing will answer the question put and the assumption expressed in paragraph 4 of your telegram.

In regard to the last sentence in paragraph 1 of your telegram: Orde expressed the thought that for the time being it might be advantageous for the American and British Governments to maintain contact through their respective representatives at Tokyo.

Orde and Randall were obviously disappointed that American Government was unable to give assurance of effective cooperation among American petroleum interests being achieved.

BINGHAM

894.6363/146 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, December 8, 1934—9 a. m.
[Received December 8—3:27 a. m.]

271. My British colleague has received a telegram from London dated December 5 to the effect that the British Foreign Office has discussed the general oil situation with a representative of the State Department now in London who has concurred in the following views.

(a) The petroleum monopoly in Manchuria and the Japanese petroleum industry law are interrelated aspects of the same problem and should be handled as such; and

(b) If a restriction of the export of oil is eventually decided upon, the step should be taken by the oil companies on a commercial basis leaving the respective Governments so far as possible in the background.

Clive is instructed to make renewed representations to the Foreign Office concerning the effect on our companies of the Japanese petroleum industry law but only after learning that I will take similar action. He has prepared a provisional *aide-mémoire* which he has

shown to me in confidence and which he proposes to hand informally to the Vice Minister for Foreign Affairs after hearing affirmatively from me.

Following is a summary of the British provisional *aide-mémoire*. It is couched in courteous phraseology.

(1) British Government has carefully studied memorandum of October 31 explaining substance of law and policy of its administration.

(2) Grateful for explanation and pleased that Japanese authorities do not wish to deprive persons engaged in this industry of security for their business. Explanation however has not removed anxiety lest wide powers which the law confers might be so exercised as in effect to constitute discrimination against interests of British oil companies.

(3) While Japanese memorandum states that the insistence upon annual submission of plans of operation does not connote desire to hamper continuance of *business nevertheless such insistence would appear to deprive British oil interests of all security as to scale of future operations*. British interests unable to count on sharing increase of trade while in the event of a contraction of demand Japanese companies might maintain their position while British quotas could be reduced.

(4) Lack of British refineries in Japan and uncertainty whether they would upon application be permitted to refine upon a scale commensurate with their present business seem to place British oil interests at a disadvantage with Japanese companies. Japanese memorandum states that establishment of refineries would be facilitated for companies whose capital was predominantly Japanese, but even this permission may be withheld in special circumstances, and in any case under such financial arrangements British oil interests would forfeit financial control of their company in Japan, a step which they find themselves unable to contemplate.

(5) Sansom⁷⁴ of British Embassy after consultation with Dickover⁷⁵ here inserts following observation which I quote in full:

“(Foreign Office instructions are to include an objection to those provisions of law which provide for

(a) Purchase of petroleum from companies by Government.

(b) Interference by Government in selling price of oil. I feel that we are on unsafe ground here. Any government can properly commandeer supplies in emergency, at current prices, and there does not seem to me to be any sinister implication in the use of the words ‘military affairs’ as well as ‘urgent necessity in public interest’. Similarly as to price fixing, it is not a discriminating provision, as I read it.

I should say that our only just ground of objection here is that, by their cumulative effect, such provisions add to the uncertainty of the companies,—making it difficult to decide future plans. I therefore suggest a modification as follows:)

⁷⁴ George B. Swanson, Commercial Counselor of the British Embassy in Japan.

⁷⁵ Erle R. Dickover, First Secretary of Embassy in Japan.

'While His Majesty's Government fully comprehend the desire of Japanese Government to administer the petroleum industry law for the protection of the public welfare and for the maintenance of the interests of industry as a whole, they feel that the provisions of article 7 of the law, together with articles 7, 8 and 9 of the Imperial Ordinance for its enforcement give such scope for official intervention which cannot be foreseen as to make it difficult, if not impossible, for the British oil interests to frame plans for their undertakings with that degree of certainty as to future income and expenditure which ordinary commercial practice entails.'

(6) Japanese memorandum makes no reference to the stock-holding provisions of the law, which from the standpoint of British oil interests are probably its most onerous. As they stand they seem to empower the holding of unlimited stocks. Present requirements are for 6 months' stock but Minister of Commerce before Diet suggested they might be extended to 12 months' stock. British oil interests have repeatedly informed British Government that faced with doubt as to future sales, they are also uncertain as to price for stock holding and possibility of reimbursement for such expenditure, and consequently are unable to decide whether from a commercial viewpoint they are justified in further investment in Japan.

(7) British Government feel that on basis of information furnished by Japanese Government anxieties of British oil interests are justifiable and that further explanations given by officials of Departments of Commerce and Foreign Affairs to representative of British oil interests on November 20 were insufficient to remove those anxieties. End of British *aide-mémoire*.

Please instruct.

GREW

894.6363/146 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, December 8, 1934—5 p. m.

200. Your 271, December 8, 9 a. m. In the light of information from London Embassy regarding conversations held in British Foreign Office, the Department does not understand issuance to Clive of this instruction at this stage. Department will expect to inform and instruct you early next week. Meanwhile, take no action except to inform Clive of the foregoing.

HULL

894.6363/146 : Telegram

The Acting Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, December 10, 1934—8 p. m.

201. Your 271, December 8, 9 a. m.

1. Dooman is at London assisting Davis.⁷⁶ Department had given no instructions to any member of the naval delegation with regard

⁷⁶ Norman H. Davis, chairman of the American delegation to the London preliminary naval conversations.

to any phase of the petroleum problems. On November 27 Dooman telegraphed informally from London that he and an officer of the Embassy called upon invitation, at the British Foreign Office and there discussed informally the oil situations in Japan and in Manchuria, Dooman stating at the outset that he had no authority to speak officially. Foreign Office representative stated that the British Government would regard with favor concerted action by the British and American oil concerns on the following conditions: (a) any measure that may be agreed upon should be water-tight or at any rate effective; (b) no formal action shall be required of the British Government; and (c) the situations in Japan and in Manchuria are to be dealt with as two parts of the same problem (in other words, any measure to be taken shall be applied to both areas or not at all). Foreign Office representative seemed doubtful of the wisdom of making in the present circumstances a further official *démarche* at Tokyo. He said that the British Government and oil interests had not conclusively decided that any measure of the foregoing character should be applied as soon as agreement thereon could be reached, but that they believed that it would be advantageous to give the oil interests freedom to take action. He thought that if any effective private measure could be devised by the oil interests of the three countries, a real and effective basis would be laid for further official representations. Dooman's telegram does not indicate that he "concurred in" anything.

2. Under date December 5 the Department replied to the London Embassy suggesting that Dooman and an officer of the Embassy see the Foreign Office official and give him orally a statement in regard to our general position, pointing out that it is our hope that the American and British Governments may be able as far as possible to proceed on parallel lines and present a common front; that we perceive no difference in the attitude and objectives of the two Governments; that representatives of the several petroleum interests have been in conference in London where consultation between them and British Government and between British and Netherland Governments has been and is possible at close range; that, for reasons given, Department has been hoping for and expecting suggestions from British Government with regard to possible course of action; that Department still feels that it would be advantageous for British Foreign Office to be coordinator and central clearing point in this matter; that the Department concurs in the thought of the British Government favoring concerted action by British and American petroleum interests; that the Department has consistently expressed this view to the American interests concerned, suggesting to them cooperation also among all American petroleum interests; that we do not believe that short of such cooperation, or of action along lines such as are referred to in paragraph 3 of your telegram No. 238 of October 29,

6 p. m., in the direction of which action we do not for the present feel moved to proceed, effective measures of control could be attained; that in view of our understanding that representatives of the petroleum interests, having proceeded to the Far East, desire that their governments pave the way for discussion by them with appropriate officials of the Japanese Government, we inquire might it be understood that the various chiefs of mission would be instructed by their respective governments to take appropriate action toward that end; that we assumed that the British Government thought that no new *démarche* should be made to the Japanese Government until representatives of the companies had thus had opportunity to confer with the Japanese officials; that we felt there should be frank and full exchange of views in relation to all phases of the matter and steps envisaged or contemplated, et cetera, and that there should be realized constantly that there is involved a clear-cut community of interest which warrants concerted action toward safeguarding actual legitimate investments and future commercial opportunities; that we were gratified that the British Government appeared to share this feeling; and that we felt that all of the above should be told orally to British Foreign Office.

3. American Embassy [at] London reports that on December 7, after reading to officials of Foreign Office Department's telegram summarized above, Foreign Office official stated that British oil interests had requested that British Government give diplomatic support to representations of the local managers of the affected British companies; that Foreign Office had directed Clive to make, after consultation with you, further informal representations; that representatives of British oil interests will proceed to Japan for conference with Japanese officials only if Japanese response to representations of Clive and local manager is sufficiently favorable to warrant such action; that so far as the Netherland Government is concerned, that Government would be prepared to follow the lead of the British Government; that, with regard to the Department's suggestion that Foreign Office act as clearing house, it might be advantageous for American and British Governments to maintain contact through their respective representatives in Tokyo.

4. Before coming to a conclusion in regard to the British project outlined in your telegram 271 of December 8, Department intends to make known to British Foreign Office our doubt as to the wisdom of making at this stage a *démarche* along the line of Foreign Office's instruction to Clive; our opinion that, with the exception of an informal and oral paving of the way, no further official *démarche* should be made until senior representatives of the various oil companies shall have had an opportunity to confer with officials of the Japanese Government; and that, with a view to facilitating and expediting the exchange of views between and among the British, Netherland

and American Governments and of safeguarding confidential communication, the Department continues of the opinion that in this matter the British Foreign Office is the logical place for central clearing point.

5. Department will, as soon as practicable, communicate with you further. In the meantime, if you are not in agreement with the Department's views, as indicated above, please submit your recommendations by telegram. If you feel that British plan should be followed, please submit for Department's consideration the text or a summary of such *aide-mémoire* as you would wish to present to the Japanese Government.

PHILLIPS

894.6363/146 : Telegram

*The Acting Secretary of State to the Ambassador in Great Britain
(Bingham)*

WASHINGTON, December 10, 1934—8 p. m.

428. Your 614, December 7, 7 p. m., and previous.

1. Department had been given to understand from petroleum interests that the British and American companies in sending representatives to the Far East desired of their Governments official assistance in making contacts with Japanese officials, whereupon said representatives would present their own case. Items in your 603, November 27, 7 p. m., tend to confirm that impression, especially your statement that Orde seemed doubtful of the wisdom of making in the present circumstances a further official *démarche* at Tokyo. Department, however, has received from Tokyo a telegram dated December 8 reporting that Clive had received from London a telegram dated December 5 "to the effect that the British Foreign Office has discussed the general oil situation with a representative of the State Department now in London who has concurred in" certain views specified; that Clive is instructed to renew representations to the Foreign Office in case Grew will take similar action; and that Clive has prepared a lengthy provisional *aide-mémoire* the contents of which he has made known to Grew in confidence and which Grew reports to Department. Examination of this makes it clear that British Government envisages another *démarche* in advance of special efforts by the representatives of petroleum interests.

From all of the above it would seem clear that there has not yet been arrived at a clear, common understanding of what is envisaged or intended. Department therefore desires that as promptly as possible there be communicated orally and informally to Foreign Office the substance of the foregoing and that in so doing you point out that, in the absence of explanatory comment in regard to the reasons for

making what would appear to be a material change in strategy, the Department doubts the wisdom of proceeding along the lines indicated in the Foreign Office's instruction to Clive, as reported to us; that on basis of such information as is now available the Department is of the opinion that, with the exception of an oral and informal paving of the way, perhaps by means of a joint call at the Japanese Foreign Office by the senior officers in Tokyo of the British, Netherland and American Governments, at which time oral expression could be given to the seriousness with which the concerned governments view the situation under discussion, no further *démarche* should be made until the special representatives of the principally interested oil companies now in the Far East, shall have had an opportunity, thus introduced, to confer with officials of the Japanese Government; and that, with a view to facilitating and expediting the exchange of views between and among the British, Netherland and American Governments and of safeguarding confidential communication, the Department continues of the opinion that in this matter the British Foreign Office is, for reasons already given, the logical place for central clearing point.

2. We have informed Grew of our intention to communicate through you with British Foreign Office and have instructed him to await instructions.

3. Toward clarifying our understanding of the position and proposal of the British Foreign Office, Department would appreciate being informed why the Foreign Office favors a further *démarche*, such as Clive has under preparation, at this time.

4. In order that there may be no ground for any suspicion that we are mixing naval conference matters and other business, Dooman should no longer appear in this matter except within the Embassy.

5. Department feels that Embassy's 614 does not convey to Department a clear impression of the conversation to which it related. Please endeavor to get clear statements of Foreign Office views and give special attention to reporting adequately and as soon as possible on the conversation above directed.

PHILLIPS

894.6363/149 : Telegram

*The Ambassador in Great Britain (Bingham) to the Secretary
of State*

LONDON, December 11, 1934—6 p. m.
[Received December 11—4:30 p. m.]

620. Department's 428, December 10, 8 p. m.

1. During the conversation on December 7th with Dooman and Millard, both Orde and Randall suggested that there was possibility

of misunderstanding arising over "paving the way". They stated that the British oil interests recently asked for further immediate diplomatic support of the representations of their local representatives in Japan; that British oil interests here had prepared a brief, setting forth their positions vis-à-vis the Japanese; that this brief without alteration in substance, had been sent by the Foreign Office in London to Clive, who had been directed after consultation with Grew to present it informally to the Japanese Government. (Presumably this is the *aide-mémoire* referred to in your telegram under reference.) Orde stated that the British oil interests have not asked the British Government to assist their special representatives now in Shanghai to make contact at the present time with Japanese officials. It was the understanding of the Foreign Office that the British oil interests do not contemplate sending the special representative now in Shanghai to Japan "unless the conversations in Tokyo produce a situation which would make it worth while".

2. During the conversations on November 27 and on December 7 the term "*démarche*" was understood among all present as applicable only to action beyond what had already been taken of a formal and official character, reference being made in that connection to a desire expressed several weeks ago by the British oil interests that the British and American Governments make a joint, written, and formal protest to the Japanese Government. Orde and Randall made it clear that they construe the action which Clive has been directed to take as further informal representations.

3. It would appear from the first sentence of the Department's telegram under reference, and the Foreign Office statements reported above, that the British and American oil interests are not in entire agreement in regard to the course to be followed in the immediate future. In short, the American interests apparently desire that their special representatives shall be assisted forthwith by Grew to make contact with the Japanese, whereas the British oil interests apparently intend that their special representatives shall remain in Shanghai until there shall have been further, presumably favorable, developments in Tokyo.

4. As the Department may wish to review the situation in the light of foregoing additional information, no new approach will be made to the Foreign Office [while] awaiting confirmation of your last instructions. Paragraphs 1 and 2 above have been read to Orde, who confirmed their accuracy.

BINGHAM

894.6363/150 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

ТокYO, December 13, 1934—2 p. m.
[Received December 13—8:20 a. m.]

274. 1. In recent conversations between Kurusu of the Japanese Foreign Office and Neville of this Embassy and Sansom of the British Embassy, held at Kurusu's request, he advanced proposal that, as the Japanese petroleum law was oppressive for all oil companies, Japanese as well as foreign, the foreign oil companies should combine with the Japanese oil companies in a strong joint protest to the Ministry of Commerce and Industry in an endeavor to obtain some modification of the law. He intimated that the Japanese authorities are beginning to realize the difficulties entailed by the law and are weakening in their attitude and he mentioned the dissatisfaction of Japanese oil men with the law.

2. Department's 201, December 10, 8 p. m. In the opinion of the British Embassy here the representations which it proposes to make would not constitute an official *démarche* but rather an informal paving of the way for the possible future discussions between the representatives of the foreign oil companies and the Japanese authorities, in that the proposed representations would point out that the Japanese Government's reply of October 31⁷⁷ was insufficient to remove the anxieties felt by the British oil interests, especially as the reply did not refer to the question of stock holding.

3. I feel that failure to inform the Japanese Government in some way that its reply to our original representations was unsatisfactory would be misleading and might be misinterpreted. Acceptance without comment of the Japanese reply would place the oil companies in a less favorable position in their future negotiations with the Japanese authorities because it could create the impression that their Governments were not continuing to support them.

[4.] It appears, as is indicated in paragraph 1 above, the Japanese authorities are believed to be showing signs of weakening. Further representations at the moment therefore might be effective in preparing the way for any compromise plan which the representatives of the foreign oil companies may evolve from their present discussions at Shanghai.

5. It seems important both to Clive and myself that our informal representations should be so formulated as to avoid on the one hand creating an impression that we are now going to let our companies work out their own problem without further diplomatic support, and equally to avoid on the other hand placing the Japanese Govern-

⁷⁷ Text of reply not printed; for substance, see telegram No. 241, November 1, 6 p. m., from the Ambassador in Japan, p. 753.

ment in a position which would make it more difficult for the authorities to recede and compromise without serious loss of face.

6. I therefore feel that it would be advisable for us to go over the ground again in an informal conversation as envisaged in paragraph 4 of the Department's telegram No. 201, to be held preferably between the Counselor of the Embassy and the Vice Minister for Foreign Affairs or a bureau chief. For the purposes of clarity our points could be embodied, if the Department approves, on an informal sheet of paper which could be left with the Japanese official with the understanding that our representations were oral and not formal.

7. The British Embassy is recommending to its Foreign Office that the British representations be altered to the same basis as those suggested above.

8. The following are the lines suggested for the informal and oral representations:

(a) After expressing appreciation of the explanations made in the Japanese memorandum of October 31, state that these explanations, as well as those which it is understood were made orally by the Vice Minister of Commerce and Industry on November 20, have not been sufficient to dispel the anxieties felt by the American oil interests.

(b) While noting the assurances given by the Japanese Government that there is no intention, in the granting of annual quotas, of ignoring the interests of those engaged in the oil industry in Japan or of impairing the continuous character of the industry, the American Government still feels constrained to point out that the wide powers conferred by the law in the granting of quotas are such as to render it impossible for American oil interests to gauge with any degree of certainty the scale of their future business in Japan.

(c) It appears from the Japanese memorandum that even if American oil interests are granted permission to manufacture refined products in Japan, they will not be permitted to share in the natural growth of the industry but will be restricted at best to the refining of an amount not exceeding their present import quotas, while any increase in the demand will be allocated to the Japanese refiners. The American Government expresses the hope that the Japanese Government will see its way clear to permit those interests to continue their business on equal terms with the Japanese oil interests.

(d) The American Government notes that the Japanese memorandum does not refer to the stock-holding requirements of the petroleum industry law, which are considered by the American oil interests to be the most burdensome provisions of the law. Because of the elastic nature of these provisions, added to the uncertainty of future sales and the lack of any assurance of compensation for the increased investment entailed by the stock-holding provisions, the American oil interests are unable to decide whether it is commercially feasible to invest further funds in their business in Japan.

(e) The American Government therefore hopes that the Japanese Government will again consider the problems confronting the American oil interests in Japan and will endeavor to remove the causes of their anxieties.

893.6363 Manchuria/110 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, December 13, 1934—5 p. m.
[Received December 13—7:38 a. m.]

275. 1. In the conversations referred to in paragraph 1 of my number 274, December 13, 2 p. m., Kurusu suggested in regard to the question of the Manchuria Oil Monopoly that the foreign oil companies should endeavor to reach a voluntary agreement with the Monopoly which would reserve to the companies adequate privileges without involving an abandonment of the treaty rights of their respective Governments and that such treaty rights in the meantime could be discussed by the Governments concerned. He said "Let the companies negotiate on a commercial basis with Hsinking and settle the problem quickly. Meanwhile the proceedings can go on arguing about the treaty position for a year or as long as may be necessary."

2. It appears to the Embassy that for foreign oil companies to reach an agreement such as is indicated above would imply acceptance of the Monopoly system and to that extent would weaken our treaty position.⁷⁸

Repeated to Peiping by mail.

GREW

893.6363 Manchuria/120

The Ambassador in Japan (Grew) to the Secretary of State

[Extracts]

No. 1083

TOKYO, December 13, 1934.
[Received December 28.]

SIR: I have the honor to refer to previous correspondence on the subject of the petroleum monopoly in Manchuria and to report the following developments in the situation.

In my despatch No. 1071, dated November 30, 1934,⁷⁹ it was stated that the local representatives of the Standard-Vacuum Oil Company, the Rising Sun Petroleum Company, and the Texas Oil Company had recommended to their head offices that they refuse to quote on a lot of some 13,000 tons of crude oil which the Manchuria Oil Company wished to purchase. The Embassy is now informed that the head offices of the three companies have instructed their local representa-

⁷⁸ The Department in its telegram No. 206, December 17, 5 p. m., replied: "Department is similarly minded."

⁷⁹ Not printed.

tives to state that their companies are not at present in a position to quote on the oil desired.

On November 27, 1934, representatives of the Standard-Vacuum Oil Company, the Asiatic Petroleum Company and the Texas Oil Company attended a conference called at Changchun by the officials of the "Manchukuo" Monopoly Bureau. The Embassy is informed that the Consul General at Mukden has reported the proceedings of the conference in full to the Legation at Peiping, sending copies of the report to the Department.⁸⁰ The Monopoly officials, however, requested the foreign oil companies to reply by December 10, 1934, as to whether or not they would consent to supply the Monopoly with crude and refined oils, whether or not they could arrange among themselves for quotas of oils to be supplied to the Monopoly, and what, if any, equipment they wished to sell to the Monopoly. They were also asked to supply the Monopoly with the figures of their imports and sales of each kind of oil product for the past two years. After referring the matter to their head offices and consulting with officials of the Embassies concerned, the local representatives of the oil companies decided to instruct their Mukden representatives to reply simply to the effect that, owing to the difficult issues involved, their principals were not in a position for the present to supply the information requested. This attitude was adopted because important officials of the three companies are now conferring in Shanghai in regard to their future position vis-à-vis the Manchurian oil monopoly, and it was thought best to give a non-committal answer in order to gain time. Moreover, it was feared that a definite answer or a discussion of the various points involved might be intended to be construed as the opening of negotiations between the companies and the "Manchukuo" Monopoly officials, thus removing the negotiations from the plane of international policies and principles to one of simple commercial transactions. It has been obvious from the beginning of the discussions of the monopoly scheme that the Japanese authorities wished to draw the foreign oil companies into negotiations directly with the "Manchukuo" officials, apparently for the purpose of dissociating the practical issues from the diplomatic discussion of treaty rights and international principles, in order that they might eventually be in a position to inform the Governments concerned that the issues had been settled to the satisfaction of the parties interested and in this way to dispose of the diplomatic discussions. The oil companies, however, have steadily refused to be drawn into committing themselves in any way with the "Manchukuo" authorities.

Respectfully yours,

JOSEPH C. GREW

⁸⁰ Not printed; see telegram No. 545, November 29, 11 a. m., from the Chargé in China, p. 771.

894.6363/150 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, December 14, 1934—8 p. m.

204. Your 274, December 13, 2 p. m. Department, after giving careful consideration to your telegram under reference, desires further to consult London and will as soon as practicable communicate with you further.

HULL

894.6363/149 : Telegram

*The Secretary of State to the Ambassador in Great Britain
(Bingham)*

WASHINGTON, December 14, 1934—8 p. m.

431. Your 620, December 11, 6 p. m., and previous.

1. Department's 428, December 10, 8 p. m., clearly outlined difficulties under which Department was working due to inadequate information regarding the views of British oil interests and Foreign Office and action by the latter, and indicated the action which would in the opinion of the Department, at this stage, best serve the common objective.

No matter what term might most accurately describe the action proposed in the Foreign Office's instruction of December 5th to Clive, such action, if taken, would constitute a further official approach to the Japanese Government of equal if not greater import than approaches previously made. Therefore, bearing in mind that strong representations recently were made to the Japanese Government by the British and by the American Embassies in Tokyo in regard to the oil situation in Manchuria; that previous representations in regard to the oil situation in Japan, which were similar to those envisaged on December 5th by the British Government, have brought no satisfactory result; that officials of the Japanese Government have intimated that future governmental representations should include more concrete evidence, and presumably statistical data, in regard to the economic burden which the Petroleum Law would place upon foreign oil interests, which evidence the oil interests, if so inclined, could best supply; and that, in the hope of arriving at a satisfactory solution of their problems, special representatives of the principally interested oil companies are now in the Far East, the Department is, as previously outlined to you, of the opinion that action by the governments of the concerned oil interests might best, for the present, be confined to that suggested in the second paragraph of subdivision numbered 1 of the Department's telegram 428 of December 10. Such

procedure would give ample opportunity for oral emphasis to the Japanese Foreign Office of the seriousness with which the concerned governments view the situation under discussion and also for pointing out specific factors in the situation to which it is believed particular attention should be drawn. In the event that the special representatives of the oil interests should find it impossible, in the course of their direct conferences with appropriate officials of the Japanese Government, to arrive at a satisfactory solution of the problem, the British, American and Netherland Governments could then, if deemed advisable, and without having previously dissipated their efforts, make to the Japanese Government further representations, in character either informal or formal as the then situation might seem to warrant.

2. Department has just received from Grew a telegram dated December 13 which reads in part as follows:

"I therefore feel that it would be advisable for us to go over the ground again in an informal conversation as envisaged in . . . Department's telegram No. 201 ⁸¹ (see second paragraph of subdivision numbered 1 of Department's telegram to you No. 248 [428] of December 10) ⁸² to be held preferably between the Counselor of the Embassy and the Vice Minister for Foreign Affairs or a bureau chief. For the purposes of clarity our points could be embodied, if the Department approves, on an informal sheet of paper which could be left with the Japanese official with the understanding that our representations were oral and not formal.

The British Embassy is recommending to its Foreign Office that the British representations be altered to the same basis as those suggested above."

Grew's telegram includes a summary of the points which should, in his estimation, be brought forward in the conversation as indicated above. No mention is made in such summary of the special representatives of the oil interests who are now in the Far East.

Although Department still feels that the better course to pursue would be one along the lines indicated in its telegram 428, it would, if the Foreign Office is not similarly minded, be prepared to instruct Tokyo to act in accordance with Grew's suggestion, as briefly outlined above, provided his British colleague takes similar action.

3. Department desires that you consult Foreign Office representative promptly; that you read to him all of the foregoing except the first paragraph and all of the Department's telegram 428 of December 10 except paragraphs 4 and 5; and that you state in addition that the Department is confident that there is no fundamental difference of opinion between the British and American Governments in regard to this matter; that the American oil interests have indicated to the

⁸¹ December 10, 8 p. m., p. 782.

⁸² Parenthetical reference inserted by the Department.

Department their desire that whatever is done on the part of the companies and on the part of the governments be done by parallel courses and with common front; that the Department is of the same view; that had the Foreign Office indicated to us in advance of its instruction to Clive of December 5th just what it had in mind, the points involved could probably have been straightened out easily and promptly between us and it, thus avoiding the present confusion and delay; and that this confusion and delay strengthen our opinion that London rather than Tokyo should be the clearing point in regard to these matters.

4. You are authorized and instructed to ask Foreign Office to work out with you a tentative common understanding as to the course to be followed in their and our instructions respectively to Tokyo and to report by telegram exact terms to Department for confirmation or comment.

HULL

893.6363 Manchuria/112 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOkyo, December 15, 1934—noon.
[Received December 15—5:25 a. m.]

276. The Netherlands Minister on December 13 made formal representations to the Japanese Government on the subject of the oil monopoly in Manchuria, leaving with the Foreign Office an *aide-mémoire* along substantially the same lines as the British *aide-mémoire* of November 24. Full text by mail.⁵³

Repeated by mail to Peiping.

GREW

894.6363/154 : Telegram

The Chargé in Great Britain (Atherton) to the Secretary of State

LONDON, December 18, 1934—7 p. m.
[Received December 18—6:10 p. m.]

628. In compliance with Department's 431, December 14, 8 p. m., Millard and I met at the Foreign Office today with the officers handling this problem.

1. British Government feel that it is the Japanese application of the law and not the law itself that is particularly detrimental to foreign oil interests. On November 20 the Japanese Government, in conversation with oil interests, expressed a willingness to consider certain

⁵³ Not printed.

modifications which, up to date, has never been replied to. British Government do not feel these modifications go far enough and are practically no concession at all. It is for this reason they do not favor the procedure outlined in paragraph two of subdivision 1 of your 428, December 10, 8 p. m., since Foreign Office argues that if American and/or British officials should now merely pave the way for subsequent conversations by the oil interests with Japanese officials it would look as though the Governments concerned tacitly acquiesced in the above-mentioned Japanese suggestions to the oil companies on November 20th.

2. Consequently, the Foreign Office prefer that Clive and Grew, or any high-ranking officials of the Embassies, should make an early visit at the Tokyo Foreign Office very much as outlined by Grew in paragraph 2 of Department's 431, December 14, 8 p. m. These officials would explain that from their Governments' point of view the suggestions made by the Japanese Government to the oil interests on November 20th were in fact no concession at all. These officials, while stressing orally their Governments' position, would then leave written memorandum with the Japanese as approved by their Governments. The British envisage that Clive's oral representations should be supplemented by memorandum based on the British oil interests' brief referred to in paragraph 1 of my 620, December 11, 6 p. m.

3. The Foreign Office states it will be very much influenced by the British Ambassador's opinion but it is prepared to authorize Clive or whatever official may have this proposed discussion with the Japanese Foreign Office to state, in his discretion, at the conclusion of this proposed discussion (if indeed the Japanese attitude makes such a suggestion feasible) that if the Tokyo authorities would desire to discuss the matter with the interested oil high officers, the British Embassy would undertake so to inform them (these British officers are now in Shanghai.) Should the Japanese authorities appear' to view this suggestion favorably the British Embassy in Tokyo would then advise the local oil interests there, who would in turn consult with the high officers of their companies as to whether or not to proceed to Tokyo for discussion with the Japanese authorities. In other words, I gather the British do not think it worth while bringing the oil high officers into direct contact with the Japanese Government through official paving of the way if the Japanese Government, in discussion with interested foreign officials, remains adamant in its position. Furthermore, Foreign Office is apprehensive over oil high officers threatening the Japanese now with "measures to meet the situation" if American cooperation can not be effective. The British Foreign Office obviously realize the special United States circum-

stances involved in the Department's present decision in paragraph 3 of telegraphic instruction 422, December 5, 11 a. m. Nevertheless, they are frankly apprehensive of any threat being advanced by the oil interests to the Japanese Government if these British, American, and Dutch oil interests are not agreed beforehand among themselves that such a threat can eventually be satisfactorily implemented. Therefore, the British do not desire that the oil high officers talk direct with the Japanese Government if Clive is of the conclusion that the Japanese Government remains as adamant as it was in the beginning. On the other hand, the Foreign Office was inclined to be hopeful that the Japanese might begin to show a little more conciliatory tone.

Please cable Department's instructions that I may inform the Foreign Office.

ATHERTON

894.6363/154 : Telegram

The Secretary of State to the Chargé in Great Britain (Atherton)

WASHINGTON, December 20, 1934—7 p. m.

434. Your 628, December 18, 7 p. m.

1. Department is informing Grew of the essential features of your telegram under reference and is suggesting that he confer with Clive with the view to obtaining a detailed understanding of the latest views of the British Foreign Office and of the exact procedure it now envisages; that thereafter, provided he concurs and American oil interests so desire and provided his British colleague takes similar action, he may, with the Department's approval, proceed along the lines briefly indicated to you in paragraph 2 of the Department's 431, December 14, 8 p. m.

2. Department is informing Grew that it leaves for joint decision by him and by his British colleague the question whether mention should be made, in their contemplated discussions with Japanese officials, of the special representatives of the oil interests now in Shanghai.

3. Inform Foreign Office of the foregoing and report any developments by telegram.

HULL

894.6363/154 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, December 20, 1934—8 p. m.

210. Your 274, December 13, 2 p. m.

1. American Embassy, London, on December 18 discussed orally with Foreign Office the subject of further representations to the

Japanese Government. Embassy's telegram of December 18 to Department states *inter alia* "Foreign Office prefer that Clive and Grew, or any high ranking officials of the Embassies, should make an early visit at the Tokyo Foreign office very much as outlined by Grew" (see paragraph 6, your 274, December 13, 2 p. m.); that Foreign Office is of the opinion that, if, in discussion with Embassy officials, the Japanese Government remains adamant in its position, it would not be wise to bring the special representatives of the oil interests into direct contact with the Japanese Government; that Foreign Office is apprehensive of any threat being advanced by the oil interests to the Japanese Government if British, American, and Dutch interests are not agreed beforehand that such a threat can eventually be satisfactorily implemented; that Foreign Office is, nevertheless, prepared to authorize Clive to state, in his discretion, at conclusion of proposed discussion, if Japanese attitude makes such suggestion feasible, that if Japanese officials desire to discuss the matter with the special representatives of the British oil interests now in Shanghai, the British Embassy would undertake to so inform them.

2. Department suggests that you confer with your British colleague with a view to obtaining a detailed understanding of the views of the British Foreign Office and of the exact procedure it now envisages. If, thereafter, you continue of the opinion as expressed in paragraph 6 of your 274, December 13, 2 p. m., and if the American oil interests so desire, you are authorized, provided your British colleague takes similar action, to proceed along the lines suggested by you in paragraphs 6 and 8 of your telegram under reference.

3. Inasmuch as officials of the Japanese Government have intimated that future governmental representations should include more concrete evidence, and presumably statistical data, in regard to the economic burden which the Petroleum Law would place upon foreign oil interests, which evidence the oil interests, if so inclined, could best supply, and because of other factors in the situation, the Department continues of the opinion that it would be advantageous for special representatives of the oil interests to confer, directly, with Japanese officialdom. Department, however, leaves for joint decision by you and by your British colleague the question whether mention should be made, in your contemplated discussions with Japanese officials, of the special representatives of the oil interests now in Shanghai.

4. Department is informing London Embassy in above sense, for communication to Foreign Office.

5. Report action taken by telegraph.

HULL

693.113 (Manchuria) Petroleum/77

*The Consul General at Mukden (Ballantine) to the Chargé in China
(Gauss)*⁸⁴

No. 29

MUKDEN, December 20, 1934.

SIR: I have the honor to inform the Legation that in pursuance of the authority contained in the Legation's telegram of December 8, 11 a. m., I proceeded to Hsinking on December 19 and called in company with Mr. Butler, the British Consul General, on Mr. Kanki, chief of the Commercial Bureau and the ranking officer of Japanese nationality in the Foreign Office (the Vice Minister being absent in Tokyo).

We discussed with him the so-called "light oil" question, the substance of my representations being contained in an unaddressed *Aide-Mémoire*, which I left with him. Copies are enclosed.⁸⁵ Mr. Butler also left an *Aide-Mémoire*, which was similar in general scope. It will be noted that the *Aide-Mémoire*, which I left with Mr. Kanki is unaddressed, and contains no mention of "Manchukuo" or the "Manchukuo" Government.

We were received in a friendly manner, and our conversation was conducted entirely in the Japanese language. Mr. Kanki, however, seemed to be nervous, which was apparently due to his being somewhat at a loss just how to respond to our representations. When at the outset we said we wanted to talk about the oil question, he said he presumed that it was the monopoly question. Later on, when we had finished presenting our case, he asked whether, if the "light oil" question was settled to the satisfaction of the American and British oil companies, this would serve to allay their opposition to the forthcoming enforcement of the Monopoly Law. We said that the Oil Monopoly was an entirely separate question. Mr. Kanki suggested that the two were interdependent, and we replied that we had no instructions to discuss the question of the monopoly. Mr. Butler said that he had already expressed himself on the monopoly question in an interview some months ago, and Mr. Kanki was prompted to say that the authorities were now considering a reply to the *Aide-Mémoire* he had left on that occasion.

Mr. Kanki then asked whether we felt that the American and British oil companies were assessed the higher rate of duty and the Japanese importers the lower rate without reference to the grade of oil imported. We replied that we were not asserting that the authorities

⁸⁴ Copy transmitted to the Department by the Consul General at Mukden in his unnumbered despatch of December 20, 1934; received January 15, 1935.

⁸⁵ Not printed.

had fixed the schedules deliberately for the purpose of discriminating against the former, but that the practice followed by the customs resulted in an unfair discrimination. We said that the practice seemed to us just as unreasonable as if, to give a hypothetical example, it should be ruled by the customs that the duty levied on horses was not applicable to horses under 800 pounds in weight, but that such horses would [be] assessed the duty provided for cows, such duty being less than one-fifth that leviable on horses. In such an event a horse weighing 810 pounds would have to pay a duty more than five times as great as that a horse 790 pounds in weight would have to pay.

Mr. Kanki then asked why the American and British oil companies did not import the same grades of kerosene that the Japanese companies did. We replied that for forty years they had been developing good will on the basis of standard products of good quality sold under distinctive brands, and it seemed unreasonable that they should now have to discontinue marketing these brands or lower their quality.

Mr. Kanki appeared to be satisfied with our explanations, and was not at all disposed to be argumentative, or to defend the position of the "Manchukuo" authorities. The outcome of our conversation was that he promised to present our case sympathetically to the competent authorities. I cannot, however, feel optimistic that our representations will be productive of any direct or immediate results, since I do not consider that Mr. Kanki is an influential factor in the situation. Nevertheless, I do consider that our visit will be of indirect benefit as showing the purpose of our governments to support the American and British oil companies in their difficulties.

Respectfully yours,

JOSEPH W. BALLANTINE

894.6363/155 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, December 22, 1934—noon.

[Received December 22—2:40 a. m.]

283. Department's 210, December 20, 8 p. m.

1. I conferred with Clive this morning. He stated that he was in substantial agreement with us in regard to the proposed procedure and that although his instructions have not yet arrived he feels warranted in making the proposed informal representations without further instructions.

2. As it probably will be impossible to determine from the oral reply to our representations whether or not the Japanese Government will "remain adamant", Clive feels that the decision as to the pro-

posed discussions between the special representatives of the oil companies and the Japanese officials cannot intelligently be based upon such reply.

3. The two Embassies will confer jointly with the local representatives of the oil companies early next week, before representations are made, in order to ascertain their views.

GREW

894.6363/157a : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, December 24, 1934—1 p. m.

215. Socony-Vacuum [*Standard-Vacuum?*] has just received from its special representatives now at Shanghai a telegram which indicates that those representatives apprehend or have been given from some source intimations that the inconclusive adjournment of the London naval conversations may occasion a change of attitude on the part of the American and British Governments in regard to the problems which confront the oil companies in reference to Japan and Manchuria.

Department has suggested that Socony-Vacuum inform these representatives that the American Government's attitude is in no way changed and that you have full instructions.

Department suggests that you give Socony-Vacuum representative in Tokyo the fullest possible information, in your discretion, with regard to the exact situation as of this moment, for transmission by him by means assuring absolute confidence, to the special representatives of his company now at Shanghai.

HULL

894.6363/156 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, December 25, 1934—7 p. m.
[Received December 25—7: 51 a. m.]

284. 1. My 283; December 22, noon. On behalf of local representative of the Standard-Vacuum the Embassy yesterday sent the following message in confidential cipher to the Consulate General in Shanghai:

"December 24, 1 p. m. Please deliver a paraphrase of the following message to Goold, Standard-Vacuum Oil Company, Shanghai:

'British and American Embassies are authorized to make informal representations to pave the way for your discussions with the Japanese officials if the oil interests concur. Representations will probably be made on the 27th or 28th and will outline again the difficulties of the oil companies and will state that

the assurances so far given by the Japanese Government are insufficient to remove the anxieties felt by the oil companies. Embassies will add orally that if the Japanese authorities think that a possibility exists that a solution of the difficulties could be found through discussions between the Japanese officials and the company directors now in Shanghai, the oil companies might authorize the directors to come to Japan for that purpose. Do you agree with this procedure?"

2. Department's 215, December 24, 1 p. m. The local representative of the Standard-Vacuum has been kept currently and fully informed of the Department's attitude and recent information has been conveyed to the special representative at Shanghai by special messenger. The substance of the Department's telegram under reference will be conveyed to the local representative tomorrow morning for transmission as indicated by the Department.

GREW

894.6363/159 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, December 27, 1934—5 p. m.
[Received December 27—7:20 a. m.]

285. My 284, December 25, 7 p. m. Having obtained the agreement of the oil companies, the British and American Embassies today made oral and informal representations along the lines suggested in paragraphs 6 and 8 of my 274, December 13, 2 p. m. Our representations were made by Neville and Dickover to Kurusu and British representations were made by Sansom to Kurusu. Kurusu received our representations sympathetically and expressed some hope that a solution of the difficulties could be found "within the framework of the present law". On his own initiative he recommended conference with the special representatives of the oil companies and expressed his belief that a discussion between the special representatives and the Japanese official would produce fruitful results but that he must first obtain the opinion of the Vice Minister for Commerce and Industry before committing himself. Substantially the same reply was made to the British representations.

Shall report again when Kurusu replies.

GREW

894.6363/162 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, December 29, 1934—noon.
[Received December 29—3:33 a. m.]

286. My 285, December 27, 5 p. m.

1. Kurusu yesterday informed Neville orally that:

(a) Officials of the Department of Commerce and Industry would welcome discussions with the special representatives of the oil companies and he (Kurusu) believed that such discussions would be useful and well worth while.

(b) Foreign oil refineries, if established in Japan, would participate in the growth of demand on equal footing with Japanese refineries.

(c) Although adhering to the policy of developing the Japanese refining industry, a part of the natural increase in demand will be allotted to the foreign importers of refined products.

(d) As the Japanese oil companies are unable to comply with the stock-holding provisions of the law because of lack of funds, some adjustment of the provisions will be necessary.

2. The local manager of Standard-Vacuum has, therefore, telegraphed to his special representatives in Shanghai to proceed to Japan. It is expected that the discussions between the special representatives and the Japanese officials will start about January 7.

3. British Embassy and British oil interests are following identical procedure.

GREW

TRADE RELATIONS BETWEEN THE UNITED STATES AND JAPAN;
VOLUNTARY RESTRICTION OF EXPORTS TO THE UNITED STATES
BY THE JAPANESE

611.006 Fish/11

Memorandum by the Assistant Chief of the Division of Far Eastern Affairs (Fuller)

[WASHINGTON,] December 13, 1933.

Conversation: The Japanese Chargé d'Affaires, Mr. Toshihiko Taketomi
Assistant Secretary Sayre
Mr. Fuller.

Mr. Taketomi called to pay his respects to Assistant Secretary Sayre. In the course of the conversation he stated that he had seen in the newspapers that Mr. Sayre was a member of some Government committee which was to take up the question, as he understood it, of restricting and controlling imports into the United States. Mr. Sayre explained the nature of the interdepartmental committee which is to consider the question of developing American foreign trade and also outlined plans in regard to reciprocal trade treaties.

Mr. Taketomi then said that he had seen in the newspapers reports to the effect that various American manufacturers and producers were anxious to have measures taken to restrict or to place on a quota imports of various commodities from Japan. He mentioned particularly tuna fish and lead pencils, which he said were not of great importance so far as volume of trade was concerned. He mentioned his

understanding that the total import of lead pencils into the United States from Japan last year was valued at only about yen 10,000.

He then spoke of the action taken not long ago in British India toward raising the import tariff on Japanese cotton textiles to a point where it is practically prohibitive and he referred to the conference now in session at Simla to consider trade arrangements between India and Japan. He said that these questions with Great Britain and the British Empire had originally been purely commercial questions but that they had now developed into more or less political questions and had resulted in a good deal of undesirable agitation against Great Britain in Japan.

He expressed the hope that small and purely commercial questions like the tuna fish and lead pencil matters would be handled in such a manner that they would not lead to political agitation in Japan.

He stated that he was authorized by the Foreign Office to say that if measures to place these two commodities on a quota basis or to raise the import duties thereon could be prevented or forestalled, the Japanese Government would be prepared to consider exercising a control and limitation of the exports of these commodities from Japan to the United States. He said further that it was possible that the Embassy could suggest to Japanese importers in the United States that they enter into some sort of a code binding themselves not to cut prices on tuna fish and lead pencils. Mr. Taketomi asked that these considerations be borne in mind when matters of trade with Japan were under consideration.

Under instruction from Mr. Sayre, Mr. Fuller informed Mr. Herbert Feis, Economic Adviser, orally of this conversation.

611.006 Fish/15

Memorandum by the Chief of the Division of Far Eastern Affairs (Hornbeck) of a Conversation With the Japanese Chargé (Taketomi)

[WASHINGTON,] February 2, 1934.

Mr. Taketomi brought me an informal memorandum, of which a copy is here attached.⁸⁰

He said that he very much hoped that the question of importation of Japanese tuna fish products into the United States could be dealt with on a basis of "compromise" rather than by some special and unilateral action on the part of the American Government. He hoped that we would give consideration to that idea.

Mr. Taketomi said that he would send in a member of his staff who was more familiar than he with the details to talk the problem over with us.

S[TANLEY] K. H[ORNBECK]

⁸⁰ *Infra.*

611.006 Fish/15

The Japanese Chargé (Taketomi) to the Secretary of State

In view of the recent movement in some parts of Southern California against the importation of Japanese frozen and canned tuna, Japanese Interests thought it advisable, upon the recommendation of the Government, to send their representatives to California to acquaint themselves, through personal contact, with the main causes of complaint on the part of American Interests and to enter, if possible, into an agreement by which the quantity of exports of tuna from Japan can be regulated to the mutual benefit of those engaged in the tuna industry on both sides of the Pacific. It is reported that the representatives of the Japanese tuna industry are to leave Japan about the first of February for the United States.

In this connection, the Japanese Embassy is informed further to the effect that it is the intention of the Japanese Government to render every possible assistance in the promotion of trade with the United States and to take the necessary supervisory steps to permit manufacturers and business men in Japan to cooperate with those of the United States, and that the Japanese authorities concerned have recently taken steps which would allow the tuna industry to organize on a nationwide scale in order that they may be able to enter into agreements with foreign interests concerning the export of their goods and other marketing conditions.

Under the circumstances, the Japanese Chargé d'Affaires ventures to state that it is his Government's sincere wish that the American Government be good enough to cooperate with the Japanese Government and consider the matter with a view to bringing about an understanding between the American and Japanese tuna Interests.

[WASHINGTON,] February 2, 1934.

611.003 Lead Pencils/10

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] February 19, 1934.

Conversation: Mr. Eiji Wajima, Attaché of the Japanese Embassy
Mr. Sayre, Assistant Secretary of State
Mr. Ryder, Department of Commerce
Mr. Dooman.

Mr. Sayre stated to Mr. Wajima that the pencil manufacturers of this country had submitted a complaint to the President that the sudden increase in the importation of Japanese pencils had threatened the maintenance of their Code, and that the President had directed

the Tariff Commission to investigate the complaint and to render a report on their findings. The report, Mr. Sayre continued, had been submitted to the President with the recommendation that the tariff on certain grades of pencils be increased to a point which would effectually prevent the importation of lead pencils from Japan. The Committee on Economic Policy, Mr. Sayre said, was of the opinion that it would be desirable to explore the possibility of finding some expedient by which the increase in duties recommended by the Tariff Commission might be avoided, as the Committee preferred to avoid the adoption of measures tending to curtail international trade.

Mr. Sayre then explained to Mr. Wajima that the recent increase in the domestic price of pencils due to the operation of the National Industrial Recovery Act⁸⁷ had made possible a sudden and marked increase in the importation of lead pencils from Japan. He referred to a statement recently made to him by the late Chargé d'Affaires of the Japanese Embassy, Mr. Taketomi, to the effect that the Japanese Government would be glad to cooperate with a view to preventing the establishment of further impediments to international trade. The Committee on Economic Policy, of which Mr. Sayre is a member, having taken note of the statement of Mr. Taketomi, was desirous of ascertaining whether the Japanese Government would be agreeable to entering into some form of "gentlemen's agreement" by which the increase in the tariff necessary for the protection of the Code for pencil manufacturers might be obviated.

Mr. Wajima expressed appreciation for the courtesy shown to his Government by informing that Government of the measures impending before such measures were definitely taken. He expressed himself as being thoroughly in accord with the suggestion of setting up a "gentlemen's agreement". He said that the imports of Japanese pencils into the United States did not run into very large figures; but, he continued, the Japanese Government was somewhat concerned lest the increase in the duty on lead pencils, as recommended by the Tariff Commission, lead to similar increases in the duties on other commodities exported from Japan to the United States. He expressed confidence that his Government would favorably regard the suggestion that a "gentlemen's agreement" be arranged. He then asked Mr. Sayre whether Mr. Sayre had in mind a definite proposal which the Japanese Embassy could put before its Government.

Mr. Sayre replied that he had not prepared any proposal for presentation on the occasion of the present conversation, which he hoped Mr. Wajima would regard as purely informal and confidential. Mr. Sayre added parenthetically that he had considered it advisable to

⁸⁷ Approved June 16, 1933; 48 Stat. 195.

have this conversation in regard to the lead pencil case, but that it was not to be taken as a precedent.

Reverting to Mr. Wajima's inquiry, Mr. Sayre said that he did not know whether his committee and other interested agencies of the Government had definitely decided on any figures. Mr. Ryder remarked that imports of Japanese pencils had risen from a few thousand gross in 1932 to 160,000 gross in 1933, due to the operation of the Code, and that the figure would have to be substantially lower than the latter amount, which was found to be injurious to the domestic manufacturers. Mr. Sayre said that he personally would be prepared to recommend the figure of 125,000 gross per annum, with a monthly maximum of 15,000 gross.

Mr. Wajima replied that the Embassy would immediately report to Tokyo, and that he hoped to be able to present a reply within the next two or three days.

It was arranged that Mr. Wajima communicate his reply in the first instance to Mr. Dooman, who would in turn report to Mr. Ryder and Mr. Sayre.

611.003 Lead Pencils/11

Memorandum by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs

[WASHINGTON,] March 2, 1934.

Conversation: Mr. Ito, Second Secretary, Japanese Embassy
 Mr. Eiji Wajima, Attaché, Japanese Embassy
 Mr. Ryder, Department of Commerce (N. R. A.⁸⁸)
 Mr. Dooman.

Mr. Ito asked if any decision had been reached with regard to the suggestions and counter-proposals put forward by him at yesterday's meeting⁸⁹ on the matter of restricting importations of lead pencils from Japan.

Mr. Ryder stated that his committee had given the counter-proposals and suggestions sympathetic and careful consideration. The committee concluded that it would be impossible to agree to any increase in the suggested figure of 125,000 gross as the maximum to be imported in any one year, but that it would recommend the granting of a maximum quarterly allotment of 45,000 gross, of which not more than 25,000 gross should be imported in any one month.

Mr. Dooman added that this Government would be prepared to enter into an understanding with the Japanese Government in the matter whenever the Japanese Government, for its part, found itself in

⁸⁸ National Recovery Administration.

⁸⁹ Memorandum not printed.

position to enter into such understanding; that American consuls could not cooperate towards the restriction of exports from Japan along the lines suggested by the Japanese Embassy, but that, if any other practicable form of cooperation could be suggested, the American Government would be glad to study it.

Mr. Ito said that he was extremely gratified by the cordial response of the American Government. The Embassy, however, was not authorized to accept any figures other than those he had mentioned yesterday, and it would, therefore, be obliged to refer the American Government's reply to Tokyo. He felt confident that early decision would be taken by his Government.

A discussion then ensued regarding the nature of the powers which the Japanese Government possessed to restrict exports. The two Japanese officers disagreed with each other as to the nature and extent of such powers, but they agreed that restriction could be effected by "administrative" measures.

611.003 Lead Pencils/19

Memorandum by the Assistant Secretary of State (Sayre)

[WASHINGTON,] April 2, 1934.

On April 2, 1934, the Ambassador of Japan, Mr. Hiroshi Saito, accompanied by Mr. Eiji Wajima, Attaché, called at the office of Assistant Secretary of State, Mr. Sayre, who read the following statement:

"Manufacturers of lead pencils in the United States have complained to the Government of the United States that lead pencils are being imported from Japan in such quantities as to threaten the maintenance of their code of fair competition and have requested increased tariff protection against such importations, as provided in Section 3 (e) of the National Industrial Recovery Act. On the basis of a thorough study of these complaints the Government of the United States is constrained to recognize the justification for the apprehensions entertained by these manufacturers. On the other hand, the Government of the United States has viewed with concern the tendencies throughout the world to stifle international trade by means of tariffs, quotas, exchange control and the like, and is extremely reluctant to lend any encouragement to this tendency by adopting any measures, not dictated by absolute necessity, which tend to curtail international trade.

"It is believed that the maintenance of the code of lead pencil manufacturers would not be endangered, and the necessity for the American Government to exercise the authority vested in it by Section 3 (e) of the National Industrial Recovery Act to restrict the importation of lead pencils into the United States would not arise, if direct or indirect exports of woodcased lead pencils from Japan to the United States did not exceed 125,000 gross in any one year, not more than 45,000

gross in any one quarter and not more than 25,000 gross in any one month.

"The American Government hopes that the Japanese Government, with a view to cooperating in this matter, will, on and after May 1, 1934, exercise its authority and its good offices to the end that the direct or indirect exportation of wood-cased lead pencils from Japan to the United States be restricted to the figures above-mentioned. If the export of pencils from Japan to the United States during the month of April should exceed the maximum monthly figure of 25,000 gross, the maximum annual amount of 125,000 gross, to be computed from May 1, 1934, shall be reduced by an amount equal to the excess of such exports over the above-stated monthly maximum figure."

The Ambassador and Mr. Sayre initialed the statement as read, and the initialed statement, retained by Mr. Sayre, is attached hereto and is to remain in the Department's archives; an uninitialed carbon copy of the statement was given to the Japanese Ambassador and retained by him.

Mr. Sayre explained orally that neither the United States nor Japan considered that a contract was being entered into. Both regarded the matter as simply a gentlemen's agreement. To this oral statement the Japanese Ambassador acceded.

Mr. Sayre also read to the Ambassador a statement dealing with the duration and scope of the arrangement in the following language:

"If the informal arrangement is not observed by Japanese exporters, it may be terminated without notice at any time. The American Government will endeavor to give favorable consideration, if Japanese exporters do not observe the arrangement, to the possibility of first drawing the attention of the Japanese Government to the situation.

"The arrangement will otherwise continue until April 30, 1935, and thereafter until, on three months' prior notice, it is terminated on behalf of either the United States or Japan.

"The arrangement will cover exports of Japanese lead pencils to Continental United States, Alaska, Hawaii and Puerto Rico."

The Japanese Ambassador concurred in this statement as correctly setting forth the intentions which he understood to be those of the two Governments. Mr. Sayre remarked that to place language regarding duration in the written statement which was to be initialed might give such statement the appearance of a contract. It was for this reason that he preferred that any statement regarding duration should be oral only.

Those present at the meeting in Mr. Sayre's office included besides Mr. Sayre, the Ambassador and Mr. Wajima, Mr. Oscar Ryder of the National Recovery Administration, Mr. Dooman of the Division of Far Eastern Affairs of the Department of State and Mr. McClure, Assistant to Mr. Sayre.

F[RANCIS] B. S[AYRE]

611.0031/693

Memorandum by the Secretary of State

[WASHINGTON,] May 10, 1934.

The Japanese Ambassador called, and, incidental to our greetings, I made a brief reference to and review of the universal problem of liberalizing commercial policy and restoring suitable international economic relations; and I closed with the observation that, assuming liberal commercial policy, fair trade methods and practices and friendly trade relations were adopted, there was far more than enough room on the planet for all enterprising countries desiring to engage in mutually profitable trade with each other to do so to the fullest extent of their capacity. I stated that I had been preaching this general doctrine for some years and that I proposed, while different things were happening here and there in the world, to pursue an even course more leisurely than hasty, with the idea that my country would contribute its full share towards world economic rehabilitation and its own permanent prosperity.

The Ambassador commented briefly but in general terms approvingly of my statement.

I then added that of course my government would be obliged to proceed very gradually in entering into negotiations for bilateral reciprocity agreements, for the reason that powerful opposition to any reduction of trade barriers had and still existed in this country, and that if we should proceed too rapidly with negotiations and with reductions of trade barriers we probably would be thrown out of power at Washington; that, furthermore, in order to preserve the unconditional form of the favored nation policy as nearly as possible, we would probably be obliged to select a very limited number of commodities as a basis for the first commercial agreement with the idea that as favorable sentiment in the nation increased we might readjust trade obstructions downward a little further, or in some other way find it consistent to add more commodities in the form of a supplemental bilateral trade agreement; that these supplemental arrangements might take place six months or twelve months or at other later stages; and that we had not undertaken to determine the order in which we would take up negotiations with different countries but we would do the best we could as to this if and when the Congress enacted the legislation giving the Executive authority to negotiate reciprocity treaties.

The Ambassador then said that he had been away from Japan for some three years and a half and he hoped to leave Washington soon after the forepart of June, sailing for his country on the 30th from Seattle.

C[ORDELL] H[ULL]

611.946 Rag Rugs/8 : Telegram

The Secretary of State to the Consul General at Tokyo (Garrels)

WASHINGTON, May 22, 1934—4 p. m.

Department's telegram April 3, 1 p. m., forwarded via Shanghai.⁹⁰ Similar arrangement covering cotton rugs is about to be made. Annual allotments beginning June 1st will be as follows:

1. Chenille rugs—650,000 square yards;
2. Hit-and-miss rag rugs—3,250,000 square yards;
3. "All others"—4,070,000 square yards.

Although there will be no monthly or quarterly allotments all consulates should maintain accurate and up-to-date records based on consular invoices of exports to the United States. Figures of Exports from each port should each month be collected at and tabulated by office at principal port of shipment and mailed to Shanghai for transmission by naval radio.

In the special case of chenille rugs, total quantity exported to United States between May 11th and May 31st, both dates inclusive, should be telegraphed directly to Department as soon as possible after close of business May 31st.

HULL

611.9431/53

Memorandum by the Secretary of State

[WASHINGTON,] June 20, 1934.

The Japanese Ambassador, in company with his Counsellor, called and handed me a memorandum, copy of which is hereto attached,⁹¹ regarding trade relations between the two countries, their complementary nature to a large extent, and emphasizing the lack of a trade balance of imports and exports between the two nations; also urging that further increases in our trade barrier against certain Japanese commodities, as set out in the memorandum, should be given further and serious consideration before affirmative action; porcelain and potteries were also mentioned, and the hope expressed that our government would not impose any additional restrictions on Japanese exports of these latter commodities. I replied that each of these matters would be given the most careful attention and consideration.

I then stated that a single policy of bilateral bargaining trade between two given countries, for the purpose of balancing trade between

⁹⁰ Not printed; this telegram reported the understanding covered by the memorandum of April 2, 1934, by Assistant Secretary Sayre, p. 804, and requested consular reports of exports of lead pencils.

⁹¹ *Infra.*

the two, would never get either country very far; that this eliminated all triangular and a number of other trade methods and policies which were vital to anything like the development of full and normal trade between nations; and that the trade of most important countries of Europe, such as France, Germany, and Italy, under narrow bilateral bargaining plans, attempting to equalize such trade between every two countries, showed an actual loss in their respective exports, while the sum total of trade barriers showed a net increase in height. I suggested what, I said, many of us had been urging in public addresses for a considerable time—and that was a broader commercial policy than mere bilateral bargaining arrangements. I pointed out that the adoption of the reciprocity trade agreement policy by the United States Government was by itself just a first step in the direction of a more universal liberalized set of trade methods and trade policies, which were so indispensable to restoration of the normal volume of world trade. Frequently I suggested that nations would have to rise to higher levels of commercial policy if anything like normal and permanent trade was to be restored; that many of us in this country very earnestly were pleading with statesmen of other countries to take this broader view and urging their respective countries to move back in the direction of economic sanity. The Ambassador expressed himself as very much interested and very much in approval of these ideas.

I called his attention specially to the fact that our reciprocity policy included the unconditional form of the favored-nation doctrine which within itself meant a much broader commercial policy than the ordinary bilateral bargaining method would imply.

The Ambassador finally remarked that with reference to his and my confidential conversations, it had occurred to him that the Japanese Foreign Minister might be interested in them, or that they might be useful to him, and so he, the Ambassador, took the liberty of conveying to Foreign Minister Hirota the substance of our conversations, at least to a material extent. I expressed no surprise, but instead reminded him very definitely that beyond the slightest question the two notes exchanged between Foreign Minister Hirota and myself some weeks ago⁹² afforded the broadest and most complete foundation on which to build in the most satisfactory way all desirable relationships—economic, peace, and otherwise, including those of friendship between the two nations—; that in view of so much careless talk that was taking place in different parts of the world I

⁹²On February 21 and March 3; for texts, see *Foreign Relations, Japan, 1931-1941*, vol. I, pp. 127 and 128.

had found it necessary to state later very succinctly but very respectfully, the fundamentals of our attitude at the present.⁹³

C[ORDELL] H[ULL]

611.9481/53

*The Japanese Embassy to the Department of State*⁹⁴

MEMORANDUM

1. From the present trend of commercial relations between Japan and the United States, it is highly likely that for some time to come the balance of trade will continue to be unfavorable to Japan.

2. But it is fortunate that industries in our two countries cover generally different fields. Japan's important exports to the United States are raw silk, canned foodstuffs, porcelain and potteries, etc.; while the United States' important exports to Japan are raw cotton, lumber, machinery, mineral oil, etc. It is a case of complementary and non-competitive trade. It is therefore plain that there are great possibilities of trade increase between our two countries as a concrete evidence of mutual helpfulness. While many countries are adopting the policy of economic nationalism and, by restricting importation, are greatly injuring international trade, the trade of our two countries is on such wholesome foundation and is capable of a great development through mutual efforts.

3. From such point of view, Japan has recognized the necessity of endeavoring to adjust as far as possible the interests of Japan and the United States in industries where competition may occur and thereby to avoid difficulties in the broad lines of our trade relations. Therefore, ever since the coming into force of the NRA regime in this country, Japan has in that sense sincerely tried to harmonize her trade policies with those of the United States. For instance, in the cases of pencils and rag rugs, Japan has complied with the desire of the United States by enforcing self-imposed restraint on exportation.

4. In the circumstance, the Japanese Government desires to request the United States Government to give serious consideration to the matters still pending, namely, those of tuna fish, matches, and porcelain and potteries, from the broad aspects of the Japanese-American trade.

With regard to canned tuna fish, import tariff was raised in December last, in virtue of Article 336 of the Customs Act.⁹⁵

⁹³ See telegram No. 59, April 28, 7 p. m., to the Ambassador in Japan, *Foreign Relations, Japan, 1931-1941*, vol. I, p. 231.

⁹⁴ Handed to the Secretary of State by the Japanese Ambassador, June 20, 1934.

⁹⁵ Tariff Act of 1930; 46 Stat. 701.

With regard to matches, a raise in excise duties was suddenly effected and forestalled any chance of conciliatory negotiations.

With regard to porcelain and potteries, the United States Government is actually contemplating a restriction upon their importation. Heretofore, with the assistance of American authorities, the exporters and importers, both Japanese and American, of Japanese porcelain and potteries have been arranging about the prices and there have occurred no difficulties. If there should be any complaints, they are, it seems proper, to be adjusted among the merchants interested.

Such restrictions on Japanese imports would only result in making Japan's unfavorable trade balance against the United States even more unfavorable, and would work prejudicially to the general trade relations between the two countries which are calculated to be more or less balanced and promise to increase in volume and value.

611.006 Fish/20

*Memorandum by Mr. Eugene H. Dooman of the Division of
Far Eastern Affairs*

[WASHINGTON,] June 27, 1934.

Conversation: Mr. Keinosuke Fujii, Chargé d'Affaires, Japanese Embassy
Mr. Takaharu Ito, Second Secretary, Japanese Embassy
Mr. Dooman.

Mr. Fujii said that in accordance with a suggestion made to him by Mr. Sayre, upon whom he called last week, he had come today to talk over informally the possibility of American and Japanese Governments entering into conversations looking toward the satisfactory adjustment of imports of tuna fish from Japan. Mr. Fujii stated that the conversations which had been held in California between American and Japanese tuna interests had broken down and that the Japanese representatives had returned to Japan. The Japanese Government, in accordance with the view set forth in the memorandum presented to the Secretary on June 20 by the Japanese Ambassador (See 611.9431/53), would be appreciative of an opportunity to discuss with the American Government the possibility of finding a mutually satisfactory adjustment of the situation existing in the tuna fish industry before action is taken by the American Government to restrict the importation of tuna fish from Japan.

I called up Mr. Gresham, Acting Chief of the Imports Division, N. R. A., and asked whether any information had been received with regard to the conference between American and Japanese representa-

tives of the tuna fish interests. Mr. Gresham said that he had today received a letter from the attorney for the Southern California Tuna Packers to the effect that during the past few days the conversations had taken a favorable turn. Mr. Gresham assumed, therefore, that the conversations had not ended. In accordance with the request of the American interests, action had been suspended on the complaint received by the N. R. A. from the American tuna interests. I then asked Mr. Gresham whether the N. R. A. would be favorable in principle to conversations being held between the Governments concerned with regard to the tuna question in the event that the conversations now taking place in California were abortive. Mr. Gresham replied that he favored the idea, but that he thought it might be preferable to hold the matter over until it could be made a part of the negotiations with the Japanese Government regarding the conclusion of a general tariff agreement. I told Mr. Gresham that I had no knowledge that any decision had been taken to conduct such negotiations with Japan, but that I would note his views with regard to the desirability of holding informal conversations covering tuna fish.

I then informed Mr. Fujii that information received by N. R. A. indicated that the conversations not only had not been concluded but that they seem to have taken a favorable turn. Mr. Fujii seemed somewhat surprised and pleased, and he said that he would immediately telegraph the Japanese Consul at Los Angeles and ask for a report.

Referring to the memorandum, above-mentioned, of the Japanese Ambassador, I said that Mr. Saito was under a misapprehension in stating that this Government is actually contemplating placing restrictions on the importation of Japanese porcelain and pottery; that hearings were being held; but that that fact did not necessarily imply that the establishment of further restrictions are under contemplation. I expressed the hope that they would bear this fact in mind in the event that informal conversations were held with regard to tuna fish, for the reason that the American Government might find it necessary to hold a hearing on imports of tuna fish when conversations with the Japanese Government were being held. Mr. Ito said that this circumstance was well understood, but that the Japanese Government hoped that it would be possible to enter into conversations with regard to tuna fish before any recommendations of a restrictive nature are made by the Tariff Commission to the President.

Comment:

It is not as yet certain that the conversations between the American and Japanese interests concerned have failed. In the event that they

fail and it thus becomes necessary for action to be taken on the complaint laid before N. R. A., it is suggested that the Japanese proposal, that negotiations be held between the American and Japanese Governments, be referred to the Executive Committee on Economic Policy for decision as to the reply which should be made to the Japanese Embassy.

It is the opinion of the Far Eastern Division that it would be preferable to avoid arranging another "gentlemen's agreement" similar to the agreements that have been reached with Japan with regard to lead pencils and cotton rugs, but if remedial action on tuna fish imports cannot await careful study of the entire question of our commercial relations with Japan, it is recommended that conversations be held with the Japanese Government before restrictive measures are applied.

611.946/97

*The Japanese Embassy to the Department of State*⁹⁷

MEMORANDUM

1. The General China and Porcelain Ware Exporters Association in Japan has been paying particular attention to the exportation of china and porcelain ware to the United States and since November 1, 1933 has restricted the exportation of eight classes of china and porcelain ware which are in competition with those manufactured in the United States and has increased by thirty per cent the price on these eight classes.

Since May 1st last the Association has been restricting twenty-two other classes of china and porcelain in order to avoid menacing the United States industry and to promote the exportation of china and porcelain ware to the United States.

2. Besides the above mentioned thirty classes of china and porcelain ware the Association is ready to restrict the exportation of additional classes if it becomes necessary.

Concerning the restrictions by exporters not members of the above mentioned Association, the Japanese Government is striving to have these exporters restrict their exports of china and porcelain ware also.

While the Japanese Government and the Exporters Association are making every honest effort to restrict the exportation of these goods to the United States, the Japanese Government hope that the United States Government will be so good as to negotiate previously with the Japanese Government before taking any action, such as imposing additional duty or quota restriction.

⁹⁷ Handed to Mr. Eugene H. Dooman of the Division of Far Eastern Affairs by the Japanese Chargé, July 6, 1934.

611.946/97

Mr. Eugene H. Dooman of the Division of Far Eastern Affairs to the Assistant Secretary of State (Sayre)

[WASHINGTON,] July 6, 1934.

MR. SAYRE: There is attached a memorandum⁹⁸ which was handed to me this morning by Mr. Fujii, Chargé d'Affaires of the Japanese Embassy, who called on me in company with Mr. Ito, Second Secretary of the Japanese Embassy. The memorandum states that the Japanese exporters of porcelain have been restricting the quantity of a number of different kinds of chinaware and porcelain exported to the United States, and that they have increased by thirty percent the price on eight classes of porcelain and chinaware. The memorandum sets forth the request of the Japanese Government that the American Government enter into negotiations with the Japanese Government before any action is taken to restrict the importation of these goods into the United States.

The officers supplemented the memorandum by stating that the Japanese Government did not propose that negotiations similar to the pencil and cotton rug negotiations, be held. The Japanese Government desires the American Government to note that voluntary action is being taken by Japan to restrict exports of this commodity to the United States and otherwise to remove causes for complaint against imports from Japan. The Japanese Government desires that this Government observe the results of these restrictive measures, and that, if these results do not satisfactorily remedy the situation and restrictive measures on this side were considered necessary, negotiations between the two Governments be held before restrictive measures are applied by this Government.

Your instructions with regard to the character and substance of the reply to be made to the memorandum of the Japanese Embassy are requested.

611.946/97

*The Department of State to the Japanese Embassy*⁹⁹

An investigation is being made by appropriate agencies of the American Government of imports into the United States of china and porcelain ware, and endeavor will be made, during the course of the investigation, to ascertain the effects upon imports into the United

⁹⁸ *Supra.*

⁹⁹ Handed to the Japanese Chargé by Mr. Eugene H. Dooman of the Division of Far Eastern Affairs, July 16, 1934.

States of the measures which the General China and Porcelain Ware Exporters' Association in Japan is understood to have taken.

The American Government will be glad, if any measure to restrict imports of china and porcelain ware should be considered necessary, to enter into informal discussions with the Japanese Government before such measures are put into effect.

611b.003/55

*Memorandum by the Chief of the Division of Far Eastern Affairs
(Hornbeck) of a Conversation With the Japanese Chargé (Fujii)*

[WASHINGTON,] August 24, 1934.

Mr. Fujii called on me and said that he was instructed by his Government to call in connection with the question of the pending Philippines tariff act. He said that the Japanese Government was apprehensive, in the feeling that this act was being formulated with a view to cutting down the flow of Japanese exports into the Philippines and it hoped that the American Government would take steps toward preventing the adoption of such provisions. He talked about the development of Japanese trade with the Philippines and the needs of the Filipino consumer and he gave me a slip of paper (here attached) ¹ on which there were written some figures of imports and exports.

As Mr. Fujii's remarks were somewhat rambling and inconclusive, I inquired whether there appeared to be anything in the proposed act which was discriminatory against Japanese trade. Mr. Fujii said that the Japanese Government was not well informed with regard to the exact provisions but that it believed that the effect would be adverse to Japanese trade. I raised a question of the purposes which governments have in mind when they make tariff laws and emphasized the point that such laws are made with a view to safeguarding the interests, as conceived by the makers, of the populations within or behind the tariff walls and are very seldom indeed made for the purpose of doing any particular damage to a population of any particular country outside of those walls. Mr. Fujii continued somewhat diffusely, and I finally asked whether he would tell me as exactly as possible just what his Government had instructed him to say. He then slowly made the statement that he was instructed "to request that the American Government advise the Philippine Government against making a tariff which would have the effect of interfering with Japanese-Philippine trade." I repeated this formula and thanked him for giving it to me.

¹ Not printed.

He then hastened to say that the instruction which had been given him was rather vague; and he added at once the question: What did I "think?" To this I replied that I thought first of all that the Philippine tariff act would be formulated with a view to safeguarding and promoting the interests of the people of the Philippines and those of the United States; that I could not conceive that there would be any thought on the part of the makers of discriminating against or doing damage to Japan; that, as Mr. Fujii knows, this Government is animated throughout, in the field of foreign relations, by the desire to act in conformity with the principle of the "good neighbor"; and that I thought that everybody responsibly connected with the matter would try to act on the basis of sound economic and political principles.

I then, without giving Mr. Fujii an opportunity to reply, went on to say that, inasmuch as he had, under instruction, brought up this question of the Philippine tariff, I would like to mention to him a matter which was related to it but of which we had not intended to make mention. I said that it appeared that the Japanese Consul General at Manila has been making speeches in the Philippines and expressing himself publicly there on the subject of this pending legislation, in a manner which is scarcely in keeping with or appropriate to the responsibilities of his official position. Mr. Fujii replied that he had heard that some of the Philippine newspapers had complained. I said that this was quite true and that the complaints had not been restricted to the Philippine newspapers. I said that I thought it would be well for the Japanese Government to give some thought to the matter and consider whether the proprieties were or were not being violated.

Mr. Fujii reverted to expressions of appreciation of what the Department of State had done in connection with the Arizona matter² and, after exchange of the usual amenities, the conversation ended.

S[TANLEY] K. H[ORNBECK]

611.9431/62

The Chargé in Japan (Neville) to the Secretary of State

No. 996

TOKYO, October 4, 1934.

[Received October 22.]

SIR: I have the honor to refer to the Department's instruction No. 544 dated July 2, 1934,³ (File No. 611.9431/53) enclosing a copy of a memorandum of a conversation on June 20, 1934,^{3a} between the Secretary of State and the Japanese Ambassador at Washington in regard

² See pp. 690 ff.

³ Not printed.

^{3a} *Ante*, p. 807.

to certain aspects of the commercial relations between the United States and Japan, and a copy of the memorandum^{3b} presented at that time by the Japanese Ambassador.

It appears that Ambassador Saito expressed the hope that further increases in our trade barrier against certain Japanese commodities should be given further and serious consideration before affirmative action; among the commodities mentioned affected or threatened were tuna fish, matches, porcelain and potteries.

The Embassy has carefully reviewed the principal commodities imported into Japan from the United States in an endeavor to provide the Department, if possible, with points of discrimination against American trade which might be offset against the points raised by Ambassador Saito. In consultation, however, with Mr. Williams, Commercial Attaché of this Embassy who has prepared a memorandum on the subject, it develops that due to the fact that most of the United States exports to Japan consist of raw materials, which can be eliminated entirely from the question of trade restriction, there remain only items of less importance to be considered and it has not been possible to discover any instances where American products in Japan are meeting with the opposition that is being made in the United States to such Japanese products as tuna fish, toys, porcelain and pottery, matches et cetera.

The Department, however, might wish in this connection to consider the question of the indiscriminate use by Japanese manufacturers of American trade marks and the simulation of American packages, labels and containers. The files of the Commercial Attaché show that not only his office but many others have reported on the sale of Japanese goods bearing infringements of American trade marks or put up in packages or containers closely resembling those of American manufacture. He reports that on March 14, last, the Calcutta Office brought to the attention of the Bureau of Foreign and Domestic Commerce the Japanese infringement in the Indian market of trade marks of the Simonize Company of Chicago. On February 12, the Singapore Office reported the simulation of Parker Duofold Fountain Pens by Japanese manufacturers which were being sold in the Straits Settlements. The Carnation Company, under date of March 16, 1934, complained to the Bureau of the abundance of infringements of the Company's milk label in Japan and China. On August 11, 1933, the Prophylactic Toothbrush Company complained of numerous Japanese infringements of their trade marks. In Japan instances can be found nearly every month in the Patent Journal, published by the Patent Bureau of the Department of Commerce and Industry, of application for trade marks which are direct infringements of American trade marks.

^{3b} *Ante*, p. 809.

This question of trade mark infringements has created an antagonistic attitude on the part of American manufacturers to Japanese goods and constitutes a difficult problem with which to cope inasmuch as the trade mark laws in this country are such as to enable any one to apply for and register a trade mark within three months time. While American manufacturers shipping goods to Japan have been advised to have their trade marks registered, and some of them have done so, infringements nevertheless occur in view of the fact that in order to be absolutely protected a trade mark must be registered to cover seventy different classifications.

There is no doubt that Japanese manufacturers are profiting by the reputation which standard American products have established abroad, and if the present situation could be in some way improved the American exporters would be greatly benefited.

As of possible interest, there is enclosed herewith a list of the principal commodities imported into Japan from the United States during the periods January to June, 1933, and January to June, 1934, taken from the *Monthly Return of the Foreign Trade of Japan*, published by the Department of Finance, together with Mr. Williams' comments as set forth in his memorandum.⁴

Respectfully yours,

EDWIN L. NEVILLE

611b.003/106

*Statement by the Secretary of State, October 30, 1934*⁵

The recently revealed Japanese naval demands⁶ render uncertain and chaotic the entire economic policy, the Open Door policy, and even political policies as to much of China and Inner Mongolia, all of which will probably be involved in the present London or similar conferences for some months to come. The Japanese seriously threaten to abrogate the Washington and probably the London Treaties⁷ unless they are allowed a navy big enough to enable them to dominate the Orient economically, politically, and militarily. This is the proposed Japanese substitute for all the present or the existing Far Eastern policy, economic, political and naval, as clearly defined particularly in the Washington and the Nine Power Treaty.⁸ There should be long drawn out conversations between other countries including ours

⁴ Enclosures not printed.

⁵ As telephoned to the Assistant Secretary of State (Sayre) by the Executive Assistant to the Secretary of State (Cumming) on October 30, from Pinehurst, N. C.

⁶ See vol. I, pp. 299 ff.

⁷ Treaty signed at Washington, February 6, 1922, *Foreign Relations*, 1922, vol. I, p. 247, and treaty signed at London, April 22, 1930, *ibid.*, 1930, vol. I, p. 107.

⁸ Signed February 6, 1922, *ibid.*, 1922, vol. I, pp. 247 and 276.

and Japan, touching peace and the economic rights of ours and other nations in the Orient, where nearly 60% of the world population resides. In these circumstances I now incline to the view that we should agree to no Philippine trade restrictions against which Japan could or probably might earnestly complain until the entire combinations of problems are settled. After all, it might be found desirable to allow a moderate increase of tariff as to certain textiles as a temporary or emergency measure, and this regardless of the plea of our exporters that the increase would be too small. I would suggest no permanent tariff or like action now but if any action at all, only a moderate increase of tariffs as suggested or an agreed quota, whichever would best avoid any controversy with the Japanese.

**DISAPPROVAL BY JAPANESE GOVERNMENT OF ACTION BY MAYOR
OF DAIREN IN SEEKING CONTRIBUTIONS FOR AIR DEFENSE**

894c.20/2 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, July 27, 1934—4 p. m.

126. Reference Dairen's despatch to you dated June 29, 1934,⁹ subject "Foreign Firms Requested to Contribute towards Air Defense of Dairen."

Please ascertain from Vincent¹⁰ the present status of this matter and report by telegraph as soon as possible.

HULL

894c.20/4 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Tokyo, July 31, 1934—2 p. m.

[Received July 31—5:44 a. m.]

164. Department's 126, July 27, 4 p. m.

1. The Embassy telegraphed the Consulate at Dairen July 4 and 28 requesting reports in regard to any elements of compulsion direct or indirect employed by the Japanese authorities in collecting contributions.

2. Dairen has replied in part as follows:

"July 30, 2 p. m. On Thursday last¹¹ American companies informed me that they had received another letter signed by the Mayor stating that 'we should be very much obliged if you could give some donation

⁹ Not printed.

¹⁰ John Carter Vincent, Consul at Dairen.

¹¹ July 26.

for the closing day is near at hand.' The official closing day for receiving contributions is tomorrow. Other foreign firms received identical letter and all inform me that they are not responding. There has been no direct or indirect resort to compulsion."

3. While the element of direct compulsion appears to be absent thus avoiding infringement of the letter of the last paragraph of article 1 of our treaty of 1911 with Japan¹² I suggest that the spirit of the treaty is infringed if American firms are placed in the position of fearing retaliatory measure for noncompliance with requests for contributions toward air defense.

4. I suggest that this fact might be brought informally to the attention of the Japanese Foreign Office. Please instruct.

GREW

894c.20/4 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, July 31, 1934—7 p. m.

130. Your 164, July 31, 2 p. m.

1. Please call at your early convenience on the Minister for Foreign Affairs and inform him orally of the action of the Mayor. You should then refer to the relevant provisions of Article I of the Treaty of Commerce of 1911 and express the hope that the Japanese Government will disavow the action under reference of the Mayor, who is an official under the control of that Government, and that it will take suitable measures to prevent any misunderstanding arising from the refusal of American nationals and companies to contribute toward the purchase of Japanese military equipment.

2. Please instruct Vincent to inform in confidence American concerns that any circumstance tending to arouse suspicion of attempts at retaliation should be reported immediately to the Consulate. If after investigation such suspicion should appear to be well-founded, Vincent should report to the Embassy without delay. The Embassy should keep the Department fully advised by telegraph.

HULL

894c.20/6 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

TOKYO, August 23, 1934—noon.

[Received August 23—5:40 a. m.]

186. Embassy's 171, August 7, 6 p. m.¹³ The Vice Minister for Foreign Affairs today informed me that the Japanese Government

¹² Treaty of commerce and navigation signed at Washington, February 21, 1911, *Foreign Relations*, 1911, p. 315.

¹³ Not printed.

disapproved of the action of the Mayor of Dairen and that the Governor of the Kwantung Province had taken measures to the effect that contributions from foreign firms and individuals for air defense would not be exacted or expected. The Vice Minister expressed his conviction that no indirect methods of pressure or retaliation for failure to comply with the Mayor's demands would be exerted. Repeated to Dairen.

GREW

PROTECTION OF CONTRACT RIGHTS OF THE ORIENTAL CONSOLIDATED MINING COMPANY, AN AMERICAN FIRM OPERATING IN KOREA

895.63 Or 4/15

The Secretary of State to the Ambassador in Japan (Grew)

No. 40

WASHINGTON, July 25, 1932.

SIR: There is enclosed a copy of a memorandum of a conversation¹⁵ on July 21, 1932, between Mr. Bull of the Oriental Consolidated Mining Company (operating in Korea) and officers of the Department in regard to alleged unlawful action of the Japanese authorities by way of indirectly levying a tax on the operations of the Oriental Consolidated Mining Company. As a result of that conversation, the Department understands that a representative of the Oriental Consolidated Mining Company will call on you in the near future to explain the difficulty which his company has encountered. The Department desires that the Embassy give appropriate attention to the facts and the legal considerations involved in this case, and that if satisfied that action by the Japanese authorities infringes or impairs the rights of the Company, the Embassy either make appropriate representations to the appropriate authorities or advise the Department with regard to the course of action which the Embassy deems advisable.

Please submit a full report on the matter.

Very truly yours,

For the Secretary of State:
JAMES GRAFTON ROGERS

895.63 Or 4/18

The Ambassador in Japan (Grew) to the Secretary of State

No. 134

TOKYO, September 23, 1932.
[Received October 10.]

SIR: The Embassy has received the Department's instruction No. 40 of July 25, 1932 in regard to the Oriental Consolidated Mining

¹⁵ Not printed.

Company. The matter has been discussed with Mr. Lower, General Manager of the Company in Korea, and with officials of the Foreign Office.

The situation appears to be that the Japanese Government has placed an embargo on the export of gold, and has fixed a price in yen which varies more or less with the rate of exchange at which the Finance Ministry will purchase gold from persons in Japan. The Oriental Consolidated Mining Company has a concession from the King of Korea dated April 17, 1896 for exclusive mining rights in the District of Uhnsan, Korea, a copy of which is enclosed.¹⁶ Article 13 of the concession states that no taxes shall be levied upon these mines or their properties or products. Article 14 provides that materials necessarily imported for the use of the mines may be imported free of duty and that no export duty shall be charged upon their products.

The company's contention is that the embargo is in effect a tax upon their products. It claims that the price at which gold is purchased does not represent the true market value and that the resultant loss amounts to an impost which is not warranted under the terms of the concession. The Japanese Government's contention, as brought out in conversation, is that the gold embargo is a temporary measure necessary for the public welfare; that it is not a tax and that there is no interference with the Company or its mining operations in any way.

Members of the Embassy staff have consulted with officials of the Foreign Office, and there is enclosed a copy of a memorandum¹⁶ handed by Mr. Dickover¹⁷ to the Chief of the Commercial Bureau (Mr. Taketomi) setting forth the Company's contention. After some discussion with Mr. Lower, it was ascertained that the Company desired to transfer some \$350,000 to the United States. Accordingly Mr. Neville¹⁸ had a further discussion with the Chief of the Commercial Bureau, and suggested that the Company be allowed, irrespective of any legal question involved, to export gold to this amount. If this were done the Company could meet its obligations for dividends and purchases in the United States until next spring. This suggestion was made as it was considered possible that by next spring the situation with regard to gold might be different. A copy of Mr. Taketomi's letter to Mr. Neville, as well as a copy of Mr. Neville's acknowledgment are also enclosed.¹⁶

It will be seen from these letters that the Japanese Government, or at least the Finance Department, is so far unwilling to grant the Company any special consideration in this matter. I should not feel

¹⁶ Not printed.

¹⁷ Erle R. Dickover, First Secretary of the Embassy in Japan.

¹⁸ Edwin L. Neville, Counselor of Embassy in Japan.

justified in making formal representations in this case without specific instructions. I shall, however, continue to follow the case and report any new developments.

Respectfully yours,

JOSEPH C. GREW

895.63 Or 4/18 : Telegram

The Secretary of State to the Ambassador in Japan (Grew)

WASHINGTON, November 3, 1932—6 p. m.

175. Your mail despatch 134, September 23, and previous. Department is informed that Company's manager has retained counsel, Dr. S. Kishi, who is taking the matter up with the Minister of Finance and that decision on question whether permission to export will be granted will apparently be delayed by 2 weeks from October 29. Department authorizes you, in your discretion, to bring the matter again to the attention of the Foreign Office informally, inviting attention to the serious effect on the Company's business of the combination of embargo and fixed purchase price for their product in Japan, the practical effect of which is substantially what the Company contends. In view of this situation you should endeavor, unless you feel it highly inexpedient, to induce authorities to grant the request of the Company as reported in your despatch.

STIMSON

895.63 Or 4/23

The Ambassador in Japan (Grew) to the Secretary of State

No. 235

TOKYO, December 23, 1932.
[Received January 16, 1933.]

SIR: I wish to refer to my telegram No. 266 of November 10, last,¹⁹ in regard to representations which I made to the Minister for Foreign Affairs on behalf of the Oriental Consolidated Mining Company, and to report that the British Ambassador informs me that he has also spoken to Count Uchida²⁰ in this connection. In the meantime, the Company's lawyer, Dr. Kishi, has been in contact with the Finance Department of the Japanese Government, and has submitted a number of briefs outlining the Company's position. Yesterday the General Manager of the Company called at the Embassy and left a translation of the reply to Dr. Kishi's representations, dated December 19, 1932. A copy of this translation is enclosed.¹⁹

¹⁹ Not printed.

²⁰ Count Yasuya Uchida, Japanese Minister for Foreign Affairs, July 1932-September 1933.

The reply amounts to a refusal to admit the validity of the Company's claim. In informal discussion at the Foreign Office yesterday, a member of my staff was informed that there was no possibility that the Government would admit that the Company had unconditional rights in the matter of gold export; that this right was not expressly stated in the concession; that if such export were permitted the Government would surely be asked about it in the Diet, and the whole matter would, or might, become a political question. On the other hand, it was stated, the Foreign Minister and the Finance Minister were looking for some method whereby the Company could dispose of its product without loss.

For the moment, the situation appears to be at a deadlock. I shall, however, continue informal representations in the case.

Respectfully yours,

JOSEPH C. GREW

895.63 Or 4/30 : Telegram

The Ambassador in Japan (Grew) to the Secretary of State

Тоkyo, February 10, 1933—4 p. m.

[Received February 10—4:37 a. m.]

38. My 32, January 28, 1 p. m.²¹ Doctor Kishi believes that if he can get the Oriental Consolidated Mining Company case into court he will win easily. Accordingly he desires file export application with the Governor General of Chosen, requesting advisory opinion from the Supreme Court there. Favorable action in Chosen would, he feels, result in granting of export permit.

I have instructed Consul General to render all possible proper assistance to Kishi who is proceeding to Seoul today.

GREW

895.63 Or 4/33

The Ambassador in Japan (Grew) to the Secretary of State

No. 380

Тоkyo, May 10, 1933.

[Received May 26.]

SIR: Referring to my telegram No. 32 of January 28, 1933²¹ and to other correspondence in regard to the desire of the Oriental Consolidated Mining Company to export gold from Japan, I have now to report that the Company has decided to sell the gold it has on hand to the Bank of Japan at the price in Yen fixed by the Finance Department.

²¹ Not printed.

The President of the Company, Mr. Frederic Bull of New York arrived in Japan in March and left towards the end of April. His arrival here coincided with the imposition of the gold embargo in the United States and for some time the Japanese Government refused to consider any action in regard to gold export or sale pending the resumption of foreign exchange business by the banks in America. After some negotiations with the Japanese authorities, Mr. Bull was instructed by the directors of the Company to sell the gold in Japan and return to the United States. Mr. Bull accordingly made arrangements to turn the gold over to the Bank of Japan.

The Company's decision, apparently, was influenced by the uncertainty of the exchange situation at the present time, and by the fact that an investigation of the books of the company indicated that the loss in the sale of the gold here would be to a great extent offset by the drop in the value of the Yen in comparison with the dollar. The case may therefore be considered closed for the time being, although the Company reserves the right to bring it up at some future time.

I may add that before his departure from Japan, Mr. Bull expressed to me his feeling that the Embassy had left nothing undone in the interests of the Company and in its efforts, unfortunately unsuccessful, to obtain permission for the export of the gold.

Respectfully yours,

JOSEPH C. GREW

895.63 Or 4/43

The Chargé in Japan (Neville) to the Secretary of State

No. 992

TOKYO, October 2, 1934.

[Received October 22.]

SIR: I have the honor to transmit copies of two letters dated August 6 and September 25, 1934, with their enclosures,²³ received from the American Consul in charge of the Consulate General at Seoul, Chosen, in regard to the levying of income tax upon the employees of the Oriental Consolidated Mining Company, an American concern which operates gold mines at Unsan, Chosen.

The particular point at issue is the contention of the company that its books are not subject to inspection by the tax authorities. The original concession,²⁴ a copy of which was transmitted in this Embassy's despatch No. 134 of September 23, 1932, contained a clause (Article XVII) giving the King of Korea the right to inspect the company's books. This Article was subsequently deleted, and Article XII consequently rendered inoperative, in return for a cash payment

²³ Only one enclosure printed.

²⁴ Not printed.

of Yen 200,000 and an annual payment of Yen 25,000, regardless of the output of the mines. The company is of opinion that the deletion of the clause in question carries permanent immunity from inspection by tax officials.

An examination of the record seems to indicate that the original concession and its subsequent modifications were drawn up without reference to the possible imposition of an individual income tax. There is no evidence of an intention on the part of the Government General of Chosen to levy taxes on the company. It is obvious, however, that the authorities in Chosen insist upon the right to inspect the company's books in order to verify the amounts paid to employees who are subject to income tax under the law.

In view of the stringent provisions of income tax legislation in the United States, I feel that the Embassy would not be justified in supporting the company's position in this matter without the Department's express approval. I am accordingly instructing Mr. Langdon²⁵ to withhold his proposed reply to the Government General pending a review of the case in the Department.

Respectfully yours,

EDWIN L. NEVILLE

[Enclosure]

Proposed Reply by the American Consul at Seoul (Langdon) to the Chief of the Foreign Affairs Section, Japanese Government General of Chosen (Tanaka)

SEOUL, CHOSEN.

SIR: I have the honor to refer to your letter of September 18, 1934,²⁶ in regard to the application of the Chosen Income Tax Law to the Oriental Consolidated Mining Company and its employees.

The Consulate General does not dispute the Government General's view that the incomes of individual employees of the Company are taxable under the Chosen Income Tax Law, inasmuch as there is no provision in the Company's charter upon which its employees might properly claim exemption from such tax. With regard to the inspection of the Company's books, however, as Article 17 of the original charter, containing the distinct sentence "Said officer (viz., the representative of the sovereign) may inspect the books of the Company", was canceled without any reservation whatever, the Consulate General cannot admit that there still resided in the sovereign the right to inspect the books for particular purposes. Such an interpretation would render the Company's special right in this respect valueless, as the

²⁵ William R. Langdon, Consul at Seoul.

²⁶ Not printed.

inspection of books for one purpose may very well be an inspection for every purpose.

It is your opinion that the cancelation of Article 17 did not permanently extinguish the sovereign's right to inspect the books of the Oriental Consolidated Mining Company because books form the basis of taxation. In the case of the Company, however, the whole question of taxes was settled for the duration of the concession by the agreement of March 27, 1899, to pay to the sovereign a fixed annual sum of Yen 25,000 each year, regardless of the productiveness of the mines. The principle that books form the basis of taxation, therefore, would not seem to be applicable to the Oriental Consolidated Mining Company.

As a practical way out of the difficulty, the Consulate General is prepared to request the Oriental Consolidated Mining Company fully to cooperate with the tax authorities at Neihen in the collection of the income tax, by preparing a statement of third class income paid by it as mentioned in Article 47 of the Tax Law and otherwise.

I have [etc.]

WM. R. LANGDON

895.63 Or 4/43

The Secretary of State to the Ambassador in Japan (Grew)

No. 645

WASHINGTON, December 3, 1934.

SIR: Receipt is acknowledged of the Embassy's despatch No. 992, under date October 2, 1934, transmitting letters from the Consulate General at Seoul in regard to levying of income tax upon the employees of the Oriental Consolidated Mining Company and inspection of the Company's books by the Chosen authorities.

The Department is of the opinion that in general the proposed reply of the American Consul at Seoul to the Chosen Government General is reasonably warranted and that its transmission may properly be authorized. However, it is desired that the second paragraph, which in the draft prepared at the Consulate General begins:

"The Consulate General does not dispute the Government General's view . . ."

be amended to read:

"In deference to the views of the Government General, the Consulate General is not disposed to insist on the suggested interpretation favoring the exemption of the employees of the Company from individual income tax. With regard to the inspection of the Company's books, however, . . ."

Very truly yours,

For the Secretary of State:

WILLIAM PHILLIPS

REPRESENTATIONS BY THE JAPANESE GOVERNMENT ON BEHALF OF
JAPANESE STEAMSHIP COMPANIES SUBJECT TO UNITED STATES
WAR PROFITS TAX FOR THE YEARS 1918 AND 1919

811.512394 Shipping/35

*The Japanese Embassy to the Department of State*²⁷

1. The United States Treasury Department notified the Toyo Kisen Kaisha in February, 1933, and the Nippon Yusen Kaisha and Osaka Shosen Kaisha in June, 1934, to pay additional war profits tax amounting respectively to \$70,000 (for the years 1918, 1919); \$1,329,500 (for the years 1918 to 1920); and \$805,000 (for the years 1918, 1919). The case of the Toyo Kisen Kaisha is now proceeding in court.

2. This enormous amount of additional war profits tax seems to have been imposed upon the charter rate, the subsidy of the Japanese Government, and the amortization allowance of those ships which were tendered to the United States Shipping Board by the order of the Japanese Government, as it was earnestly desired by the American Government in order to facilitate the united operation of the allied and associated countries. In view of the fact that these charters were not concluded by free contract, but contracted between these three shipping companies and the United States Shipping Board, on a basis of the diplomatic negotiations between the United States and the Japanese Governments and that, furthermore, the ships were under the complete control of the United States Shipping Board in respect of route and cargo, etc., these charters ought not to be considered as ordinary charter contracts.

3. The rates of charters proposed by the United States Government was considerably lower than the prevailing rates at that time. However, in a spirit of cooperation with the allied and associated countries, the Japanese Government agreed to the proposal and placed 150,000 tons of shipping at the disposal of the United States Government for six months, and as a consequence the owners of the ships lost profit of 20,000,000 yen during this period, half of which was paid by the Japanese Government to partially offset this loss.

The allowance provided by the United States Government for the maintenance of the crews of these ships was less, by 1,500,000 yen, than the actual amount paid by the owners for this purpose.

If they had been ordinary charters, the Japanese Government and ship owners would not be called upon to assume such an additional financial burden.

4. The subsidy is not income earned by ordinary transportation business, as it is delivered by the Government to the special companies

²⁷ Handed to the Chief of the Division of Far Eastern Affairs by the Japanese Chargé on July 26, 1934.

imposing upon them special services, and it is not "income or profit received from sources within the United States", as provided in the American Tax Law. It is still more unreasonable to consider the whole amount of the subsidy as taxable income while it includes services in other parts of the world.

5. The Treasury Department decided not to recognize amortization for ships completed after the date of the Armistice (Nov. 11, 1918). However, these companies were obliged to build or acquire some expensive ships to replace those chartered to the United States Shipping Board, and speedy amortization was imminent owing to the high expense for those ships. Furthermore it was impossible to anticipate armistice at that time. In view of these facts, the Treasury Department's decision upon the amortization of the Japanese ships is not only rigorous, but seems to be unfair, as amortization is recognized for American ships.

6. For the above-mentioned reasons the Japanese Government sincerely hopes that the American Government will not impose the tax upon the charter fees and the subsidy, and will give favorable consideration to the amortization for those ships for which the building contracts were made or construction was already started on or before Nov. 11, 1918.

7. According to the notifications of the Treasury Department, 90 days time limit, beginning June 11, is given for the payment of these taxes, but it is hoped that this time limit will be extended until these questions are settled by the negotiations between the two Governments.

811.512394 Shipping/35

The Secretary of State to the Secretary of the Treasury (Morgenthau)

WASHINGTON, August 3, 1934.

MY DEAR MR. SECRETARY: There is enclosed a copy of a statement which was, on July 26, 1934, read to an officer of the Department by the Japanese Chargé d'Affaires.²⁸ The statement relates to additional war profits tax which has been levied on three Japanese steamship companies, Toyo Kisen Kaisha, Nippon Yusen Kaisha and Osaka Shosen Kaisha, and concludes with an expression of hope that the time limit given for the payment of these taxes "will be extended until these questions are settled by the negotiations between the two Governments".

The Japanese Chargé d'Affaires stated further that certain documents relating to the matter were being forwarded by mail from

²⁸ *Supra.*

Tokyo to the Embassy at Washington, and he requested that adequate time be granted for the Japanese Government to present its case on the basis of those documents before action is taken by this Government on the basis of the Treasury Department's notification of last June to the steamship companies.

The Department hopes, in view of the apparently complicated character of the question, that the Treasury Department may find it possible to give favorable consideration to the request of the Japanese Chargé d'Affaires that opportunity be given for a careful examination of the arguments which may be expected to be presented shortly by the Japanese Embassy.

Sincerely yours,

CORDELL HULL

811.512394 Shipping/37

*The Secretary of the Treasury (Morgenthau) to the Secretary of State*²⁹

WASHINGTON, August 16, 1934.

SIR: Your letter dated August 3, 1934, (symbols FE), and the enclosed copy of a statement, read to an officer of your Department by the Japanese Chargé d'Affaires, relating to additional war profits tax asserted against three Japanese steamship companies, the Toyo Kisen Kaisha, the Nippon Yusen Kaisha, and the Osaka Shosen Kaisha, have been given careful consideration, especially with reference to the request that the ninety-day time limit specified in the statutory notices of deficiency issued under the provisions of section 274 of the Revenue Act of 1926,³⁰ as amended by section 501 of the Revenue Act of 1934,³¹ and section 283 (a) of the Revenue Act of 1926,³² be extended until certain documents relating to the matter have been received and negotiations entered into with a view of settling the questions in dispute.

The determination of the income, excess profits and war profits taxes of the taxpayers named has already been the subject of many briefs of argument, statements of fact, and numerous conferences with officials of the Bureau of Internal Revenue and, after full consideration, it was decided that no settlement could be reached. Accordingly, notices of deficiency were issued by registered mail on June 11, 1934, to the Nippon Yusen Kaisha and the Osaka Shosen Kaisha, under the provisions of the acts mentioned above, granting them ninety days after such notices were mailed to file petitions with the

²⁹ Copy handed to the Second Secretary of the Japanese Embassy on August 16.

³⁰ Approved February 26, 1926; 44 Stat. (pt. 2) 9, 55.

³¹ Approved May 10, 1934; 48 Stat. 680, 755.

³² 44 Stat. (pt. 2) 9, 63.

United States Board of Tax Appeals for a redetermination of the deficiency.

The records of this office disclose that a petition has been filed with the Board by the Toyo Kisen Kaisha for a redetermination of the deficiency disclosed in a statutory notice dated February 12, 1934, but that no petitions have been filed by the other taxpayers, although the time limit within which they may be filed with the Board has not expired.

No assessment of the deficiency proposed against the Nippon Yusen Kaisha and the Osaka Shosen Kaisha will be made until the expiration of the ninety-day period, nor, if a petition has been filed with the Board within such filing period, until the decision of the Board has become final, with the exception, in these cases, that if the Commissioner believes that the assessment and collection of a deficiency in either or both will be jeopardized by delay, he shall immediately assess such deficiency, whether or not the taxpayer has theretofore filed a petition with the Board of Tax Appeals. There being no information on file at this time warranting a jeopardy assessment against either of the two last named taxpayers, the procedure for the litigation of the deficiencies proposed should progress in a normal manner, provided petitions are filed before the expiration of the ninety-day period.

There is no provision of law for the extension of the period for filing a petition with the Board of Tax Appeals. It is understood that representatives of the taxpayers, authorized to represent them before the Treasury Department by virtue of a power of attorney, are preparing petitions and expect to file them timely as to the two companies which have not as yet exercised such right.

When the petitions are filed with the Board and upon receipt of the documents which you have been advised will be filed with you in the near future, you may assure the Japanese Chargé d'Affaires, or other official representing the Japanese Government, that the Commissioner of Internal Revenue will be pleased to examine the statements contained in the documents and will give them serious consideration from the standpoint of a case in litigation before the Board. In such event, the taxpayers should file their written authorizations for a representative of the Japanese Government to appear before the Bureau in their behalf.

Respectfully,

H. MORGENTHAU, JR.

811.512394 Shipping/38

The Japanese Chargé (Fujii) to the Acting Secretary of State

No. 158

WASHINGTON, August 20, 1934.

SIR: Under instructions from my Government, I have the honor to request you to be good enough to give your earnest consideration

to the attached Memorandum in which the Japanese Government states in detail their view on a question of taxation imposed by the Treasury Department of the United States upon Japanese shipping companies. The matter has already been informally taken up by Dr. Stanley K. Hornbeck, Chief of the Division of Far Eastern Affairs, upon my request.

Accept [etc.]

K. FUJII

[Enclosure]

The Japanese Embassy to the Department of State

MEMORANDUM

1. Issues have been pending between the United States Government and the three Japanese shipping companies, namely, the Nippon Yusen Kaisha, the Osaka Shosen Kaisha, and the Toyo Kisen Kaisha, with regard to Profit Taxes for 1917-1920.

While the Toyo Kisen Kaisha had to pay additional taxes for the year 1917, the company expected that it would be entitled to a reimbursement for the taxes already paid, when the two succeeding years were added to that year for consideration. Contrary to that expectation, however, the Department of the Treasury of the United States in the latter part of last February sent a note to that company notifying it of its obligation to pay \$70,000 as additional taxes for 1918 and 1919. This caused a move on the part of that company to apply to the Department of the Treasury for a reexamination of the situation. Nevertheless, on April 22nd of this year, the Department of the Treasury went so far as to detain the *Soyo Maru* of that company in the port of Los Angeles on the ground that that company had failed to meet its obligations to pay the additional taxes for 1917-1919.

Similar steps were taken by the Department of the Treasury with regard to the other two companies. On June 11, 1934, the Nippon Yusen Kaisha was notified by the Department of the Treasury of its obligation to pay additional taxes for 1918-1920 amounting to approximately \$1,329,500. On the same day, the Osaka Shosen Kaisha received from the Department of the Treasury a note in which the sum of about \$805,000 was announced as a total payment to be made by that company for the additional taxes for the years 1918-1919.

2. In 1927, five accountants authorized by the United States Government, came over to Japan in agreement with the Treasury authorities and, after five months of investigation of the accounts and the records of those three companies, made a report which was submitted to the Department of the Treasury in March, 1928. A perusal of the report, however, supplies no justification of the additional tax-

tion of such enormous sums. Such taxation was never thought of, by any stretch of imagination, by those companies which, quite on the contrary, expected to get reimbursement of considerably large amounts for the total sum paid by them for the years 1917-1920, which expectation is fully justified by the report. The Nippon Yusen Kaisha had paid a sum of \$4,400,000 as profits taxes for 1917-1920; the Osaka Shosen Kaisha, \$1,500,000 for 1917-1920; and the Toyo Kisen Kaisha, \$990,000 for 1917-1919. In 1929, on the basis of the report, the United States Government reimbursed the Nippon Yusen Kaisha the amount of about \$595,000 (amount of principal \$359,000, amount of interest \$236,000) for the profit tax for 1917. The Osaka Shosen Kaisha was imposed an additional profit tax for 1917 amounting to nearly \$36,400, which was paid with interest amounting to about \$6,700. The Toyo Kisen Kaisha paid \$250,000 plus \$130,000 as interest for 1917. As shown above, the matter is settled for 1917. It is understood that all of those three companies are to get reimbursements of large amounts for the remaining years, but the matter is still unsettled due to a delay in consideration by the United States Government. It seems to us that the additional taxation, wholly unexpected by those companies, was mainly caused by the attitude taken by the Department of the Treasury toward the following points, which differs from that taken by us. They are the subsidy given to those shipping companies by the Japanese Government, and the charter rate and the amortization allowance of those ships which those companies were ordered by the Japanese Government in compliance with the earnest request of the American Government to tender to the United States Shipping Board for the purpose of facilitating the united operation of the allied and associated countries.

3. On February 12, 1918, the American Embassy in Tokyo sent to the Japanese Government a memorandum³³ in which the Embassy asked our Government to place Japanese ships with an aggregate tonnage of about 600,000 at the disposal of the American Government in order to facilitate the united operation of the allied and associated countries. Although Japan, like all of the other allied countries, was then having great trouble with the scarcity of ships which had forced her to take governmental control of the ships, the Japanese Government decided to place ships aggregating 150,000 tons at the disposal of the American Government for six months for the sole reason of promoting the strategic cooperation of the allied and associated countries and on February 28 sent a note to that effect to the American

³³ See telegraphic instructions of February 9, 1918, 7 p. m., to the Ambassador in Japan, *Foreign Relations*, 1918, supp. 1, vol. 1, p. 628.

Embassy.³⁴ The American Government expressed its gratitude for this action on the part of our Government.³⁵

According to this diplomatic understanding, the Japanese Government ordered those three shipping companies to tender some ships to the American Government and, furthermore, to reach an agreement with that Government on all matters pertaining to the operation of those ships.

As a result, a contract was concluded in Tokyo on this matter between the United States Shipping Board and those companies. It is our hope that the American Government understands that this contract is quite different from an ordinary charter contract made for usual business transactions.

Whereas the rate then prevailing in Tokyo of ships fitted for an ocean voyage, such as those tendered to the United States Shipping Board, was ¥40 per ton a month, the rate paid by the American Government was only about ¥18 causing a total loss of nearly ¥1,980,000 to those companies. Furthermore, those companies were obliged to assume a great burden in maintaining the crews of those ships with the payment of the allowance (of ¥2,754,000 for the total sum of the allowance, the United States Shipping Board paid the amount of \$583,000, that is, ¥1,246,000 at the exchange rate at that time, and the owners of those ships paid the rest amounting to ¥1,508,000). The Japanese Government, desiring to relieve the owners of such a tremendous sacrifice, paid an amount of \$10,000,000 for them. If this charter contract were of an ordinary character such as those made for ordinary business transactions by the free will, it would be quite natural that the owners and the Government should bear these sacrifices and sufferings. And even if this contract might be more or less of an ordinary character, the fact that both the ships and their crews were placed under the complete command and control of the United States Shipping Board, and that the sphere of voyage and the object of transportation for those ships were entirely up to the American Government, renders it quite reasonable to regard this contract as a lease contract. And, therefore, the profits ensuing from this contract should be looked upon as the rents, which cannot be the object of the taxation.

4. Furthermore, the Department of the Treasury seems to have imposed additional taxes on the subsidies given by the Japanese Government to those three companies, evidently interpreting these subsidies as business profits of the transportation. However, such subsidies which are given with an eye to maintaining shipping services, are

³⁴ See telegram of February 28, 1918, midnight, from the Ambassador in Japan, *ibid.*, p. 636.

³⁵ See telegraphic instruction of March 2, 1918, 7 p. m., to the Ambassador in Japan, *ibid.*, p. 637.

always accompanied by various obligations on the part of the shipping companies and so should not be looked upon as the business profits of an ordinary character. Besides, they are not "income or profit received from sources within the United States" as provided in the Tax Law of the United States. For these reasons they cannot be objects of taxation by the American Government. It is still more unreasonable to consider the whole amount of the subsidies as taxable income, while they involve services in other parts of the world.

5. With regard to amortization, the Department of the Treasury made a decision not to make any allowance for amortization for those ships the building of which was completed after the armistice day of the World War (November 11, 1918), in other words, not to allow the amount of redemption to be deducted, as an expense, from the amount of income. The extraordinarily high price of a ship then prevailing had necessitated amortization for the cost of a ship. The shipping companies in Japan were obliged to build or to obtain high priced ships to make up for the loss of those ships which had been tendered to the Government of the United States. It is easily understood, from the viewpoint of business management, that the amortization of such high-priced ships cannot be made out of profits which would be produced in the future. Furthermore, the decision of the American Government that no allowance should be made for the amortization for the ships which had already been under construction or for which building contracts had been awarded on Armistice Day is extremely severe in the light of the fact that it was very hard to predict the time of the Armistice. It is still more severe and discriminatory against the Japanese companies that amortization is allowed for those establishments within the United States and for those American ships which are under the same conditions as are those Japanese ships.

6. In short, the point that the Japanese Government want to insist upon most emphatically is, under what circumstances and with what object we lent those ships to the United States Government. Since this action of our Government despite great sacrifice and hardship was taken entirely in accordance with the diplomatic agreement between the Governments of the United States and Japan, both a member of the Allies, and quite in justice to the Emergency of the World War, and since the purpose of this action was solely to facilitate the united operations of the allied countries, the Japanese Government earnestly wish the United States Government to take up the matter again and give it friendly consideration so that the whole of the charter rates of those ships and the subsidies granted by the Government may be exempted from income taxation and, so that the amortization for the ships which were under construction or for which building contracts were made on the day of the Armistice may be admitted.

In view of the intricate nature of this problem and of the possible long duration necessary for the negotiation between the two countries geographically so widely separated, it would be very much appreciated if the United States Government would agree to extend, until this matter is settled, the time limit of ninety days set by the Department of the Treasury for the payment of the additional taxes. And lastly, it is the earnest hope of our Government that the United States Government will kindly refrain from repeating such an action as was taken against the *Soyo Maru* of the Toyo Kisen Kaisha.

811.512394 Shipping/42

The Ambassador in Japan (Grew) to the Chief of the Division of Far Eastern Affairs (Hornbeck)

TOKYO, August 24, 1934.
[Received September 14.]

DEAR MR. HORNBECK: I am sending you herewith a copy of a letter of August 15, 1934,⁸⁶ from Mr. Kurusu, Chief of the Commercial Bureau of the Foreign Office, to which is appended two memoranda⁸⁶ concerning a long-standing dispute over income taxes assessed on Japanese shipping companies by the United States Treasury authorities. I understand that the Japanese Chargé d'Affaires had been instructed to present a similar memorandum to the Department. Mr. Kurusu called on me personally and begged me to ask that the case be sympathetically examined by the Department of State from the point of view of equity and a fair and reasonable deal. Although he did not actually say so, I gather that he fears a purely technical decision from the Treasury Department without considering the element of international comity involved through the placing of these Japanese ships at the disposal of the United States in the common cause of the Allied and Associated Powers during the war.

It is impossible for me, in the absence of further evidence, to pass on the justice of the Japanese contention as set forth in these memoranda. However, if the facts are in accordance therewith, I think that the Department might well give sympathetic consideration to the Japanese viewpoint, and in view of the circumstances set forth therein, might feel that it could properly approach the Treasury Department with a view toward re-examination of the assessments made against the Japanese shipping companies.

The Japanese feel that they are not receiving fair treatment in this case, and that our authorities have taken high-handed measures against them. I would urge that the case at least be given full and sympa-

⁸⁶ Not printed.

thetic reconsideration, having in mind not only the purely technical factors but also its possible bearing on our general relations with Japan. Please be assured that I am not holding a brief for the Japanese contention and that I merely wish to ensure an eminently fair and equitable decision.

Please note especially the request of the Japanese Government for a prolongation of the period of 90 days grace before payment of the additional amounts of taxes assessed, in view of the geographical distance separating Japan and the United States, and also that no sudden seizure of Japanese ships be carried out prior to settlement as is stated to have been done in the seizure of the *Soyo Maru* at Los Angeles on April 22, 1934.

Yours sincerely,

JOSEPH C. GREW

811.512394 Shipping/40

*The Secretary of the Treasury (Morgenthau) to the Secretary of State*³⁷

WASHINGTON, August 28, 1934.

SIR: I have the honor to acknowledge your communication dated August 23, 1934,³⁸ regarding certain income taxes which have been the subject of communications between this Department and the three Japanese Steamship companies, Nippon Yusen Kaisha, the Osaka Shosen Kaisha, and the Toyo Kisen Kaisha, with which you transmitted a copy of a memorandum dated July [August] 20, 1934, addressed to the Acting Secretary of State and signed by the Chargé d'Affaires, Japanese Embassy.

In the memorandum signed by the Chargé d'Affaires of the Japanese Embassy in which the matters in controversy were described, it is suggested for immediate specific attention that the Government of the United States refrain from repeating its action taken with respect to detaining in a port of the United States the steamships of these companies as was done in the case of S. S. *Saro* [*Soyo?*] *Maru* and that it permit an extension of time past the ninety-day period for the payment of the taxes.

There is, of course, no intention of taking action with respect to either of the companies now under consideration such as was taken against the S. S. *Saro Maru* unless circumstances which in the judgment of this Department would justify such action were to develop. You, of course, appreciate that the action appeared necessary to the Bureau officials because of the clear intimation by a representative of

³⁷ Copy transmitted to the Japanese Chargé by the Acting Secretary of State in his covering note dated August 31.

³⁸ Not printed.

Toyo Kisen Kaisha that the company had no assets within the reach of the revenue authorities of this country and that there would be no cooperation in respect of collection of the taxes ultimately determined to be due by the Board or the courts. In short, the United States Government was forced to take the action in question because a jeopardy situation was definitely presented in that case. As stated above, it is not anticipated that such a necessity will arise in the cases of the Nippon Yusen Kaisha and the Osaka Shosen Kaisha.

It is evident that the second immediate interest of the Chargé d'Affaires of the Japanese Government has reference to the ninety-day period within which a petition to the United States Board of Tax Appeals must be filed, when he suggests that collection be not enforced immediately upon the expiration of the ninety days. The ninety-day period within which a taxpayer may file a timely petition with the United States Board of Tax Appeals, for the redetermination of its tax liability, is a jurisdictional provision of the appropriate Congressional enactment and is not a mere rule of convenience of the Treasury Department capable of extension by this department. There is no intention or disposition, upon the record as it now exists, to attempt immediate collection if a timely petition is filed with the Board of Tax Appeals; but if such timely petition be not filed the statutes of the Congress in such cases require that the imputed tax be collected and the taxpayer left to his remedy by way of filing claim for refund.

According to the records of this office, a petition has been filed in the case of Toyo Kisen Kaisha. The taxpayers' representatives are well advised as to the requirements of the law in this respect and no doubt an appropriate petition will also be filed prior to September 10, 1934 (the date of the expiration of the ninety-day period within which a petition should be filed) with respect to the other companies.

I think it is entirely appropriate that your Department advise the representatives of the Japanese companies that there is every disposition on the part of the Treasury Department to discuss and to settle amicably the tax dispute under consideration.

Respectfully,

H. MORGENTHAU JR.

811.512394 Shipping/42

*The Chief of the Division of Far Eastern Affairs (Hornbeck) to the
Ambassador in Japan (Grew)*

WASHINGTON, September 17, 1934.

DEAR MR. GREW: I have your letter of August 24, 1934, with enclosures, in regard to income taxes assessed on Japanese shipping companies by the United States Treasury authorities.

For a number of weeks this question has had our thoughtful attention. We have received a number of communications from the Japanese Embassy here on this subject and have transmitted the communications to the Treasury Department for consideration. In addition, prior to the receipt of your letter, Mr. Phillips³⁹ talked to the Secretary of the Treasury and subsequent to the receipt of your letter called on the Under Secretary of the Treasury, in both conversations stressing the point that this Department does not wish to influence in any way the decisions arrived at by the competent authorities of this Government in regard to the technical aspects of the case but that we do wish to emphasize that there are involved in the matter also important questions of major policy.

We expect to continue to follow developments with care.

Yours sincerely,

S. K. HORNBECK

811.512394 Shipping/46

Memorandum by the Assistant Chief of the Division of Far Eastern Affairs (Hamilton) of a Conversation With the Special Assistant to the Assistant General Counsel, Bureau of Internal Revenue (Kent)

[WASHINGTON,] November 3, 1934.

Mr. Kent telephoned and informed Mr. Hamilton that the Japanese steamship companies had consented to the request of the Treasury Department that the Treasury Department be given a sixty-day extension of the usual period for the filing by the Treasury Department of an answer to the petition of the steamship companies against payment by them of the taxes affirmed by the Treasury Department.

Mr. Kent said that they were making a very careful study of all the factors involved in the case and that their study to date indicated that there was a possibility that the Treasury Department might be able to make very substantial concessions to the Japanese steamship companies and might be able to arrive at a mutually satisfactory adjustment of the case.

Mr. Hamilton thanked Mr. Kent for communicating this information to the Department and expressed gratification at the assurances given by Mr. Kent that the Treasury Department was giving this matter its most careful and considerate attention.

³⁹ William Phillips, Under Secretary of State.

PROPOSED RECIPROCAL ARRANGEMENT FOR FREE IMPORTATION OF ARTICLES FOR PERSONAL USE OF CONSULAR OFFICERS; SUGGESTIONS FOR A CONSULAR CONVENTION BETWEEN THE UNITED STATES AND JAPAN

694.11241/29

The Secretary of State to the Ambassador in Japan (Grew)

No. 532

WASHINGTON, June 4, 1934.

SIR: There is enclosed a copy of despatch No. 790, dated March 29, 1934, from the American Consul General at Tokyo ⁴⁰ concerning the effecting of a reciprocal agreement for the extension of the privilege of importing articles for their personal use free of duty to American and Japanese consular officers in the country of the other.

You will please ascertain whether (as stated by the Consul General in the despatch of March 29) there exists a reciprocal arrangement between the Japanese Government and any other Government under the provisions of which the consular officers of each in the country of the other enjoy the privilege of importing articles for their personal use free of duty. If the answer should be in the affirmative, you are instructed to propose to the competent Japanese authorities the conclusion of a similar reciprocal arrangement between the United States and Japan. Under the proposed arrangement, in addition to the free entry of baggage and effects upon arrival and return to their posts in this country after visits abroad which Japanese consular officers assigned to the United States already enjoy, such officers who are Japanese nationals and not engaged in any private occupation for gain, and their families, would be accorded, on a basis of reciprocity, the privilege of importing free of duty articles for their personal use at any time during their official residence, with the understanding that no article the importation of which is prohibited by the laws of the United States would be imported by them.

Very truly yours,

For the Secretary of State:
WILBUR J. CARR

694.11241/31

The Secretary of State to the Ambassador in Japan (Grew)

No. 624

WASHINGTON, October 17, 1934.

SIR: The receipt is acknowledged of the Embassy's despatch No. 982 dated September 20, 1934,⁴⁰ referring to the Department's instruction of June 4, 1934, concerning the effecting of a reciprocal agreement for the extension of the privilege of importing articles for their personal use free of duty to American and Japanese consular officers

⁴⁰ Not printed.

in the country of the other. The Embassy inquires whether, in view of the fact that there exists no reciprocal arrangement of this nature between the Japanese Government and the Government of any other country, the Department wishes the Embassy to take the initiative in ascertaining whether such an arrangement with the United States would be agreeable.

You are instructed to propose to the competent Japanese authorities the conclusion of a reciprocal arrangement between the United States and Japan which will contain the provisions set forth in the last paragraph of the Department's instruction No. 532 of June 4, 1934.

Very truly yours,

For the Secretary of State:
WILLIAM PHILLIPS

711.9421/43

Memorandum by the Assistant Chief of the Division of Far Eastern Affairs (Hamilton)

[WASHINGTON,] November 2, 1934.

During the course of a call the Japanese Ambassador referred to a conversation he had had with Mr. Hornbeck shortly before the Ambassador's departure for Japan,⁴³ in which Mr. Hornbeck had suggested that the Ambassador might care, while he was in Japan, to look informally into the question whether the Japanese Government would be favorably disposed toward the idea of a consular convention being concluded between the United States and Japan. The Ambassador said that, after discussing the matter with the appropriate Japanese authorities, he was in position to tell us that the Japanese Government would be prepared to enter into discussions looking toward the conclusion of such a consular convention. The Ambassador said that the Japanese Government thought that the consular convention between the United States and Germany⁴⁴ might serve as a model or guide in formulating a consular convention between the United States and Japan. The Ambassador said further that when in San Francisco he had talked with Japanese consular officers on the Pacific Coast in regard to the matter; that they were favorable to the idea of such a convention being concluded; and that the Ambassador expected shortly to receive from them the draft of a convention which might be used by the Embassy here in instituting informal discussions in regard to the matter.

⁴³ See memorandum by the Chief of the Division of Far Eastern Affairs, June 26, 1934, p. 664.

⁴⁴ Treaty of friendship, commerce and consular rights, signed at Washington, December 8, 1923, *Foreign Relations*, 1923, vol. II, p. 29.

During the conversation no definite statement was made in regard to whether the negotiation of such a convention should be conducted in Washington or in Tokyo, although Mr. Hamilton remarked on one occasion that he assumed that the actual negotiations would take place in Tokyo.

711.9421/46

*Memorandum by the Third Secretary of Embassy in Japan
(Hughes)*⁴⁵

[Tokyo,] November 15, 1934.

Seven officers of the Embassy and Consulate General dined last evening with seven officers of the Foreign Office—two secretaries and an attaché of the American Affairs Bureau, two secretaries and an attaché of the Treaties Bureau, and one secretary of the Eastern Asiatic Bureau. Mr. Koto Matsudaira, secretary of the 2nd Section, Bureau of Treaties talked to me a long time on the subject of a new Consular treaty between the United States and Japan. Investigation of that subject and compilation of data, he said, had been assigned to him, and he wanted to know with which country we had the most modern treaty at present.

I told him that I thought our treaty with Sweden⁴⁶ was considered very satisfactory, and also the one we made with Germany. He said he had been studying American laws concerning rights and privileges of American Consular Officers, and had a copy of our treaty with Germany. He said he was planning to recommend a treaty similar to the American-German one, which he believed would greatly improve not only the official position but also the personal comfort of consular officers of both countries.

Mr. Matsudaira stated that the Foreign Office was eager to promote a consular treaty, and believed that one would be negotiated soon. He mentioned, however, Japan's fears that other "most favored nations" would claim for their own officers the privileges granted by the treaty to American consular officers, even though those countries might not reciprocate with regard to Japanese consular officers. He cited Great Britain's traditional unwillingness to conclude treaties granting other than long-standing privileges to foreign consular officers. I asked him about the possibility of convincing other nations that rights and privileges should be conceded on a basis of reciprocity—a policy which I believed the United States has always followed. He replied that that is what the Foreign Office will try to do.

⁴⁵ Copy transmitted to the Department by the Ambassador in Japan in his despatch No. 1059, November 16; received December 1.

⁴⁶ Signed at Washington, June 1, 1910, *Foreign Relations*, 1911, p. 723; cf. correspondence concerning proposed new treaty, *ibid.*, 1927, vol. III, pp. 740 ff.

He asked whether the State Department would have sufficient authority to force the individual states to eliminate taxing Japanese consular officers, in case the treaty concluded provides that neither nation shall tax the consular officers of the other. I replied that I did not believe so, but that the states themselves were usually rather liberal about taxing foreign consuls. The only tax I could think of that they are obliged to pay is the annual automobile license tax, which never amounts to very much. I added that I thought the State Department would in all cases be able to persuade any state not to assess personal property taxes, income taxes or those other than real property taxes, in the case of a career consular officer.

Mr. Matsudaira said that he would like to come to the Embassy occasionally to consult with one of the officers regarding the proposed treaty. I invited him to come at any time, and said that Mr. Crocker⁴⁷ would probably be the officer to see. He stated that the Treaties Bureau would welcome any suggestions that the Embassy or Consulate General might have relative to special provisions in the projected treaty. He did not say whether Japan is expected to initiate negotiations for the new consular treaty or whether it is merely preparing in advance for an American proposition.

Incidentally, the Vice Consul, Mr. Allison, has informed me that he has conferred with Mr. Matsudaira on the subject of an American-Japanese consular treaty, and at the latter's request has furnished the Treaties Bureau with a copy of the American consular treaty with Finland.⁴⁸ Mr. Allison stated that Mr. Matsudaira told him the committee preparing the ground-work to be used in future negotiations had taken the German-American Consular Treaty of 1923 as a model.

MORRIS N. HUGHES

Note: I made it clear to Mr. Matsudaira during our conversation that the Embassy was in no position to indicate what the attitude of the American Government would be toward a Consular convention.

711.9421/47

The Ambassador in Japan (Grew) to the Secretary of State

No. 1103

TOKYO, December 28, 1934.
[Received January 16, 1935.]

SIR: I have the honor to refer to my despatch No. 1059, November 16, 1934,⁴⁹ which transmitted a copy of a memorandum of a conversa-

⁴⁷ Edward S. Crocker, Second Secretary of Embassy in Japan.

⁴⁸ Signed February 13, 1934; see vol. II, pp. 134 ff.

⁴⁹ See footnote 45, p. 841.

tion between a member of my staff and Mr. Matsudaira, a Secretary in the Bureau of Treaties of the Japanese Foreign Office, on the subject of a new Consular Treaty between the United States and Japan and to enclose herewith copies of two memoranda⁵⁰ of conversation on the same subject. Through the first conversation which took place between Mr. Crocker of the Embassy and Mr. Yamada of the Treaty Bureau on December 1 the Embassy carried out the Department's instruction No. 624 of October 17, 1934, and proposed the conclusion of a reciprocal arrangement between the United States and Japan containing the provisions set forth in the Department's instruction No. 532 of June 4, 1934. From the second conversation, which took place between my private secretary and Mr. Matsudaira, it will be noted that despite the Embassy's initiative in proposing a reciprocal agreement, the Foreign Office apparently has the intention of shifting the negotiations to Washington and hopes to submit a draft of a comprehensive consular treaty through the Japanese Embassy shortly after the New Year.

In reference to Mr. Matsudaira's statement that the phrase "in process of probate" which appears in the Consular Treaty between the United States and Germany was not clear to him in its context and appeared contradictory, I may state that approximately one month ago Consul General Garrels and Vice-Consul Allison explained the use of this term to another official of the Treaty Bureau who called at the Consulate General in regard to it.

Respectfully yours,

JOSEPH C. GREW

⁵⁰ Neither printed.

SIAM

PROPOSED REVISION OF THE TREATY OF FRIENDSHIP AND COMMERCE BETWEEN THE UNITED STATES AND SIAM, SIGNED DECEMBER 16, 1920¹

711.922/48

The Siamese Legation to the Department of State

This Legation has received instructions to inquire:—

(1) Whether the United States Government will consent to replace the present article 3 of the treaty² by the counter-draft of the new article 3³ which Dr. Stanley K. Hornbeck⁴ handed to Mr. Stevens,⁵ and to leave all the other articles to be revised at the time of the general revision of our treaties with various countries in 1936 because the other articles are also found in other treaties whereas the present article 3 containing the general prohibition for the establishment of monopolies is found in the American treaty alone;

(2) What form the supplementary agreement shall take?; and

(3) What form of authority is required for signing the agreement?

With regard to question (2), this Legation understands that the modification desired could be made in the form of exchange of notes, and as to question (3), is the proposed agreement to be signed in Washington or in Bangkok, and is it presumed that the Plenipotentiaries have to be provided with full powers for signing the agreement?

WASHINGTON, 22 May, 1934.

711.922/48 : Telegram

The Secretary of State to the Minister in Siam (Baker)

WASHINGTON, June 16, 1934—1 p. m.

6. Department's 17, November 18, 1933, 1 p. m.⁶ and your 28, November 24, 3 p. m.⁷ In a written communication under date May 22 the Siamese Legation again brought up the question of treaty revision,

¹ Continued from *Foreign Relations*, 1933, vol. III, pp. 767-771.

² Treaty signed at Washington, December 16, 1920, *ibid.*, 1921, vol. II, p. 867.

³ Not printed.

⁴ Chief of the Division of Far Eastern Affairs.

⁵ Raymond B. Stevens, American adviser on foreign relations to the Siamese Government.

⁶ *Foreign Relations*, 1933, vol. III, p. 770.

⁷ *Ibid.*, p. 771.

inquiring whether the American Government would consent to proceed with revision of Article 3 and postpone consideration of the question of revision of the other Articles. Both the Siamese Minister and the Department are doing all they can to expedite decision in regard to this matter.

The above is for your information and in your discretion informal communication to the Foreign Office.

HULL

711.922/48

The Department of State to the Siamese Legation

MEMORANDUM

Reference is made to the note of the Siamese Legation, dated May 22, 1934.

1. The previous proposal of the Government of Siam contemplated the revision of three articles of the existing treaty between the United States and Siam, signed at Washington, December 16, 1920. The counterdraft of the new Article III which Mr. Hornbeck handed to Mr. Stevens was prepared on the assumption that there would be a revision, simultaneously with that of Article III, of Articles VII and XIII. Nevertheless, noting that the Siamese Government now wishes to proceed with the revision of Article III and to postpone consideration of the question of revising the other two Articles, the American Government would be willing to replace the present Article III of the treaty with a new Article III reading as follows:

“The citizens or subjects of each of the High Contracting Parties shall have liberty freely to come with their ships and cargoes to all places, ports and rivers in the territories or possessions of the other which are or may be opened to foreign commerce and navigation, subject always to the laws of the country to which they thus come.

“Each of the High Contracting Parties binds itself unconditionally to impose no other restrictions or prohibitions on the importation of any article originating in, or on the exportation of any article destined to, the territory of the other party than are imposed on any like article originating in or destined to the territory of any other foreign country; with the exception, however, that nothing in this treaty shall be construed to restrict the right of either Contracting Party to impose, on such terms as it may see fit, subject to the principle of non-discriminatory treatment:

“(1) Prohibitions, restrictions or regulations for the enforcement of police or revenue laws, including laws prohibiting or restricting the importation, exportation, or sale of alcohol or alcoholic beverages or of opium, the coca leaf, their derivatives, and other narcotic drugs, as well as other laws imposed upon

articles the internal production, consumption, sale or transport of which is or may be forbidden or restricted by the national law;

“(2) Prohibitions or restrictions necessary for the protection of national or public security or health, or for the protection of animal or plant life against disease, harmful pests or extinction;

“(3) Prohibitions or restriction upon articles which, as regards production or trade, are or may hereafter be subject within the country to a monopoly exercised by or under the control of the State.

“The provisions of this treaty shall not apply, however, to the control of the export or the sale for export of arms, munitions or implements of war, and in exceptional circumstances, of other material needed in war; or to the commerce of the United States of America or its dependencies with the Republic of Cuba, the commerce of the United States of America with the Panama Canal Zone or with any of the dependencies of the United States of America, or the commerce of the dependencies of the United States of America with one another.”

The text of the new Article III, as given above, differs from the text of the counter-draft of the new Article III which Mr. Hornbeck handed to Mr. Stevens in respects as follows:

(a) In the second paragraph there has been substituted for the words “no other restrictions or prohibitions on the importation or exportation of any article of commerce between their respective territories than are imposed on importations from or exportations to any other foreign country” the words “no other restrictions or prohibitions on the importation of any article originating in, or on the exportation of any article destined to, the territory of the other party than are imposed on any like article originating in or destined to the territory of any other foreign country”;

(b) The sub-paragraph number (2) has been transferred from the sub-paragraphs and has been placed, with some modification in regard to phraseology and with the addition of a general provision in regard to the commerce of the United States and its dependencies, as the last paragraph of the Article;

(c) The sub-paragraphs numbered (3) and (4) have been renumbered (2) and (3), respectively.

2. It would seem necessary that the agreement revising any part of the present treaty be in the form of a supplementary treaty and not in the form of an exchange of notes.

3. The treaty under reference having been concluded at Washington, it is believed that it would be appropriate that the proposed supplementary treaty be concluded at Washington. In the circumstances contemplated, it would be necessary that the plenipotentiaries be provided with full powers to sign the agreement.

WASHINGTON, June 21, 1934.

711.922/52 : Telegram

The Minister in Siam (Baker) to the Secretary of State

BANGKOK, August 20, 1934—11 p. m. [*a. m.*?]
 [Received August 20—3:33 a. m.]

12. Referring to my telegram No. 11, August 18, noon.⁸ Conditions here are such that I suggest the Department suspend treaty negotiations pending developments. Air letter follows.

BAKER

711.922/53

The Minister in Siam (Baker) to the Secretary of State

No. 119

BANGKOK, August 23, 1934.
 [Received September 8.]

SIR: I have the honor to refer to my telegram No. 12, of August 20, 1934, 11 a. m. As the various State Councillors have been unable to function because of disagreements among themselves, I am led to the conclusion that any changes in the treaty to which the Department is willing to assent, especially with reference to Article 3, should be held in abeyance until the next session of the Assembly, which meets December 10, 1934, and adjourns March 31, 1935, is completed. At that time the Department will be in a position to know more definitely the policies of the Siamese Government. However, if the Department desires to proceed without regard to the future economic policies of the Siamese Government, there is no need for further suspension of the treaty negotiations.

When the King left here on January 12th he had succeeded in harmonizing to some extent the contending political elements within the State Council. This situation continued until the Assembly adjourned March 31st. The State Council is sharply divided into the following groups:

1. The dominant group, led by the Premier, Phya Bahol, and having military support, which stands for the state operation of industries under monopolies; it is supposed to be controlled by the King.

2. The legalistic group (composed of lawyers), who have not been able to agree upon a judicial system and promulgate codes of civil and criminal procedure and a plan for the organization of the courts of justice, which are not provided for by the constitution.

3. The group led by Luang Pradit, whose economic plans seek nationalization of wealth, land, labor, etc.

⁸ Not printed.

4. A small group who desire restoration of the rights and privileges of the nobility.

The foregoing dissension, together with removal of many former officials and employees of the Government, high taxes, increases in military expenditures, the discussion of high inheritance and income taxes, along with the sentences pronounced by the Special Court on offenders in the October insurrection, has brought about so much unrest that criticism of the Government has grown severe, and it has led to the imprisonment of many persons antagonistic to the present Government.

The absence of the King^o has added to the uncertainty of the future policies of the Government. So much so, that the question of his return here, permanently, is a subject of serious consideration, as he has set no definite date for his return.

In view of this general situation, my own judgment is that the stability of the present Government will be maintained so long as it has the loyal support of the Army.

Respectfully yours,

JAMES M. BAKER

^oThe King's absence in Europe led to his abdication in March 1935.

INDEX

INDEX

- Amau statement. *See* Sino-Japanese dispute: Unofficial statement.
- Arizona, anti-alien disturbances. *See* Japan: Protection of Japanese lives and property.
- Arms and munitions. *See under* China and *under* Sino-Japanese dispute.
- Assault by Japanese workmen on British and American riding party at Mukden, U. S. and British action concerning, 249-250, 268-269, 282-283, 283-284, 285; attempted assault by Japanese youth on American Vice Consul at Mukden, 675-677, 680-681
- Aviation. *See under* Sino-Japanese dispute.
- Belgium: Attitude concerning proposed state visit to Tokyo by Pu-yi, 200; views concerning application of Chinese regulations governing export licenses for shipments of arms and munitions into China, 507
- Blanco, A. E., suggestion for employment by Chinese Government as an adviser on opium suppression, 360-361
- Boycott, anti-Japanese, in China, 41, 50, 141
- Catholic Church, appointment of Bishop Gaspais as temporary representative in Manchuria, 174-175
- Censorship restrictions. *See under* China.
- China (*see also* Sino-Japanese dispute), 349-630
- Arms and munitions (including military aircraft), export to China (*see also* Importation of certain industrial chemicals, *infra*), 490-522
- Competition for market among United States and other foreign countries, U. S. attitude, 490, 492, 494, 500, 506, 510-511, 513
- Restrictions on transportation of shipments:
- Application of Chinese regulations governing export licenses for shipments of arms and munitions of war into China, question of:
- Chinese request for compliance with, 490, 490-491, 493, 493-494, 494-495, 496, 501-502
- Indo-China, attitude concerning transit of non-French items, report concerning, 506
- China—Continued.
- Arms and munitions—Continued.
- Restrictions on transportation of shipments—Continued.
- Application of Chinese regulations, etc.—Continued.
- U. S. position: Instructions and information concerning, 490, 492-493, 494-495, 499-501; U. S. revised export regulations, statement of *May 18* concerning, 497-499; statistics concerning U. S. shipments of arms to China, Hong Kong, and Macao, 516-518
- Views of other arms-exporting countries concerning, 496, 496-497, 501, 507, 511-512
- Attitude of Canton regime toward Central Government, 511-512, 513
- Hong Kong authorities, policy on shipments through Hong Kong to China, 504-506, 513, 513-516
- Importation of supplies, duty-free, for the foreign armed forces in China: Proposed Chinese restrictions concerning, 502-503, 519-520; U. S. position, 502, 503-504, 512, 518-519, 519-521; views of other foreign powers concerning, 503-504, 512, 518-519, 520
- U. S.-British discussions and attitudes, 506-511, 521-522
- Canton authorities: Attitude toward regulations of National Government on importation of arms and munitions, 511-512, 513; relations with National Government, 266; restrictions on the sale of liquid fuel by foreign companies, U. S. and British representations against, 564-566
- Censorship restrictions upon American motion pictures in China: Amateur motion picture films, U. S. request for removal of censorship on, 624-625; Metro-Goldwyn-Mayer Studios' negotiations with Chinese authorities for permission to take motion pictures in China for the filming of "The Good Earth", 620-622; transfer of control of motion picture matters from the Chinese

China—Continued.

- Government to the Kuomintang, 622-624
- China Development Finance Corp.
See under Economic reconstruction, and *under* U. S. silver-purchasing program, *infra*.
- Claims:
 - American claims outstanding against China (*see also* Hukuang Railway loan, *infra*):
 - Presentation of claims for losses arising from banditry, U. S. instructions concerning, 543-544; question of status of claims involving property in the hands of native agents, 544
 - Skinsnes, Casper C., settlement by Chinese Government of claim for losses sustained in efforts to procure the release of Rev. Bert Nelson, captured by Communists in 1930, 464-466, 469-470
 - U. S. proposal for claims commission or other constructive action by Chinese Government toward settlement of:
 - Chinese alternative suggestions and U. S. rejection of, 542-543, 544-545, 547-551, 558-560
 - Resolution of *Apr. 17* by Executive Yuan and request for list of American claims: Information concerning, 551; text of resolution, 553; U. S. attitude, 552, 553-554, 554-556
 - Hukuang Railway loan of 1911:
 - Interpretation of, attitude of Department of State, 416, 560-561
 - Request of American Group of China Consortium for stronger representations concerning servicing of, 561-562
 - U. S.-British representations for servicing of, 416, 546-547, 557-558; Chinese reply, 558
 - Japanese Government's objection to individual arrangements by Japanese creditors with Chinese railways, 406, 554
 - Commercial treaty of 1903 with United States:
 - Chinese proposals for negotiation of a new treaty: Extraterritorial jurisdiction, question of abrogation of provisions concerning, 525, 526-528, 529-530, 531-533, 534, 534-535,

China—Continued.

- Commercial treaty of 1903 with United States—Continued.
 - 535; negotiations, 523-524, 525-530; U. S.-British consultations, 524, 524-525, 530-534, 535
 - Citations, 471, 588
- Consortium of 1920 (*see also* Economic reconstruction: China Consortium, *infra*), 459, 561-562
- Customs (*see also* Liquid fuel, *infra*), denial to American firms of right to formal hearing under Chinese Customs rules of 1868, 573-591
 - U. S. correspondence with Inspector General of Customs concerning alleged arbitrary action of Customs in three cases involving American firms, 573-581
 - U. S. representations protesting Chinese Government's position as to effect of Sino-American Treaty of 1928 on status of rules, 573, 581-583, 585-591; Chinese reply, 583-585
- Economic reconstruction, proposed international collaboration for, 371-423
 - China Consortium of 1920: Status of American Group, U. S. attitude and consultations with J. P. Morgan & Co., 388-395, 412-413, 415-417, 420-421; violations, Japanese claims of, 197-198, 384, 385, 386, 403, 404-405, 406
 - China Development Finance Corp., organization by Chinese bankers with assistance of Jean Monnet:
 - Establishment and developments concerning, 377-381, 385-386, 387-388, 403-408, 413-415, 417-418, 421-423; question of participation of American funds, 417-418
 - Japanese objections, 386, 403, 404-405, 407-408, 414, 423
 - Committees. *See* Consultative committee and *under* League of Nations' program, *infra*.
 - Consultative committee of foreign experts, proposal by T. V. Soong for, 374, 408, 414
 - Japanese attitude toward foreign assistance to China excluding Japanese participation, 372-373, 374, 375-376, 378-379, 379, 380, 384-385, 386, 389, 396-398, 403, 404-405, 405-408, 414

China—Continued.

- Economic reconstruction, etc.—Con.
 League of Nations' program of technical collaboration with China:
 Committees. *See* Special committee on technical collaboration and Transit Committee, *infra*.
 Italian support of, question of, 400-401
 Japanese allegations of political nature of, 381, 396-398
 Rajchman, Ludwig W., technical liaison officer: Reappointment of or successor to, question of, 398, 408-409, 410-412, 418-419; views on technical assistance to China and relation to Japanese policy in Far East, 395-402
 Special committee on technical collaboration: Meetings and procedures, reports concerning, 371-372, 377, 382-383, 409-410, 418-419; U. S. unofficial representation, 371-372, 377, 381, 381-382, 418
 Transit Committee, mission to China, arrangements for participation of American national, 419-420
 U. S. cooperation:
 Special committee on technical collaboration, U. S. unofficial representation, 371-372, 377, 381, 381-382, 418; Chinese desire for U. S. active participation, 381-382
 Transit Committee mission to China, arrangements for participation of American national, 419-420
- Loans:
 Hukuang Railway loan and Nishihara loan, necessity for Chinese effort in settlement of, 380, 416
 U. S. loans: Cotton-wheat credit, 372-373, 373-374, 376, 384, 415-416; rehabilitation loan, proposal for and U. S. attitude, 383-385, 436-437
 Monnet, Jean (*see also* China Development Finance Corp., *supra*), 374
 National Economic Council, 372, 373, 374, 376-377, 402
 Soong, T. V., 373, 374, 375, 378, 379, 389, 404, 408, 413-414
 Syndicat Europeen d'Enterprises, invitation for cooperation of American firms in public works program in China, and U. S. attitude, 387, 392, 393

China—Continued.

- Extraterritorial jurisdiction (*see also* Rendition, *infra*), question of abrogation of provisions of U. S.-Chinese commercial treaty of 1903, 525, 526-528, 529-530, 531-533, 534, 534-535, 535
 Importation of certain industrial chemicals classifiable as munitions of war, U. S. views concerning Chinese restrictions on, 562-564
 Legations of foreign governments in China, question of raising to status of embassies, 535-542
 Disinclination of U. S. Government to raise its Legation to the status of an Embassy, 536, 539-540, 541; similar views of France, Great Britain, and Japan, 540-541, 541-542
 Italian creation of Embassy, information concerning, 535, 536-539, 542
 Liquid fuel, restrictions by Cantonese authorities upon the sale by foreign companies, U. S. and British representations against, 564-566
 Loans:
 Export-Import Bank loan to China, proposal for, 458, 460
 Hukuang Railway loan. *See under* Claims, *supra*.
 Nishihara loan, 380
 U. S. cotton-wheat credit, 372-373, 373-374, 376, 384, 415-416
 U. S. rehabilitation loan, proposal for, 383-385, 436-437
 Missionaries and mission property. *See under* Protection, *infra*.
 Narcotic drugs and opium control (*see also under* Sino-Japanese dispute: "Manchoukuo"): Chinese request to have representative present at search of American gunboats for suspected smuggled narcotics, and U. S. attitude, 356-358; employment by Chinese Government of A. E. Blanco as adviser on opium suppression, suggestion for, 360-361; establishment of national agency to provide lawful source of supply of narcotics, proposed, 370-371; seizure by Japanese military at Changli of confiscated drugs, and fines imposed on opium users, 364, 366-369; U. S. informal representations to Chinese Government regarding opium situation, 361, 369-370
 National Economic Council, 372, 373, 374, 376-377, 402

China—Continued.

Pilotage authority at Shanghai, proposed changes in control of, 591-606

Compulsory pilotage for vessels over 450 feet, request for, and attitude of interested powers, 594-597

Erbe, C. F., American citizen, question of examination for position of pilot under revised regulations, 601, 603

Foreign powers, attitudes of: France, 604, 605; Germany, 602; Great Britain, 595, 597-598, 604-606; Japan, 596, 597, 604, 605; U. S. views and reservation of rights, 592-594, 595-596, 597-600, 603, 604, 606

Regulations adopted unilaterally by Chinese Government:

Examination of pilots, 591-592

Revision of General Pilotage

Regulations of 1868: Examination of C. F. Erbe, an American citizen, for position of pilot under revised regulations, question of, 601, 603; information concerning, 597-603, 604-605; renewal of pilot licenses, pending acceptance by interested powers of new regulations, arrangements concerning, 601-603; U. S. representations and reservations concerning, 599-600, 606

Political situation (*see also* Sino-Japanese dispute: Independence movements), attitude of Canton regime toward Central Government, 266, 511-512, 513

Press restrictions concerning registration of American and other foreign publications under Chinese press law, U. S. position concerning, 618-620

Protection of American and other foreign lives and property, 462-490

Evacuation of Americans and other foreigners from places of danger, reports and plans concerning, 474, 475, 475-476, 478, 483, 484-485

Kidnaping and murder of American citizens by Communist bandits. *See under* Missionaries and mission property, *infra*.

Military action by Communists and rebel forces in—

Anhwei Province (*see also* Missionaries: Kidnaping, *infra*), 483-484, 484-485

China—Continued.

Protection of American and other foreign lives and property—*Con.*
Military action by Communists and rebel forces in—Continued.

Fukien Province: Bombing operations by Chinese Nationalist forces, representations by U. S. and other foreign governments concerning, 462-463, 463-464; foreign military and naval forces, dispatch by U. S., British, French, and Japanese Governments for protection of their nationals, 463, 464, 467, 471, 472, 473; occupation of American mission property by Chinese National Army, U. S. representations concerning, 467-469; reports, 462-464, 466-467, 471, 472-473

Hunan Province, 478, 484

Kiangsi, 265-266

Kweichow Province, 474-476

Missionaries and mission property (*see also* Evacuation, *supra*):

American Baptist mission in Yunnan, Chinese request for withdrawal from China of Rev. William Young and his sons on ground of interference in political affairs, 470-471, 473-474, 476-478; U. S. representations concerning protection of the Youngs, 470-471, 478-479

Claims of Rev. Casper C. Skinsnes for losses sustained in his efforts to procure the release of Rev. Bert Nelson, captured by the Communists in 1930, negotiations with the National Government concerning, 464-466, 469-470; settlement, 470*n*

Kidnaping and murder of American missionary John C. Stam and wife by Communist bandits in southern Anhwei: Investigation of murder of Mr. and Mrs. Stam, recovery of their bodies, and rescue of the Stam infant, 479, 480-481, 481, 482, 485-486, 487, 488, 489-490; U. S. representations to Chinese Government, 479, 479-480, 481-482, 486-487, 487-488, 488

Occupation of American-owned mission property by Chinese National Army, U. S. representations concerning, 467-469

China—Continued.

Protection of American and other foreign lives and property—Con. Missionaries and mission property—Continued.

Peiping area and Western Hills, Chinese assurances of protection for Americans traveling or sojourning in, 472

U. S. military and naval forces, dispatch to places of danger: Foochow, 464, 467, 471, 472, 473; Wuhu, 480, 483, 485

Radio:

Operation by an American citizen of an unlicensed amateur radio station, U. S. attitude concerning Chinese objections and request for dismantlement of station, 625-627, 628, 629-630; acquiescence in Chinese proposed solution, 629-630

Registration of radio receiving sets, U. S. nonobjection to voluntary compliance with regulations by American citizens in Shanghai, 627-628, 628-629; British action, 629

Rendition of Kuling Estate, U. S. concurrence in proposed agreement for, 614-617

Review of developments in China during 1934, 344-348

Shanghai International Settlement, problems affecting: Courts, Chinese, question of right to summon employees of the Municipal Council to answer charges for alleged offenses committed in the discharge of their duties, 610-613; extra-Settlement roads, U. S. and British attitudes concerning Japanese proposals, 607-609, 613-614

Taxation:

American leaf tobacco, U. S. informal protest against proposed increase in import duties, 566-567, 572

Business tax, attitude of United States and other foreign governments toward imposition on foreign firms, 570-572; British counterproposal, 570-571

Industrial Encouragement Act of Apr. 20, U. S. and British representations concerning, 567-570

Title deeds to real property of Americans, U. S. position concerning question of reregistration of, 617-618

Treaties with—

France, treaty of 1844, 594; of 1858, 570, 594, 602

China—Continued.

Treaties with—Continued.

Great Britain: Treaty of 1858, 577, 580, 584, 593; treaty of 1902, 524-525, 531, 532, 535

United States (*see also* Commercial treaty of 1903, *supra*):

Tariff treaty of 1928, 525, 573, 582, 583, 584, 586, 591; treaty of 1858, 563, 564; treaty of Wang-Hea (1844), 584, 587, 588, 589, 593; treaty of 1880, 588

Tientsin (1858), 575, 584, 587, 588, 589, 593; additional articles of 1868, 589

U. S. silver-purchasing program, effect upon Chinese economy, 423-462

Anti-American feeling, reports concerning, 428, 456, 458

China Consortium, participation in proposed bond issue, question of, 459

China Development Finance Corp., proposed bond issue to strengthen Chinese financial situation, 459

Chinese Bankers' Association, appeal to Pres. Roosevelt, 424-425; endorsement by Shanghai Chinese and Foreign Chambers of Commerce, 428

Export duty on silver, imposition by Chinese Government: Consideration of, 425, 427, 429, 432, 435, 438, 439, 449; discriminatory action by Central Bank of China, alleged, and U. S. attitude, 452-453, 453-454; Foreign Exchange Stabilization Committee, 453-454; Order of Oct. 15, 450-451; U. S. position, 452-453, 454

Federal Reserve Bank of New York, notification of Dec. 18 to Central Bank of China concerning U. S. silver-purchasing program and notice of termination of program, Dec. 31, 456-457, 458, 461-462

Gold, Chinese proposal for U. S. exchange for Chinese silver, and U. S. position, 443, 443-444, 446, 450

Loans: Export-Import Bank loan to China, proposed, 458, 460; rehabilitation loan by U. S. Government to Chinese Government, proposal for, 436-437

Monnet, Jean, discussion with State Department officials concerning Chinese financial situation, 459-460

Protective measures by Chinese Government (*see also* Export duty on silver, *supra*), con-

- China—Continued.
- U. S. silver-purchasing program, effect upon Chinese economy—Con- sideration of, 425, 427-428, 429, 435, 439, 443, 449
 - Reports concerning (*see also* Rogers mission: Reports, *infra*), 425-426, 426, 427-428, 428-430, 434, 456
 - Representations by Chinese Govern- ment, and U. S. replies (*see also* Federal Reserve Bank of New York, *supra*), 423-424, 426, 440-443, 443-446, 446-449, 449-450, 454-456, 457-458, 460-461
 - Rogers mission: Appointment of Prof. James Harvey Rogers by Treasury Department to observe and report on conditions in monetary centers of the world, 430; instructions to avoid discussion of a U. S. loan to China, 437; reports concern- ing situation in China, 430-434, 435-437, 437-440
 - Silver agreement (1933): Allusions to, 441, 444, 446; Chinese ratification of, 424, 425-426, 440-441
 - U. S. legislation: Dies bill, 433; Roosevelt message to Congress, May 22, 437-438, 439, 444; Silver Purchase Act, 441, 441-442, 443, 449-450
 - Chinese Eastern Railway. *See under* Sino-Japanese dispute: "Manchou-kuo".
 - Claims. *See under* China and under Sino-Japanese dispute.
 - Commissions and committees (*see also* China: Economic reconstruction: League of Nations: Committees): Consultative committee of foreign experts, proposal by T. V. Soong for, 374, 408, 414; Commission for the Settlement of Affairs Pertaining to the War Zone, established under Tangku armistice agreement of May 31, 1933, 301-302
 - Communists (*see also* China: Protection of American and other foreign lives and property: Military action by Communists and rebel forces), kidnaping and murder of John C. Stam and wife by Communist bandits, 479-482, 485-490
 - Consortium, international. *See under* China.
 - Courts. *See under* China: Shanghai International Settlement.
 - Customs. *See under* China; *see also* Oil monopoly: Discrimination and Resumption of customs, postal, and railway service under Sino-Japanese dispute: "Manchoukuo".
 - Czechoslovakia, views concerning ap- plication of Chinese regulations governing export licenses for ship- ments of arms and munitions into China, 496, 507
 - Diplomatic and consular relations (*see also under* Sino-Japanese dispute: "Manchoukuo": Nonrecognition), disinclination of U. S. Government to raise its Legation in China to the status of an Embassy, 535-542
 - Discrimination against American trade. *See* China: Liquid fuel.
 - Eastern Locarno Pact, Soviet views con- cerning, 271
 - El Salvador, recognition of "Man- choukuo", 189, 194-195
 - Erbe, C. F. *See under* China: Pilotage authority at Shanghai.
 - Extraterritoriality. *See* China: Extra- territorial jurisdiction.
 - Far Eastern crisis. *See* Sino-Japanese dispute.
 - Fisheries, dispute between Soviet Union and Japan, 158, 298
 - Fleet, Japanese. *See* Merchant fleet and Shipping under Sino-Japanese dis- pute.
 - France (*see also under* Sino-Japanese dispute: Foreign powers), relations with China: Arms and munitions, French views concerning Chinese restrictions governing export li- censes for shipment into China, 496, 497, 507, 511-512; Chinese business tax on foreign firms, French attitude toward, 570, 571; military and naval forces, dispatch for protection of nationals in Fukien Province, 471; pilotage au- thority at Shanghai, views con- cerning proposed changes in, 604, 605; question of raising of Legation in China to status of Embassy, 540; Sino-French treaties of 1844 and 1858, cited, 570, 594, 602
 - Free customs entry privileges (*see also* Japan: Reciprocal arrangement), U. S. position concerning proposed retention by U. S. consular officers in Manchuria, 308
 - Germany: Arms and munitions, views concerning application of Chinese regulations governing export li- censes for shipment into China, 496, 497, 507; nonrecognition of "Manchoukuo", views concerning, 8, 22-23, 44, 59; pilotage authority at Shanghai, views concerning pro- posed changes in, 602

- Great Britain (*see also under Sino-Japanese dispute*: Foreign powers):
 China: Arms and munitions, British views concerning questions pertaining to export to China, 496, 497, 506-511, 521-522; claims, U. S.-British representations for servicing of Hukuang Railway loan of 1911, 546-547, 557-558; liquid fuel, restrictions by Cantonese authorities upon the sale by foreign companies, U. S. and British representations against, 564-566; military and naval forces, dispatch for protection of nationals in Fukien Province, 464, 467, 471; pilotage authority at Shanghai, views concerning proposed changes in, 595, 597-598, 604-606; question of raising of Legation in China to status of Embassy, 540, 541, 541-542; registration of radio receiving sets, attitude concerning Chinese regulations, 629; Shanghai International Settlement, British attitude concerning Japanese proposal with regard to extra-Settlement roads, 609; Sino-British commercial treaty of 1902, Chinese proposals for replacement by a new treaty, 524-525, 531, 532, 535; taxation, representations to Chinese Government against business tax on foreign firms, 568-569, 570-571; treaty of Tientsin (1858), 577, 580, 584
- Japanese oil monopoly, British representations and discussions with interested foreign powers concerning, 700-701, 728-729, 730-731, 731, 732, 734, 740-741, 752, 759-761, 762-764, 766-768, 769-770, 773, 774-776, 776-786, 789-791, 791-794, 796-797, 799; regarding "Manchoukuo" customs discrimination, 702, 772, 776, 795-796
- Huang Fu (Chairman, Peiping Political Affairs Readjustment Council), 46, 47, 79-80, 96, 106-107, 173, 218, 234, 247, 249, 274, 301-302, 318-319, 322, 336-337, 338
- Immigration question, U. S.-Japanese discussions concerning, 636-637
- Italy (*see also under Sino-Japanese dispute*: Foreign powers): Action in raising Legation in China to status of Embassy, 535, 536-539, 542; economic reconstruction of China, question of Italian support of League of Nations' program of technical collaboration for, 400-401; views concerning application of
- Italy—Continued.
 Chinese regulations governing export licenses for shipments of arms and munitions of war into China, 496, 507
- Japan (*see also Sino-Japanese dispute*), 631-843
 China: Arms and munitions, Japanese views on questions concerning shipment into China, 501, 503, 507, 512, 518-519; claims, Japanese Government's objections to individual arrangements by Japanese creditors with Chinese railways, 406, 554; economic reconstruction, Japanese objections toward foreign assistance to China, 372-373, 374, 375-376, 378-379, 379, 380, 384-385, 386, 389, 396-398, 403, 404-405, 405-408, 414; military and naval forces, dispatch for protection of nationals in Fukien Province, 463, 467, 471; pilotage authority at Shanghai, views regarding proposed changes in, 596, 597, 604, 605; question of raising of Legation in China to status of Embassy, 540-541, 541-542
- Commercial treaty with United States (1911), 759, 819
- Contract rights of the Oriental Consolidated Mining Co., an American firm operating in Korea, protection of, 820-826
- U. S. representations on behalf of company's request to Japanese Government for permission to export gold, 820-823; settlement, 823-824
- U. S. support of company's position with respect to inspection of its books by Chosen authorities for the purpose of levying income tax upon its employees, 824-826
- Dairen Mayor's request for contributions from foreign firms for air defense: Information concerning, 818-819; U. S. informal representations to Japanese Government, and Japanese disapproval of Mayor's action, 819-820
- Fleet. *See Merchant fleet and Shipping under Sino-Japanese dispute.*
- League of Nations: Attitude concerning Soviet entrance into League, 158, 183-184, 282; statement of policy to, 127-128, 154-155; withdrawal from, 9, 63, 184-185, 282
- Mandated islands in Pacific:
 Approval by Japan of visits of foreign vessels, 665, 681-682, 683-684

Japan—Continued.

- Mandated islands in Pacific—Con.
 Japanese determination to retain possession of after withdrawal from League of Nations, 24, 62-65, 338-339; denial of alleged fortification of, 338
- Naval Conference of 1935: Japanese naval aims, 23, 38, 120, 247-249, 332, 333, 667-671; preliminary conversations in London, U. S.-British, 667; Washington Naval Treaty, abrogation by Japan, proposed, 668
- Oil monopoly (*see also under* Sino-Japanese dispute: "Manchoukuo"), legislation and regulations for control of oil industry:
 Foreign oil companies:
 Discussions between company representatives and Japanese authorities, proposed, U. S.-British informal representations in preparation for, 757, 759-760, 770, 775, 776-777, 781, 782, 783, 784, 785-786, 789, 790, 792-793, 794, 796-797, 797-799; Japanese concurrence, 798-799
 Position of, 700-701, 704-705, 728, 729, 740, 743, 744, 746-748, 752, 754-755, 755-756, 757-758, 764, 765, 766, 770-771, 773
- Joint or concurrent action by three interested Governments, U. S.-British discussions concerning, and U. S. desire for British and Netherlands initiation of, 728-729, 731, 732, 734, 752, 756-757, 757, 759-760, 760-761, 762-764, 769-770, 774-776, 776-777, 777, 779-784, 785-786, 789-791, 791-794, 796-797; views of Netherlands Government, 731, 756-757
- Naval conversations at London, effect of oil dispute on, 749-750, 767, 771, 773, 779-780, 783, 797
- Petroleum Industry Law, passage and enforcement of, 700, 704-705, 743-744, 746-748, 754-755, 764-765, 766, 785; military nature of, 758-759
- Representations (*see also* Foreign oil companies: Discussions and Joint or concurrent action, *supra*):
 Great Britain, 700-701, 730-731, 732, 740-741, 777-779; Japanese reply, 754
 Netherlands, 730-731, 731-732, 734; Japanese reply, 754

Japan—Continued.

- Oil monopoly—Continued.
 Representations—Continued.
 United States, 702, 704-705, 733, 737; Japanese reply, 753-754
- Retaliatory measures by foreign oil companies and governments, consideration of, 715-718, 721-723, 738-740, 747, 750-751, 752, 756, 757, 761, 777
- Political situation (*see also under* Sino-Japanese dispute): Birth of heir, significance of, 631-633; military influence, waning of, 644-648, 671-672; nationalism, 684-690; Okada Cabinet, 671-672
- Protection of Japanese lives and property during anti-alien disturbances in Arizona: Arizona authorities, cooperation of, 691, 694-695; Japanese requests for, and U. S. assurances of appropriate action, 690-691, 692-694, 695-699; press and public opinion in Japan, 691-692, 695
- Reciprocal arrangement with United States for free importation of articles for personal use of consular officers, U. S. proposal for, 839-840; proposal for consular convention, 840-843
- Shipping:
 Concentration of Japanese shipping in home waters, question of, 144, 175, 201
 Steamship companies subject to U. S. war profits tax for the years 1918 and 1919, Japanese representations on behalf of, 827-838
 Protest by Japanese Government and request for extension of time limit for payment of tax, 827-828, 830-836; U. S. position, 837-838
 State-Treasury Departments correspondence concerning, 828-830, 836-837, 838; Treasury Department indication of possibility of satisfactory settlement of case, 838
- Trade relations with United States:
 Infringement of American trademarks by Japanese, 815-817
 Philippine Tariff Act, Japanese protest against, 814-815; U. S. views, 817-818
 U. S. commercial policy: Review of, 806, 807-809; statement by Secretary of State concerning effect of Far Eastern situation on, 817-818

Japan—Continued.

Trade relations with United States—Continued.

Voluntary restrictions of exports to United States by Japanese Government and exporters:

Discussions, general, 799-800, 809-810

Lead pencils and cotton rugs, 800, 801-805, 807

Porcelain and potteries, 807, 810, 811, 812-814

Tuna fish, 800-801, 810-812; conversations between American and Japanese interests, 801, 810-811

Treaties with United States: Commerce and navigation (1911), cited, 759, 819; peace, amity, and commerce (1854), celebration of eightieth anniversary, 649-650

U. S.-Japanese relations (*see also* Trade relations, *supra*):

Anti-American incidents and propaganda: Address by Japanese army officer, 682-683; attempted assault by Japanese youth on American Vice Consul at Mukden, 675-677, 680-681; Tanaka article, 677-679

Celebration of eightieth anniversary of signing of U. S.-Japanese treaty of peace, amity, and commerce (1854), 649-650

"Good-will" visitors from Japan to United States, 640-643

Immigration question, Japanese desire for adjustment of, 636-637

Mandated islands, approval by Japan of visits by foreign vessels, 665, 681-682, 683-684

Nonaggression pact, rumors concerning, 648-649, 664

Nonrecognition of "Manchoukuo", U. S. policy concerning, 639, 640

Pacific Ocean, Japanese proposal for division into Japanese and American zones, 638-639, 643-644, 656-658

Proposals by Japanese Ambassador, and U. S. position concerning: Joint declaration of policy by U. S. and Japanese Governments, 650-662, 663, 667; U. S. declaration of peaceful intent toward Japan, 633-635, 660-661

Rea, George Bronson, propaganda activities in United States on behalf of "Manchoukuo", 672-675, 679-680

Roosevelt, Franklin D. (President), cruise to Hawaii: Invitation of Pan Pacific Association to visit Japan, declination of, 635-636;

Japan—Continued.

U. S.-Japanese relations—Continued. rumors of possible meeting with Japanese officials at Hawaii, denial of, 662-663, 663-664

Saito, Hiroshi: Appointment as Ambassador to United States, 638; discussion with Department official concerning U. S.-Japanese problems, 664-667

Stimson doctrine, allusion to, 689

Suppression of harmful and warlike publications by Japan, 637, 666-667

Kidnaping. *See under* China: Protection of American and other foreign lives and property: Missionaries and mission property.

Korea, American firm operating in. *See* Japan: Contract rights of the Oriental Consolidated Mining Co.

League of Nations. *See under* China: Economic reconstruction; *and under* Sino-Japanese dispute.

Liquid fuel. *See under* China.

Loans. *See under* China.

"Manchoukuo" (*see also under* Sino-Japanese dispute), Rea, George Bronson, propaganda activities in United States on behalf of "Manchoukuo", 672-675, 679-680

Manchuria. *See* Sino-Japanese dispute: "Manchoukuo".

Mandated islands in Pacific:

Approval by Japan of visits by foreign vessels, 665, 681-682, 683-684

Japanese determination to retain possession after withdrawal from League of Nations, 24, 62-65, 338-339; denial of alleged fortification of, 338

Merchant fleet, Japanese, report on strategical value of new fast vessels in, 235-243, 323-329

Missionaries and mission property (*see also under* China: Protection of American and other foreign lives and property), in Hopei Province, request of Japanese official for information concerning, 92-94

Mongolia. *See* Inner Mongolia *and* Outer Mongolia *under* Sino-Japanese dispute.

Monnet, Jean, proposal for inducing foreign financial investments in China, 374, 377-381, 385-386, 387-388, 403-408, 413-415, 417-418, 421-423, 459-460

Monopolies, oil. *See* Oil monopoly *under* Japan *and under* Sino-Japanese dispute: "Manchoukuo".

Motion pictures, American, Chinese censorship restrictions upon, 620-625

- Murder of American citizens in China. *See* China: Protection of American and other foreign lives and property: Missionaries and mission property: Kidnaping and murder.
- Narcotic drug control. *See* China: Narcotic drugs and opium control and Sino-Japanese dispute: "Manchoukuo": Narcotic drugs and opium traffic.
- Naval Conference of 1935. *See* under Sino-Japanese dispute.
- Netherlands: Attitude concerning questions of diplomatic and consular relations with "Manchoukuo" authorities, 62, 85, 200; Japanese oil monopoly, Netherlands representations and discussions with interested powers concerning, 730-731, 731-732, 734, 756-757, 791; views of Minister to Japan on Far Eastern situation, 331-334
- Netherlands East Indies: Conference at Batavia concerning, 287; trade with Japan, 286-288, 332, 333, 705
- Nine-Power Treaty:
 Invocation in representations to Japanese Government by United States, Great Britain, and Netherlands concerning oil monopoly in Manchuria, 712, 713, 714, 715, 717, 725, 761-762; Japanese attitude, 748
 References to, 56, 113, 120, 122, 130-131, 131, 136, 139, 141, 142-144, 147-148, 148-149, 160, 162, 176, 183, 185, 248, 259
- Norway, views concerning application of Chinese regulations governing export licenses for shipments of arms and munitions of war into China, 496, 507
- Oil monopoly. *See* under Japan and Sino-Japanese dispute: "Manchoukuo".
- Open-door policy. *See* under Sino-Japanese dispute: "Manchoukuo".
- Opium. *See* China: Narcotic drugs and opium control and Sino-Japanese dispute: "Manchoukuo": Narcotic drugs and opium traffic.
- Pan-Asiatic movement, Japanese ambitions concerning, 1-2, 3, 26-29, 80-81, 105
- Postal administration. *See* under Sino-Japanese dispute: "Manchoukuo".
- Poland, attitude toward nonrecognition of "Manchoukuo", 200-201
- Property (*see also* Protection of American lives and property under China and Sino-Japanese dispute): Protection of Japanese lives and property during anti-alien disturbances in Arizona, 691-695; title deeds to Property—Continued.
 real property of Americans in China, question of reregistration of, 617-618
- Protection of American and other foreign lives and property. *See* under China and Sino-Japanese dispute.
- Pu-yi (Hsuan-tung), 2-3, 4, 5, 25, 29-32, 59-60, 61-62, 72-73, 77, 84, 85, 91, 97, 159, 195-196, 199-200
- Radio. *See* under China.
- Railways (*see also* China: Claims: Hukuang Railway loan): Resumption of customs, postal, and railway service between China and Manchuria, 107, 113-114, 116-117, 173-174, 193-194, 199, 203, 203-204, 208-209, 215-216, 218, 220, 234-235, 249, 274, 306, 319, 321, 336-338, 344-345, 346; South Manchuria Railway, 43, 312-313, 314
- Rajchman, Ludwig W., technical liaison officer for League of Nations' program of technical collaboration with China, 113, 118, 119, 123, 127, 128, 135, 145, 146, 150-151, 155, 160, 172-173, 183, 347, 395-402, 408-409, 410-412, 418-419
- Rea, George Bronson, propaganda activities in United States on behalf of "Manchoukuo", 672-675, 679-680
- Recognition. *See* Sino-Japanese dispute: "Manchoukuo": Nonrecognition.
- Rogers, James Harvey. *See* China: U. S. silver-purchasing program: Rogers mission.
- Roosevelt, Franklin D. (President):
 Cruise to Hawaii: Invitation of Pan Pacific Association to visit Japan, declination of, 635-636; rumors of possible meeting with Japanese officials at Hawaii, denial of, 662-663, 663-664
 Message to Congress, *May 22*, 437-438, 439, 444
- Sanctions, economic, British statement concerning, 186, 186-188
- Shanghai. *See* under Sino-Japanese dispute.
- Shanghai International Settlement. *See* under China; *see also* Sino-Japanese dispute: Shanghai: International Settlement.
- Shanhaikwan, 48-49
- Shipping, Japanese: Concentration in home waters, question of, 144, 175, 201; U. S. war profits tax for years 1918 and 1919, Japanese steamship companies subject to, 827-838
- Siam, treaty of friendship and commerce with the United States, proposed revision of: Negotiations, 844-846; suggestion by U. S. Minister in Siam for postponement of, 847-848

- Silver. *See* China: U. S. silver-purchasing program.
- Sinkiang: Chinese plans for development of, 84-85; independence movement, defeat of Gen. Ma Chung-ying by Gen. Sheng Shih-tsai, Garrison Commander of Sinkiang, and collapse of Kashgar regime, 228-230; Japanese aims in, 5
- Sino-Japanese dispute, 1-348
- Amau statement. *See* Unofficial statement, *infra*.
- Arms and munitions: Offer of Chairman of Shantung Provincial Government to give United States concessions and military bases in Shantung in return for munitions and war material, and U. S. reply, 13-15; "Manchoukuo's" efforts to buy abroad, U. S.-French discussion of, 209
- Aviation, Chinese:
- Instructors, foreign:
- American: Chinese dissatisfaction with, 315-317; review of Department's policy in regard to participation of U. S. military officers in Chinese military training program, 288-291
- Italian, 316-317
- U. S. assistance and sale of airplanes to China, Japanese attitude toward, 44-46, 118, 123, 129, 131
- Boycott, anti-Japanese, in China, 41, 50, 141
- Chang Hsueh-liang, 52-54, 218, 316
- Claims:
- Manchuria, attitude of Kirin Provincial Government toward Socony-Vacuum Corp. claims for losses from looting, 94-95
- Shanghai hostilities of 1932, Japanese offer to settle certain American claims arising from, 91-92, 95-96, 227-228
- Customs. *See* Oil monopoly: Discrimination, and Resumption of customs, postal, and railway service under "Manchoukuo", *infra*.
- Fleet, Japanese. *See* Merchant fleet and Shipping, *infra*.
- Foreign powers:
- Belgium, attitude concerning proposed state visit to Tokyo by Pu-yi, 200
- El Salvador, recognition of "Manchoukuo", 189, 194-195
- France (*see also* Liao River Conservancy Board, *infra*): Arms and munitions, discussion with United States concerning "Manchoukuo's" efforts to buy abroad, 209; investments in Sino-Japanese dispute—Continued.
- Foreign powers—Continued.
- Manchuria, 58, 78-79; Japanese unofficial statement of policy toward China, attitude toward, 132-133, 159-160, 163, 176-177
- Germany, attitude concerning non-recognition of "Manchoukuo", 8, 22-23, 44, 59
- Great Britain (*see also* Liao River Conservancy Board, and under Unofficial statement, *infra*): Anglo-Japanese Alliance, reported revival of, 250-251, 271-272, 272-274; assault by Japanese workmen on British and American riding party at Mukden, and U. S. and British action concerning, 249-250, 268-269, 282-283, 283-284, 285; discrimination by "Manchoukuo" authorities in levying of customs duties on foreign oil, U. S.-British consultations and informal representations concerning, 700, 701, 702, 703, 704, 705-709, 745, 772, 776, 795-796; Far Eastern policy of, information concerning, 190-191, 198-199, 292-293; narcotic drug traffic in Manchuria and Jehol, British views and consultations with United States concerning League of Nations request for furnishing of information concerning, 354-356, 358-360, 364; nonrecognition of "Manchoukuo", attitude toward, 55-56, 57-58, 60, 91; preliminary naval conversations in London, U. S.-British, 171, 190, 199, 293, 667; representations against oil monopoly in Manchuria, 709-710, 710, 710-712, 713, 713-715, 718, 720, 723-724, 727, 744, 749, 754, 756, 760, 761-762, 766-769, 771, 773; sanctions, economic, Foreign Secretary's statement concerning, 186, 186-188; Soviet Union, policy toward, and effect on Far Eastern situation, 230-232; trade in Far East, 12, 56, 333; troops in summer camp in North China, Japanese request that permission of Kwantung Army be obtained for maneuvers north of Great Wall, and position of British Government concerning, 233, 307
- Italy: Aviation instructors in China, 316-317; Japanese unofficial statement of policy toward China, attitude toward, 137,

Sino-Japanese dispute—Continued.

Foreign powers—Continued.

154; nonrecognition of "Manchoukuo", attitude toward, 60-61

Netherlands, attitude concerning questions of diplomatic and consular relations with "Manchoukuo" authorities, 62, 85, 200

Poland, attitude toward nonrecognition of "Manchoukuo", 200-201

Soviet Union. *See* Soviet Union, *infra*.

United States. *See* U. S. position, *infra*.

Independence movements: North China, report of, 339-340; Sinkiang, defeat of Gen. Ma Chung-ying by Gen. Sheng Shih-tsai, Garrison Commander of Sinkiang, and collapse of Kashgar regime, 228-230

Inner Mongolia: Establishment of autonomous government and relations with Chinese Central Government, 76-77, 218, 219, 225-227, 280-281, 298-299, 344; Japanese expansionist plans in, 2, 5, 158-159, 285, 292, 307, 321; Sino-Soviet agreement for improvement of communications facilities, 220-222

League of Nations (*see also under* "Manchoukuo": Narcotic drugs, *infra*):

Advisory Committee. *See* Postal traffic, *infra*.

Japanese statement of policy to (*see also* Technical assistance, *infra*), 127-128, 154-155

Position respecting current situation in Far East (*see also* Technical assistance, *infra*), 145-147

Postal traffic in transit through Manchuria, League Advisory Committee recommendations, and U. S. attitude concerning relations between foreign postal administration and Manchurian *de facto* authorities, 133-134, 177-179, 180-181, 202, 216-217, 222-223, 243-244, 266-267

Protectorate over North China, proposed, 322

Southwest Political Council, declaration to League and signatories of Nine-Power Treaty concerning Japanese unofficial statement of policy toward China, 147-148

Sino-Japanese dispute—Continued.

League of Nations—Continued.

Soviet Union entrance into League: Information concerning, 271; Japanese attitude, 158, 183-184, 281-282

Technical assistance mission to China (Rajchman mission), Japanese objections and allegations of political activities, 112-113, 118, 119, 123, 127, 128, 135, 145-146, 150-151, 155, 160, 172-173, 183, 347

Withdrawal of Japan, 9, 63, 184-185, 282

Liao River Conservancy Board, liquidation of, U. S.-French-British discussions concerning French proposal for action on grounds of violation of conservancy agreement of 1914, 75-76, 97-98, 105, 109, 115, 123, 129

"Manchoukuo":

Administrative and military control by Japan, 18, 294-296, 310-315, 340; reorganization in, 294-296, 311, 340

Arms and munitions, U. S.-French discussion concerning efforts of "Manchoukuo" authorities to buy abroad, 209

Attitude of public toward new regime, 24-26

Catholic Church, appointment of Bishop Gaspais as temporary representative in Manchuria, 174-175

Chinese Eastern Railway, renewal and conclusion of negotiations at Tokyo for sale by Soviet Union to "Manchoukuo", 3-4, 5-6, 11, 18-20, 21, 51-52, 57, 67, 69-70, 75, 110, 125, 152, 157-158, 179, 205, 223-224, 251-256, 260-264, 267-268, 269-270, 271, 278-280, 283, 285, 291, 292, 296, 297-298; rights of French shareholders, 58

Claims, attitude of Kirin Provincial Government toward Socony-Vacuum Corp. claims for losses from looting, 94-95

Coronation of Pu-yi as Emperor, plans for, 2-3, 4, 10, 25, 29-32

Narcotic drugs and opium traffic, control of:

League of Nations: Correspondence with Japanese Government concerning supervision of traffic in narcotic drugs to Manchuria and Jehol, 365-366; report of Opium Advisory Committee, and Chinese proposed amendments relating to Manchuria and

Sino-Japanese dispute—Continued.

"Manchoukuo"—Continued.

Narcotic drugs and opium traffic, control of—Continued.

Jehol, 349-354; request for information from certain foreign governments in regard to traffic in narcotic drugs in Manchuria and Jehol, U. S. and British attitudes concerning, 354-356, 358-360, 361-364

State opium monopoly, 25, 314, 362

Nonrecognition (*see also* Recognition, *infra*), attitude of foreign governments concerning:

Belgium, attitude concerning proposed state visit to Tokyo by Pu-yi, 200

Catholic Church, position of, 174-175

Chinese Government, position of, 41, 61-62, 90-91, 113-114, 116-117, 195-196, 265

Diplomatic and consular relations of U. S. and other foreign governments with *de facto* officials, questions concerning: Free customs entry privileges, U. S. position, 308; invitations to "Manchoukuoan" governmental and social functions, question of acceptance of, 73-74, 323; Japanese threat to forbid functioning of consular officers of countries not according recognition, 224-225; notification of the establishment of the empire under Pu-yi, 59-60, 72-73; postal administration, League of Nations recommendations and U. S. views concerning relations between foreign postal administrations and Manchurian *de facto* authorities with regard to postal traffic in transit through Manchuria, 133-134, 177-179, 180-181, 202, 216-217, 222-223, 243-244, 266-267; proposed state visit to Tokyo by Pu-yi, attitude of the powers concerning, 85, 91, 199-200; visa for "Manchoukuoan" official to visit Philippines, U. S. position concerning request for, 62, 65-66

Germany, attitude of, 8, 22-23, 44, 59

Sino-Japanese dispute—Continued.

"Manchoukuo"—Continued.

Nonrecognition—Continued.

Great Britain, attitude of, 55-56, 57-58, 60; proposed state visit to Tokyo by Pu-yi, instructions concerning, 91

Italy, attitude of, 60-61

Netherlands, attitude concerning questions of diplomatic and consular relations with *de facto* officials, 62, 85, 200

Poland, attitude of, 200-201

Soviet Union, attitude of, 31-32, 75, 83, 97, 106, 110, 292

U. S. attitude (*see also* Diplomatic and consular relations, *supra*), 36-38, 51, 55-56, 58, 60-61, 61, 75, 83, 88-91, 95, 258-260, 639, 640

Observations by U. S. Military Attaché in Japan on his trip to "Manchoukuo", 209-214

Oil monopoly:

Discrimination in levying of customs duties on foreign oil, U. S. and British consultations and informal representations to local authorities and to Japanese Government concerning, 699-700, 701, 702-704, 705-709, 745, 772, 776, 795-796; Japanese promise of investigation of problem, 709

Manchuria Oil Co. and oil sales monopoly:

Information concerning plans of "Manchoukuo" government for establishment of, and negotiations of foreign oil companies with local authorities concerning, 709, 710, 712-713, 720-721, 724, 725-727, 728, 729, 735-737, 741-743, 745, 751, 753, 756, 771-772, 787-788; U. S. position concerning action of oil companies, 724-725

Japanese Government's position, 729-730, 748-749, 787

Military and naval authorities, Japanese, position of, 735-737, 741-742, 750

Open-door policy. *See* Representations, *infra*.

Protest to local authorities by British Government, 712, 714, 718, 720; U. S. position, 714-715, 718-719

Representations (*see also* Protest, *supra*) to Japanese Government on basis of

- Sino-Japanese dispute—Continued.
 “Manchoukuo”—Continued.
 Oil monopoly—Continued.
 Manchuria Oil Co. and oil sales monopoly—Continued.
 Nine-Power Treaty provisions and open-door principle:
 Netherlands, 791
 U. S. and British discussions and actions, 709-710, 710, 710-712, 713, 713-715, 723-724, 727, 744, 749, 754, 756, 760, 761-762, 766-769, 771, 773; Japanese replies, 725, 755, 767, 773-774,
 Soviet Union: Attitude of, 761; closing of Neft oil interests, 723, 726
- Open-door policy (*see also* Oil monopoly: Representations, *supra*):
 Assurance by “Manchoukuo” concerning maintenance of, 73
 Foreign investments, 42-44, 78-79, 272
 Japanese monopolization of trade and commerce and limitation of foreign participation, 56, 98-104, 214-215, 258, 314-315
 Opium monopoly, Japanese, 25, 314, 362
- Postal administration (*see also* Resumption of customs, postal, and railway service, *infra*), recommendations of League of Nations Advisory Committee and U. S. views concerning relations between foreign postal administrations and Manchurian *de facto* authorities with regard to postal traffic in transit through Manchuria, 133-134, 177-179, 180-181, 202, 216-217, 222-223, 243-244, 266-267
- Pu-yi (Hsuan-tung), 2-3, 4, 5, 25, 29-32, 59-60, 61-62, 72-73, 77, 84, 85, 91, 97, 159, 195-196, 199-200
- Recognition by El Salvador, 189, 194-195
- Resumption of customs, postal, and railway service between China and Manchuria, 107, 113-114, 116-117, 173-174, 193-194, 199, 203, 203-204, 208-209, 215-216, 218, 220, 234-235, 249, 274, 306, 319, 321, 336-338, 344-345, 346
- South Manchurian Railway, 43, 312-313, 314
- Sino-Japanese dispute—Continued.
 “Manchoukuo”—Continued.
 Troops of foreign governments in summer camp in North China, Japanese request that permission of Kwantung Army be obtained for maneuvers north of Great Wall, and position of British Government concerning, 233, 307
- Mandated islands in Pacific, Japanese determination to retain possession of after withdrawal from League of Nations, 24, 62-65, 338-339; denial of alleged fortification of, 338
- Merchant fleet, Japanese, report on strategical value of new fast vessels in, 235-243, 323-329
- Missions and mission property in Hopei Province, request of Japanese official for information concerning, 92-94
- Mongolia. *See* Inner Mongolia, *supra*, and Outer Mongolia, *infra*.
- Naval Conference of 1935, effect of Far Eastern situation on questions relating to: Japanese naval aims, 7, 23, 38, 120, 247-249, 332, 333, 667-671; U. S.-British exploratory conversations, 171, 199, 293; U. S. naval policy, 189-193
- Netherlands East Indies, trade with Japan, 286-288, 332, 333, 705; conference at Batavia concerning, 287
- Netherlands Minister to Japan, views on Far Eastern situation, 331-334
- North China, Japanese plans for economic and political expansion in:
 Commission for the Settlement of Affairs Pertaining to the War Zone. *See under* Demands of Kwantung military leaders: Demilitarized zone, *infra*.
 Demands of Kwantung military leaders and concessions by Chinese local authorities:
 Chinese National Government, position of (*see also* Huang Fu and Tang Yu-jen, *infra*), 50, 319, 320-323, 336-338
 Demilitarized zone established under Tangku armistice agreement of May 31, 1933, negotiations concerning, 234, 301-302, 319-320, 320, 341-342; Commission for the Settlement of Affairs Pertaining to the War Zone, 301-302
 Economic cooperation, Japanese request for, 174, 245-246, 306, 342

Sino-Japanese dispute—Continued.
 North China, etc.—Continued.
 Demands of Kwantung military leaders, etc.—Continued.
 Hopei Provincial Government and municipality of Tientsin, effect of changes in administration on Sino-Japanese negotiations, 318-320, 320, 321, 338, 342
 Huang-Fu (Chairman, Peiping Political Affairs Readjustment Council), role as negotiator, 46, 47, 79-80, 96, 106-107, 173, 218, 234, 247, 249, 274, 301-302, 318-319, 322, 336-337, 338
 Military cooperation, Japanese request for, 342
 Resumption of customs, postal, and railway service between China and Manchuria, 107, 113-114, 116-117, 173-174, 193-194, 199, 203, 203-204, 208-209, 215-216, 218, 220, 234-235, 249, 274, 306, 319, 321, 336-338, 344-345, 346
 Shibayama, Lt. Col., Japanese representative in negotiations, 305
 Tang Yu-jen, position of, 39-40, 79-82, 107, 322, 336
 Yu Hsueh-chung (Chairman, Hopei Provincial Government), Japanese opposition to, 47, 302, 305-306, 318, 338
 Empire under Pu-yi, reported Japanese plans for inclusion of North China, 4, 5, 30, 84, 97
 "Friendship" policy of Japan toward China, 46-50, 106-108, 220, 244-247, 275-278
 Independence movement, report of, 339-340
 Military domination by Japan, likelihood of, 39, 84, 302-307, 321-322, 342
 Shanhaikwan, return to China, 48-49
 Troops, foreign, in summer camp, Japanese request that permission of Kwantung Army be obtained for maneuvers north of Great Wall, and position of British Government concerning, 233, 307
 Outer Mongolia: Japanese expansionist plans in, 285; Soviet influence in, 222, 232-233, 285, 347
 Pan-Asiatic movement, Japanese ambitions concerning, 1-2, 3, 26-29, 80-81, 105, 184-185
 Political situation in Japan:
 Foreign policy, relation to, report by U. S. Ambassador concerning, 181-185

Sino-Japanese dispute—Continued.
 Political situation in Japan—Con.
 Military element, position of:
 Dispute between War Office and Ministry of Overseas Affairs over administrative reforms for Manchuria, and threatened fall of Okada Cabinet, 294-296
 Information concerning, 53-54, 334
 Resignation of Gen. Araki and replacement by Gen. Hayashi, 15-16
 Protection of American and other foreign lives and property: Assault by Japanese workmen on British and American riding party at Mukden, and U. S. and British action concerning, 249-250, 268-269, 282-283, 283-284, 285; missions and mission property in Hopei Province, request of Japanese official for information concerning, 92-94; Shanghai International Settlement, defense scheme, amended, 308-309, 330-331, 340-341
 Sanctions, economic, British statement concerning, 186, 186-188
 Shanghai:
 Claims of American citizens arising from Sino-Japanese hostilities of 1932, Japanese settlement of, 91-92, 95-96, 227-228
 International Settlement: Chinese apprehension over Japanese naval landing force maneuvers in, 342-343; defense scheme, amended, U. S. comments, 308-309, 330-331, 340-341
 U. S. Marines, question of reduction of force, 17
 Shantung settlement of 1922, cited, 248-249
 Shipping, Japanese, question of concentration in home waters, 144, 175, 201
 Sinkiang: Chinese plans for development of, 84-85; independence movement, defeat of Gen. Ma Chung-ying by Gen. Sheng Shih-tsai, Garrison Commander of Sinkiang, and collapse of Kashgar regime, 228-230; Japanese aims in, 5
 Soviet Union:
 Chinese Eastern Railway, renewal and conclusion of negotiations at Tokyo for sale by Soviet Union to "Manchoukuo", 3-4, 5-6, 11, 18-20, 21, 51-52, 57, 67, 69-70, 75, 110, 125, 152, 157-158, 179, 205, 223-224, 251-256, 260-264, 267-268, 269-270, 271, 278-280, 283,

- Sino-Japanese dispute—Continued.
- Soviet Union—Continued.
285, 291, 292, 296, 297-298;
rights of French shareholders,
53
- Fisheries and other unsettled questions between Soviet Union and Japan, 158, 298
- Great Britain, change in policy toward Soviet Union and effect on Far Eastern situation, 230-232
- League of Nations, proposed Soviet entrance: Information concerning, 271; Japanese attitude, 158, 183-184, 282
- Nonaggression pacts, Soviet proposals for:
Bilateral: China, 74; Great Britain, 231; Japan, 20-21, 87, 184, 292, 300; United States, 74, 78
General, 82-83, 292
Multilateral (Soviet Union, China, Japan, United States), 74, 78
- Nonrecognition of "Manchoukuo", Soviet attitude, 31-32, 75, 83, 97, 106, 110, 292
- Oil monopoly in "Manchoukuo": Attitude, 761; closing of Neft oil interests, 723, 726
- Outer Mongolia, Soviet influence in, 222, 232-233, 285, 347
- Unofficial statement by Japanese Foreign Office on policy toward China, *Apr. 17*, views concerning, 124-125, 180
- U. S. recognition of, effect on Far Eastern situation, 1, 34, 68, 111, 282
- War with Japan, likelihood of, 1, 4, 20-22, 23, 32-36, 38-39, 55, 56, 66-69, 70-72, 74-75, 81, 83-84, 85-88, 96-97, 108-109, 109-112, 156-159, 183, 201, 204-208, 214, 223, 231-232, 251-258, 264-265, 270-271, 291-292, 297-301, 321-322
- Tangku armistice of *May 31, 1933* (see also North China: Demands of Kwantung military leaders: Demilitarized zone, *supra*), 10, 50, 199, 337
- Trade and commerce:
- Japanese, questions relating to: China, commercial relations with Japan, 41, 42; general policy, 1, 12-13, 333; Great Britain, competition with Japan, 12, 56, 333; "Manchoukuo", Japanese monopolization of trade and commerce and limitation of foreign participation, 56, 98-104, 214-215,
- Sino-Japanese dispute—Continued.
- Trade and commerce—Continued.
258, 314-315; Netherlands East Indies, trade with Japan, 286-288, 332, 333
U. S.-Chinese, 41-42
- Treaties: Sino-French treaty of 1858, 714, 715, 720, 725; Sino-U. S. treaty of 1844, 711, 714, 715, 720, 725
- Unofficial statement by Japanese Foreign Office, *Apr. 17*, regarding attitude of Japan toward foreign assistance to China:
Background, facts, and developments concerning issuance and official nature of statement, 112-113, 115-116, 117-121, 123, 127, 130, 136, 137, 138-139, 140-141, 141-142, 148, 160-163, 183
Chinese position, 114-115, 130, 134-135, 136-137, 139; Southwest Political Council, declaration to League of Nations and signatories of Nine-Power Pact, 147-148
French memorandum concerning, 159-160, 163, 176-177; discussions with United States, 132-133
- Great Britain:
Analysis of British Government's attitude and action, 153-154, 165-171, 198-199
Communication to Japanese Government requesting clarification of statement, and Japanese reply: Information concerning, 125, 129-130, 130-131, 131, 141, 166; "Japanese special rights in China", British reference to, and explanation of phrase, 143, 149, 154, 156, 164, 164-165, 168, 172; text of British communication, 142-143
Cooperation with United States, British position, 122-123, 126, 131-132, 135-136, 142, 153-154, 164-165, 166
Press and public opinion, 121-122
Sanctions, views as to necessity for U. S. cooperation in any policy of, 186, 186-188
Statements in Parliament by Foreign Secretary: *Apr. 19*, 122; *Apr. 23*, 125-126, 130, 166; *Apr. 30*, 148-149, 167, 168; *May 18*, 185-188
Italian views, 137, 154
Nine-Power Treaty, references to, 113, 120, 122, 130-131, 131, 136, 139, 141, 142-143, 143,

Sino-Japanese dispute—Continued.
 Unofficial statement by Japanese Foreign Office, etc.—Continued. 144, 147-148, 148-149, 160, 162, 176, 183, 185
 Soviet Union, views of, 124-125, 180
 U. S. attitude and actions:
Aide-mémoire to Japanese Government, *Apr. 28*, information concerning, 148, 152-153, 156, 163
 Great Britain, U. S. efforts for cooperation with, and British position, 122-123, 126, 131-132, 135-136, 142, 143, 153-154, 166; Foreign Minister's statement referring to Japanese special rights in China, U. S. attitude toward, 164-165
 Memorandum on facts relating to Japanese action, 128-129
 Views of U. S. Minister in China, 143-144
 Withholding of comments and decision pending efforts to obtain authoritative information:
 Discussions with other governments: China, 136-137; France, 132-133; Great Britain, 122-123, 126, 131-132, 135-136, 142, 143, 153-154, 164-165, 166; Italy, 137
 Instructions to Ambassador in Japan, 117, 129-130; to Consul at Geneva, 137
 Versions and interpretations, information concerning, 112, 138, 139, 140-141, 141-142, 167, 189-190
 U. S. Marines, question of reduction of force at Shanghai, 17
 U. S. Navy: Maneuvers in North Pacific, plans for, 343-344; naval policy in relation to Far Eastern situation, 189-193; withdrawal of fleet from Pacific Ocean, 128-129, 170
 U. S. position (*see also the following, supra*: Arms and munitions, Aviation, Claims, Liao River Conservancy Board, Protection of American and other foreign lives and property, Unofficial statement: U. S. attitude and actions, U. S. Marines, U. S. Navy):
 Address by Stanley K. Hornbeck (Chief of Far Eastern Affairs Division, State Department)

Sino-Japanese dispute—Continued.
 U. S. position—Continued.
 on U. S. Far Eastern policy, misunderstanding in connection with, 6-7, 8, 16-17, 17-18
 Commercial relations, U. S.-Chinese, 41-42
 Great Britain, attitude toward U. S.-British cooperation in Far Eastern situation: General policy, 190-191, 198-199, 292-293; nonrecognition of "Manchoukuo", 55-56, 57-58; unofficial statement of *Apr. 17* by Japanese Foreign Office, 122-123, 126, 131-132, 135-136, 142-143, 153-154, 164-165, 166
 Hull-Hirota exchange of notes, *Feb. 21, Mar. 3*, cited, 170, 196-197
 Military intervention, U. S., in Far Eastern situation, unlikelihood of, 81-82
 Naval Conference of 1935, effect of Far Eastern situation on questions relating to: U. S.-British exploratory conversations, 171, 199, 293; U. S. naval policy, 189-193
 Nonrecognition policy. *See* "Manchoukuo": Nonrecognition: U. S. attitude, *supra*.
 Shanghai International Settlement defense scheme, amended, U. S. comments, 308-309, 330-331, 340-341
 Shipping, Japanese: Navy Department request for data from all consular officers concerning, and State Department reply, 144, 175; report from Consul at Kobe concerning, 201
 Soviet Union, effect of U. S. recognition on Far Eastern situation, 1, 34, 68, 111, 282
 Stimson doctrine, cited, 6, 89, 689
 War with Japan, possibility of, 38, 72, 111
 Skinsnes, Casper C., settlement by Chinese Government of claim for losses sustained in efforts to procure the release of Rev. Bert Nelson, captured by Communists in 1930, 464-466, 469-470
 Soong, T. V., 373, 374, 375, 378, 379, 389, 404, 408, 413-414, 433
 Southwest Political Council, declaration to League of Nations and signatories of Nine-Power Treaty concerning Japanese unofficial statement of policy toward China, 147-148
 Soviet Union. *See under* Sino-Japanese dispute.

- Spain, views concerning application of Chinese regulations governing export licenses for shipments of arms and munitions into China, 496, 507
- Stam, John C. and wife, kidnaping and murder by Communist bandits, U. S. representations concerning, 479-482, 485-490
- Stimson doctrine, allusion to, 6, 89, 689
- Sweden, views concerning application of Chinese regulations governing export licenses for shipments of arms and munitions into China, 496, 507
- Switzerland, views concerning application of Chinese regulations governing export licenses for shipments of arms and munitions into China, 496, 507
- Tang Yu-jen, 39-40, 79-82, 107, 322, 336
- Tangku armistice of *May 31, 1933* (see also Sino-Japanese dispute: North China: Demands of Kwantung military leaders: Demilitarized zone), 10, 50, 199, 337
- Taxation. *See under* China.
- Trade and commerce. *See* Japan: Trade relations with United States and *under* Sino-Japanese dispute.
- Trademarks, American, Japanese infringements of, 815-817
- Treaties, conventions, etc. (see also *under* China, Japan, and Sino-Japanese dispute):
- Barcelona Convention, 505, 510, 514
 - Boxer Protocol (1901), 592, 593, 594
 - Hague Opium Convention of 1912, 351, 365, 366
 - International Radiotelegraph Convention (1927), 626
 - Narcotics Limitation Convention of 1931, 361
 - Nine-Power Treaty:
 - Invocation in representations to Japanese Government by United States, Great Britain, and Netherlands concerning oil monopoly in Manchuria, 712, 713, 714, 715, 717, 725, 761-762; Japanese attitude, 748
 - References to, 56, 113, 120, 122, 130-131, 131, 136, 139, 141, 142-143, 143, 144, 147-148, 148-149, 160, 162, 176, 183, 185, 248, 259-260
 - Silver agreement (1933): Allusions to, 441, 444, 446; Chinese ratification of, 424, 425-426, 440-441
- U. S.-Finland, consular convention of 1934, 842
- U. S.-Germany, consular convention of 1923, 840, 841, 842, 843
- U. S.-Siam, treaty of friendship and commerce, proposed revision of, 844-848
- Treaties, conventions, etc.—Continued.
- U. S.-Sweden, consular convention of 1911, 841
- Troops (see also U. S. military and naval forces): Chinese apprehension over Japanese naval landing force maneuvers in Shanghai International Settlement, 342-343; foreign troops in summer camp in North China, Japanese request that permission of Kwantung Army be obtained for maneuvers north of Great Wall, and position of British Government concerning, 233, 307
- Union of Soviet Socialist Republics. *See* Sino-Japanese dispute: Soviet Union.
- Unofficial statement by Japanese Foreign Office, *Apr. 17*, regarding attitude of Japan toward foreign assistance to China. *See under* Sino-Japanese dispute.
- U. S. commercial interests: Dollar Steamship Co., 594; Frazar Co., 575-578, 579-581; International Truck and Storage Co., 575, 578-579; Oriental Consolidated Mining Co., 820-826; Socony-Vacuum Corp., 94-95, 544, 575, 579, 582; Standard Oil Co. of New Jersey, 544, 741, 746-748; Standard-Vacuum Oil Co., 700, 701, 704, 724-725, 726, 728, 735, 736, 742, 745, 746, 747, 755-756, 757-758, 764, 765, 766, 770-771, 773, 787-788, 797-798, 799; Texas Oil Co., 728, 741, 787, 788
- U. S. military and naval forces:
- Dispatch to places of danger in China, 464, 467, 471, 472, 473, 480, 483, 485
 - U. S. Marines at Shanghai, question of reduction of force, 17
 - U. S. Navy: Maneuvers in North Pacific, plans for, 343-344; naval policy in relation to Far Eastern situation, 189-193; withdrawal of fleet from Pacific Ocean, 128-129, 170
- War, possibility of: Soviet Union-Japan, 1, 4, 20-22, 23, 32-36, 38-39, 55, 56, 66-69, 70-72, 74-75, 81, 83-84, 85-88, 96-97, 108-109, 109-112, 156-159, 183, 201, 204-208, 214, 223, 231-232, 251-258, 264-265, 270-271, 291-292, 297-301, 321-322; U. S.-Japan, 38, 72, 111
- Young, William, and sons, Chinese charges against in connection with alleged political activities of American Baptist Mission in Yunnan, 470-471, 473-474, 476-478, 478-479
- Yu Hsueh-chung (Chairman, Hopei Provincial Government), Japanese opposition to, 47, 302, 305-306, 318, 338



